



PENSION BOARD

THURSDAY, 9 FEBRUARY 2017

10.00 AM CC2, COUNTY HALL, LEWES

MEMBERSHIP - Richard Harbord (Chair)
Councillor Kevin Allen, Angie Embury, Bernadette Carlyle, Sue McHugh,
Councillor Brian Redman and Tony Watson

A G E N D A

- 1 Minutes (*Pages 3 - 8*)
- 2 Apologies for absence
- 3 Disclosure of interests
- 4 Urgent items
Notification of any items which the Chair considers urgent and proposes to take at the appropriate part of the agenda.
- 5 Pension Committee Agenda (*Pages 9 - 82*)
- 6 External Audit Plan for East Sussex Pension Fund 2016/17 (*Pages 83 - 94*)
- 7 Pension Board Insurance Arrangements (*Pages 95 - 118*)
- 8 Reporting Breaches Policy (*Pages 119 - 134*)
- 9 Business Operations Systems - update (*Pages 135 - 136*)
- 10 Officers' Report - Business Operations (*Pages 137 - 170*)
- 11 Officers' Report - General Update (*Pages 171 - 172*)
- 12 Forward Plan (*Pages 173 - 206*)
- 13 Any other non-exempt items previously notified under agenda item 4
- 14 Exclusion of the public and press
To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).
- 15 Pension Committee Agenda - exempt report (*Pages 207 - 240*)
- 16 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
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1 February 2017

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 3 November 2016.

PRESENT Richard Harbord (Chair), Councillor Kevin Allen,
Angie Embury, Bernadette Carlyle and
Councillor Brian Redman

ALSO PRESENT Councillors David Elkin, Lead Member for Resources
Councillor Richard Stogdon, Chair of the Pension Committee
Phil Hall, Interim Chief Finance Officer
Brian Smith, Regional Operations Manager
Jason Bailey, Pension Services Manager
Phil Hall, Interim Chief Finance Officer
Wendy Neller, Pensions Strategy and Governance Manager
Ola Owolabi, Head of Accounts and Pensions
John Shepherd, Finance Manager (Pension Fund)

20 MINUTES

20.1 The Board agreed that the minutes were a correct record of the meeting held on 4 August 2016.

21 APOLOGIES FOR ABSENCE

21.1 Apologies for absence were received from Sue McHugh.

21.2 The Chair welcomed Bernadette Carlyle as the new employee representative of the Board.

22 DISCLOSURE OF INTERESTS

22.1 There were none.

23 PENSION COMMITTEE AGENDA

23.1 The Board considered a report on the Pension Committee's agenda for its 30 November meeting.

23.2 In reference to **Item 8: LGPS Pooling – ACCESS Update**, The Chair asked what the cost of the Local Government Pension Scheme (LGPS) pooling programme had been to the East Sussex Pension Fund (ESPF). Ola Owolabi (OO), Head of Accounts and Pensions, said that the agreed expenditure was £150,000 over three years, although this figure did not include officer time. The cost of involving Eversheds was expected to cost around £5,000, which will be shared equally across the 11 pension funds in the ACCESS group.

23.3 Angie Embury (AE) asked what the Government was contributing towards the pooling programme. OO said that the Government will not be committing any financial resources to assist funds. The Government had asked all 89 funds to agree pooling arrangements amongst themselves with the anticipation that the process would ultimately save the funds money – and

with the expectation that funds would set out how they would allocate a proportion of the pooled investment into infrastructure projects. AE said she would raise this issue with Unison.

23.4 The Chair commented that there had been recent developments that suggested some pension funds were becoming concerned about the pooling process; any legal challenges from individual funds could complicate and delay the process.

23.5 The Chair added that the Treasury has delegated the responsibility for implementing the pooled funds programme to the Department for Communities and Local Government (DCLG), and the deadline for the Government green lighting the pooling plans had already passed. He said that pension funds were right to be cautious about avoiding extra expenditure before the green light. OO added that representatives of each pooling group had met with the Treasury and one of the reasons for the delay in getting a response from the Government was due to resources being directed towards the Brexit negotiations.

23.6 OO said that the ACCESS Chairs would be meeting with the Minister of State for Pensions in November to seek reassurance that the ACCESS fund July submission would be approved/authorised by the Government. Councillor Brian Redman (BR) expressed concern that the Pension Committee was expected to agree the ACCESS structure on 30 November when it had not yet been authorised by the Government. Councillor Richard Stogdon (RS), Chair of the Pension Committee, said that ACCESS Chairs did not intend to agree the plans locally if they were not given the Government green light. OO added that the individual funds would not commit any more significant resources without the go ahead from the Minister.

23.7 The Chair reflected that it was unfortunate that the fundamental reason for pooling funds had been to save money but the projected savings from ACCESS are yet to be fully substantiated.

23.8 The Board RESOLVED to:

1) note the report; and

2) express concern about the lack of clarity around the Government's position on authorising investment pools.

24 LGPS MANAGEMENT & INVESTMENT OF FUNDS REGULATIONS 2016 AND INVESTMENT STRATEGY STATEMENT (ISS) GUIDANCE

24.1 The Board considered a report on the LGPS Management & Investment of Funds Regulations 2016 and Investment Strategy Statement (ISS).

24.2 The Chair observed that the Secretary of State's Power of Direction to intervene in the investment function of an Administering Authority is most likely to be exercised on pension funds identified by the DCLG as the worst performing or where authority's investment functions is failing to act in accordance with guidance issued under regulation.

24.3 The Board RESOLVED to note the report.

25 PENSION FUND RISK REGISTER

25.1 The Board considered a report providing an update on the Pension Fund Risk Register.

25.2 Councillor Brian Redman (BR) asked whether the risk "Employers unable to pay increased contributions" would always remain as a 'red' risk. Phil Hall (PH), Interim Chief Finance Officer, said that it would remain so for the short term but the long term aim is to achieve full funding for the ESPF and this would reduce the pressure on employers. The Chair said that the risk would be mitigated, to a certain extent, once the Fund's actuarial valuation was complete and the employer contribution rates have been set. He said there was no evidence of great stress amongst employers as none of them were in arrears.

25.3 The Board RESOLVED to note the report.

26 INTERNAL AUDIT REPORT - PENSION FUND GOVERNANCE AND INVESTMENTS

26.1 The Board considered a report on the Internal Audit report carried out on Pension Fund Governance and Investments.

26.2 The Chair asked for clarification about what the purpose of the Pension Administration Strategy (PAS) was. Wendy Neller (WN), Pension Strategy and Governance Manager, said that the PAS will set out the roles and responsibilities of the ESPF and its employers. It will combine all existing strategies that explain how the Fund operates, for example, the communications strategy and funding strategy, and will sit alongside the Pension Investment Strategy (which sets out how the Fund invests its members' contributions).

26.3 BR asked whether the Fund's external auditors would need to report on the missed statutory deadline for distributing Annual Benefit Statements. OO explained that the external auditor – KPMG – would not consider a missed statutory deadline in its audit, as the agreed process is for statutory deadlines to be reported to the Pension Regulator. PH added that external auditors are concerned by the integrity of the ESPF accounts and a missed statutory deadline is unlikely to be something that they look at.

26.4 The Board RESOLVED to:

1) note the report; and

2) congratulate the Pension Fund officers on achieving 'full assurance' from the internal audit team.

27 FUNDS ACTUARIAL VALUATION REPORT - DRAFT RESULTS

27.1 The Board considered a report on the draft results of the ESPF Actuarial Valuation.

27.2 BR expressed concern that the new valuation of the Pension Fund expected salaries to grow by only 2.6% -- compared to an estimated 4% increase in the previous triennial valuation – and that this accounted for the majority of the estimated funding level increase from 81% in 2013 to 92% in 2016. He considered that inflationary pressures would make it unlikely wages would only increase by 2.6% and questioned why the actuary had not foreseen them. Councillor Kevin Allen also questioned on what basis this estimate was made.

27.3 The Chair suggested that the timing of the valuation was unfortunate (coming just before the emergence of potential inflationary pressures) but by law it had to be a snapshot of the Fund at a particular moment in time (31 March 2016) and was based on circumstances facing the fund over the previous three years, rather than potential future pressures. PH added that assets were performing well at the time of the valuation, and in the last couple of months it is likely that the funding level would have nudged downwards in response to asset performance. PH said that it was reasonable to assume wages would increase but would be tempered by public sector pay freezes, and the move towards an increasing number of career average pensions – which would have less impact on future pension payouts.

27.4 The Chair asked what percentage of scheme members had taken up the 50/50 option – which is identified by the actuary as a risk. WN said that 2% of ESPF scheme members had chosen this option (of paying half the contribution level in return for building up half the normal pension) compared to 0.1% nationally.

27.5 PH said that there would be an opportunity for employers to question the actuary's (Hymans Robertson's) methodology at the Employers Forum in November. Ultimately, the valuation would be the actuary's decision as it is their professional judgement. However, they invite stakeholders to challenge their assumptions and they have been open about their methodology used to reach these assumptions. RS had been in a meeting of Pension Committee Chairs where the actuary had responded robustly to challenges to its assumptions.

The Chair said that Hymans Robertson was also the actuary of Harrow Pension Fund but their assumptions were different, demonstrating that there was no standardised approach.

27.6 OO said that the expected market volatility between 2017/18 -2019/20 would mean it was unrealistic to expect the funding level to remain at 92%, which was based on market performance since 2013 valuation. The Chair observed that funding levels had previously reached 100% and the Government had authorised a pension holiday; the six pension funds now performing the worst had all chosen to declare a pension holiday at that time, demonstrating that it was not a good idea.

27.7 The Board RESOLVED to note the report.

28a OFFICERS' REPORT - BUSINESS OPERATIONS

28a.1 The Board considered a report providing an update on the performance of the Business Operations team responsible for administering the ESPF.

28a.2 The Chair asked for the Pension Board to be provided with an annual report containing the details of administrative complaints against the ESPF, for example, those reported to the Local Government Ombudsman (LGO). WN said that this ombudsman referrals are contained in the annual CIPFA benchmarking analysis report that is already provided to the Board. To date no scheme member appeal decisions by the ESPF have been overturned by the LGO.

28a.3 Angie Embury (AE) asked how scheme members would access their Annual Benefit Statement if they were no longer being printed and posted from 2017. Jason Bailey, Pension Services Manager, said that scheme members would be able to view their statement via a new, encrypted scheme member portal. The portal would reduce the complex production and lengthy printing time for the Annual Benefit Statement, potentially saving three weeks in the process. Exceptions would be made for those scheme members without internet access.

28a.4 The Chair said that he recognised that there were unique challenges in producing the statements in an actuarial year and so looked forward to the Statements being completed on time in 2017.

28a.5 The Board RESOLVED to note the report.

28b OFFICERS' REPORT - GENERAL UPDATE

28b.1 The Board considered a report providing a general update on issues relating to the ESPF.

28b.2 BR asked why there was a -4.1% variation in the cash flow from employer contributions. OO said that his team will look into the reason and would be able to provide analysis soon. The projected outturn is a snapshot of the cash projection as at 30 September 2016 and is expected to have changed by the end of the financial year.

28b.3 The Board RESOLVED to note the report.

29 FORWARD PLAN

29.1 The Board considered a report containing its forward plan and future training days.

29.2 The Chair recommended that Board Members take the opportunity to attend some of the free courses listed in the forward plan.

29.3 The Board RESOLVED to note the report.

30 ANY OTHER BUSINESS

30.1 There was none.

31 EXCLUSION OF THE PRESS AND PUBLIC

31.1 The Board RESOLVED to exclude the press and the public from the meeting for the remaining items of the agenda on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in Category 1 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), namely information relating to any individual; and Category 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

32 PENSION COMMITTEE AGENDA

32.1 The Board considered the exempt item on the agenda for the 30 November Pension Committee meeting.

32.2 The Board RESOLVED that the recommendation of the report seemed prudent.

The meeting ended at 11.42 am.

Richard Harbord
Chair

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Report to: Pension Board

Date of meeting: 9 February 2017

By: Chief Operating Officer

Title: Pension Committee Agenda

Purpose: To consider and comment on the draft agenda and reports of the 27 February Pension Committee meeting

RECOMMENDATION

The Board is recommended to consider and comment on the draft agenda and reports for the 27 February 2017 Pension Committee meeting.

1. Background

1.1 The draft agenda items for the 27 February 2017 Pension Committee are presented to the Pension Board for information. Where possible the relevant reports are also attached.

1.2 The item “LGPS Asset Pooling – ACCESS Inter Authority Agreement” is due to be considered by the Pension Committee following the exclusion of the press and public as it contains exempt information as specified in Category 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended). This item will therefore be considered separately under a later item on the Pension Board agenda following the exclusion of the press and public.

1.3 The Pension Committee agenda items attached as appendices of this report are:

- Item 9 – Investment Strategy Statement
- Item 10 – Funding Strategy Statement
- Item 14 – Pension Fund Budget for 2017/18

1.4 If Board members have any specific comments on any of these reports that they wish to be communicated to the Pension Committee, then they can do so. In any case, the draft Pension Board minutes will be circulated to Pension Committee members at or in advance of the forthcoming committee meeting.

2. Conclusion and recommendation

2.1 The Board is recommended to consider and comment on the draft agenda and reports for the 27 February 2017 Pension Committee meeting.

KEVIN FOSTER
Chief Operating Officer

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Background Documents
None

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PENSION COMMITTEE

MONDAY, 27 FEBRUARY 2017

10.00 AM COMMITTEE ROOM, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Richard Stogdon (Chair)
Councillors Frank Carstairs, Bob Standley, David Tutt and Michael Wincott

A G E N D A

- 1 Minutes
- 2 Apologies for absence
- 3 Disclosure of Interests
Disclosures by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.
- 5 Pension Board Minutes
- 6 Fund Performance - Schroder
- 7 Quarterly Performance Report - Hymans Robertson
- 8 2016/17 External Audit Plan
- 9 Investment Strategy Statement
- 10 Funding strategy statement
- 11 Pension Administration Cost Analysis – **To Follow**
- 12 GMP Reconciliation - update
- 13 Officers' Report - Business Operations
- 14 Pension Fund Budget for 2017/18
- 15 Forward Plan
- 16 Any other non-exempt items previously notified under agenda item 4
- 17 Exclusion of the Press and Public

To consider excluding the public and press from the meeting for the remaining items of the agenda on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in Category 3 of Part 1 of

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Schedule 12A to the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

- 18 LGPS Asset Pooling – ACCESS Inter Authority Agreement
- 19 Any other exempt items previously notified under agenda item 4

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17 February 2017

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Report to: **Pension Committee**

Date of meeting: **27 February 2017**

By: **Interim Chief Finance Officer**

Title: **Investment Strategy Statement (ISS)**

Purpose: **To provide the Committee with the new Investment Strategy Statement the East Sussex Pension Fund.**

RECOMMENDATION – The Committee is recommended to approve the Investment Strategy Statement (ISS)

1. Background

1.1 The LGPS - Management & Investment of Funds Regulations laid before parliament on 23rd September and came into force from 1st November 2016. These regulations remove many of the investment restrictions imposed on LGPS funds, introduce a prudential framework for investment decision making, introduce a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and require all funds to publish a new Investment Strategy Statement (ISS) by 1st April 2017. This statement will replace the Statement of Investment Principles (SIP).

1.2 In order to comply with the regulations, administering authorities must take proper advice. They should also explain the extent to which the views of their Pension Board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors and must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.

2. Investment Strategy Statement (ISS)

2.1 The ISS outlines the East Sussex Pension Fund investment objectives. The primary long term objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates.

2.2 All pension funds are required to prepare, maintain and publish an ISS. This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The latest version will be made available on the Council's website and a copy is attached at Appendix 1.

2.3 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

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3. Conclusion and reasons for recommendations

3.1 Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

PHIL HALL

Interim Chief Finance Officer

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Background Documents

None



Investment Strategy Statement

February 2017

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the East Sussex Pension Fund (“the Fund”), which is administered by East Sussex County Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 27 February 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated 01 April 2017).

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting an appropriate investment strategy is set out in Appendix A

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation and has implemented a rebalancing policy Appendix B.

To help clearly define the strategic approach adopted by the Committee it has set out its investment beliefs Appendix C

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Table 1: Fund allocation

Asset class	Target allocation %	Maximum invested* %	Role within the Strategy
Listed equities	50.0	55.0	Growth Assets
Absolute Return	20.0	23.0	Growth Assets
Property	10.0	13.0	Growth Assets
Private Equity	5.5	7.5	Growth Assets
Infrastructure	2.0	4.0	Growth Assets
Absolute Return Bonds	3.0	4.0	Matching Assets
Fixed Interest Bonds	3.5	4.5	Matching Assets
Index-Linked Gilts	5.0	6.0	Matching Assets
UK Financing Fund	1.0	2.0	Matching Assets
Cash	0.0	2.0	Matching Assets
Total	100.0		

*The maximum invested figures is based on the rebalancing ranges agreed by the East Sussex Pension Committee within its rebalancing policy.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through

direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2016 analysis highlighted the Fund utilising its current stabilisation parameters lead to a sufficiently high probability of success without being too prudent (71%). The downside risk measure (31% average funding level in the 5% of worst outcomes) highlights the wide range of future outcomes under the current stabilisation parameters. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund’s currency risk during their risk analysis. Details of the Fund’s approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a large proportion of the Scheme’s assets managed on a passive basis. The Committee assess the Fund’s managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund’s Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the ACCESS Pool. The proposed structure and basis on which the ACCESS Pool will operate was set out in the July 2016 submission to Government.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has elected not to invest the following assets via the ACCESS Pool:

Table 2 – Assets held outside the pool

Asset class	Manager	% of Fund assets	Benchmark	Reason for not investing via the ACCESS Pool
Private Equity	Harbourvest Partners / Adam Street Partners	5.5%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Infrastructure	M & G Infracapital / UBS Infrastructure	2.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Operational cash	East Sussex County Council	0.0%	N/A	East Sussex Pension Fund needs to manage its cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2018.

Structure and governance of the ACCESS Pool

East Sussex is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire	Kent
Essex	Norfolk
Hampshire	Northamptonshire
Hertfordshire	Suffolk
Isle of Wight	West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership (will be updated for IAA). ACCESS is working to a project plan in order to create the appropriate means to pool investments. The first investments to be pooled in 2017 will be passively managed investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website <http://www.accesspool.org/>

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously and conducts a review of its policies in this area and its investment managers' approach to ESG.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties.

The Fund does not hold any assets which it deems to be social investments.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly

encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f).

Stewardship

The Committee understands that stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. The Committee encourages its investment managers to formally agree to adhere to the Stewardship Code as published by the Financial Reporting Council. Asset manager signatories have been categorised in three tiers.

- **Tier 1** – Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.
- **Tier 2** – Signatories meet many of the reporting expectations but report less transparently on their approach to stewardship or do not provide explanations where they depart from provisions of the Code.
- **Tier 3** – Significant reporting improvements need to be made to ensure the approach is more transparent. Signatories have not engaged with the process of improving their statements and their statements continue to be generic and provide no, or poor, explanations where they depart from provisions of the Code.

Investment Managers Stewardship Rating

Tier 1

- Legal and General Investment Managers
- State Street Global Advisors
- Newton Investment Management
- Ruffer LLP
- Schroder Investment Management Limited
- M & G Investment Management
- Longview Partners
- UBS Asset Management
- Northern Trust Global Investments

Tier 2

- None

Tier 3

- None

The Committee expects both the ACCESS Pool and any directly appointed fund managers to also comply with the Stewardship Code.

As part of its belief in the benefits of the Stewardship Code the Fund has adopted a set of Voting Intention Guidelines. The current guidelines can be found on the Fund's website. The Committee publishes an annual report of voting activity as part of the Fund's annual report. In addition to the Fund's views on the Stewardship Code, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

Appendices

Appendix A – Investment Strategy Approach

Appendix B – Rebalancing Policy

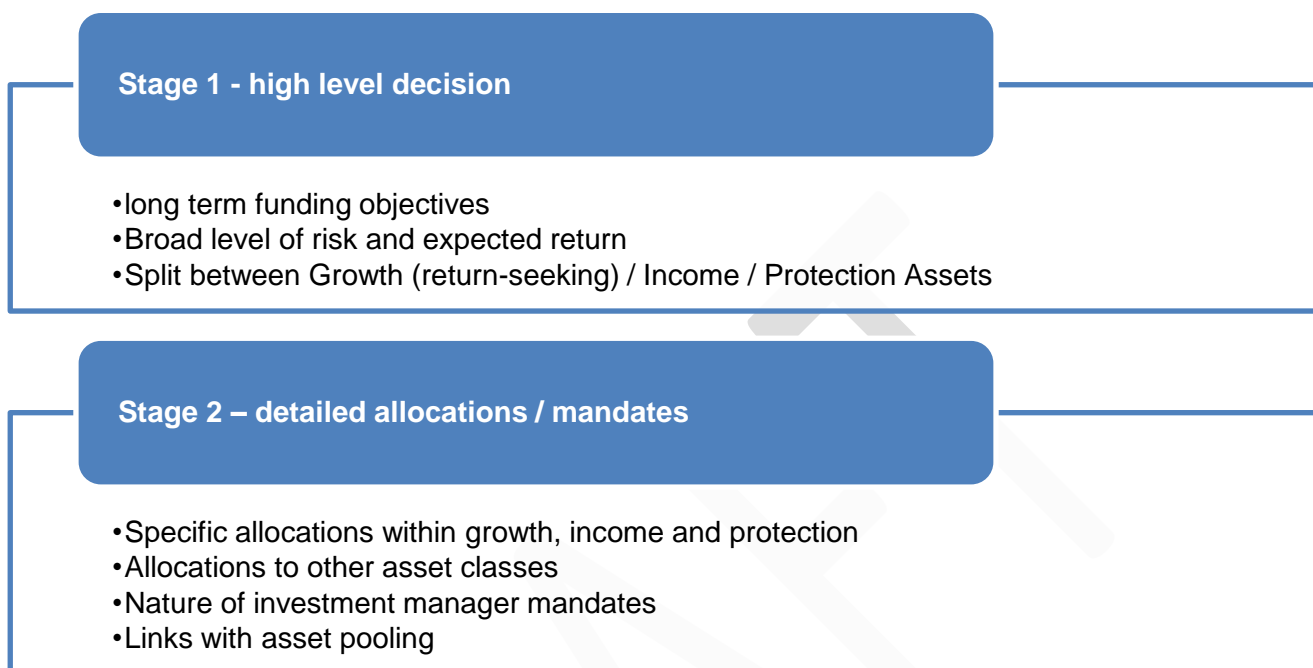
Appendix C – Investment Beliefs

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Appendix A

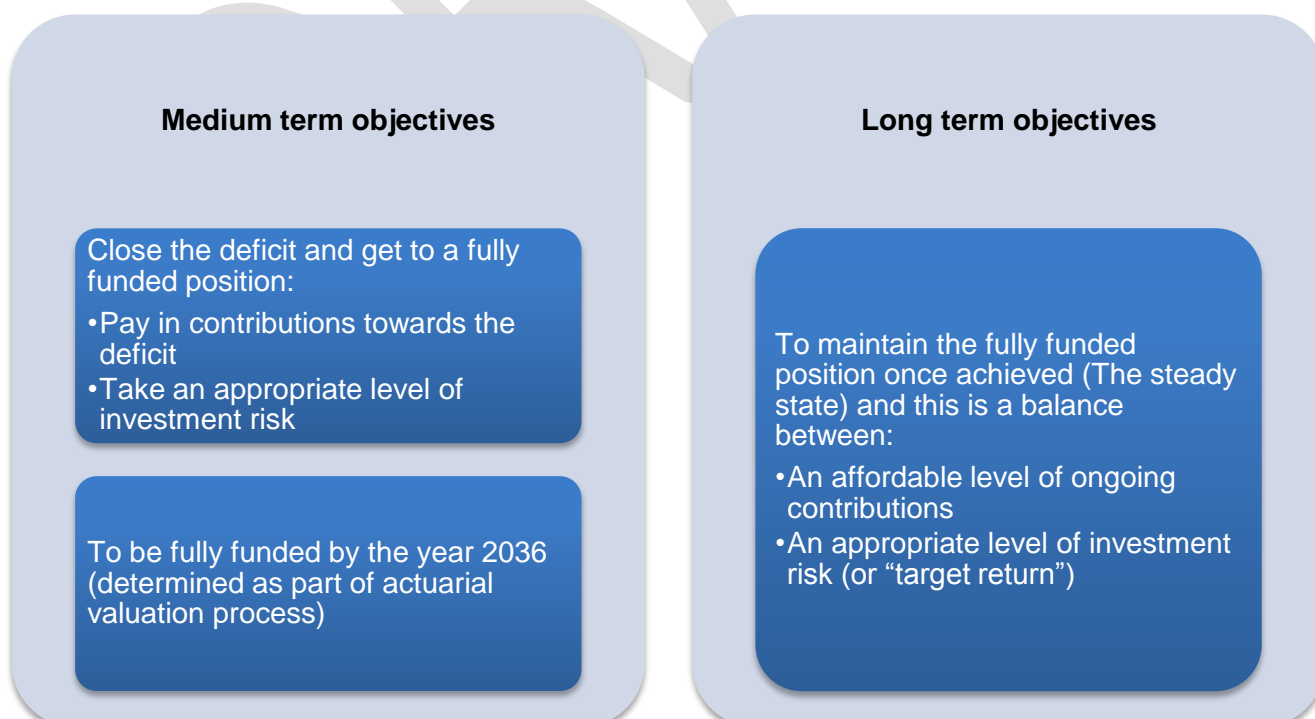
Investment Strategy Approach

The investment strategy of the East Sussex Pension Fund is designed to guide the selection of its investment portfolio and is expressed as its asset allocation decisions. The various factors which the Fund uses to construct its investment strategy are split into two stages:



Long term funding objectives

The long term funding objectives are considered in line with triennial actuarial valuation of the Fund. These objectives can be split into Medium and Long term objectives:



Appendix A

Broad level of risk and expected return

To assist the Fund in assessing its level of risk it employs Asset Liability Modelling this consists of generating forward projections with a range of potential outcomes and consider the chances of those outcomes happening. The key inputs and assumptions used in this modelling are:

The Fund's liability data - from the actuary

- Updated as at March 2016 (actuarial valuation)

Potential investment returns from asset classes

- Expected returns
- Variability of potential returns
- Correlations between types of investment

Future levels of inflation and interest rates

- Consider a wide range of scenarios
- Linked to expected investment returns

Split between Growth (return-seeking) / Income / Protection Assets

From the Asset Liability Modelling the level of risk that the Fund is comfortable with to achieve its objectives can then be used to develop the split between growth and protection assets. Other factors are also taken into consideration at this point such as the fact that the Local Government Pension Scheme as a whole is maturing. Cash flow reflections need to be made to ensure that there is an appropriate level of Income being generated by the Funds investments to ensure it does not become a forced seller of assets to meet its liabilities.

Appendix B



Rebalancing Policy

February 2017

Appendix B

Assessment of Fund's rebalancing needs

Background

The long term investment strategy for the Fund is set by the Committee and is defined in terms of target allocations to a series of specific asset classes and manager mandates. It is the key decision in terms of the level of investment risk being taken and the returns which will be earned by the Fund.

Why rebalance?

The Fund's actual asset allocation can deviate from the strategic benchmark for a number of reasons including:

- Market movements
- Fund manager under/outperformance relative to benchmark
- Income distribution

Systematic rebalancing has proved over time to be a successful investment discipline. It encourages investors to sell assets which have performed well (thus crystallising profits and selling expensive assets) and to buy assets that have performed less well (thus purchasing favoured asset classes at attractive valuations). This generally improves performance because of the inherent volatility of growth assets. Rebalancing also helps retain the agreed risk profile of the investment portfolio.

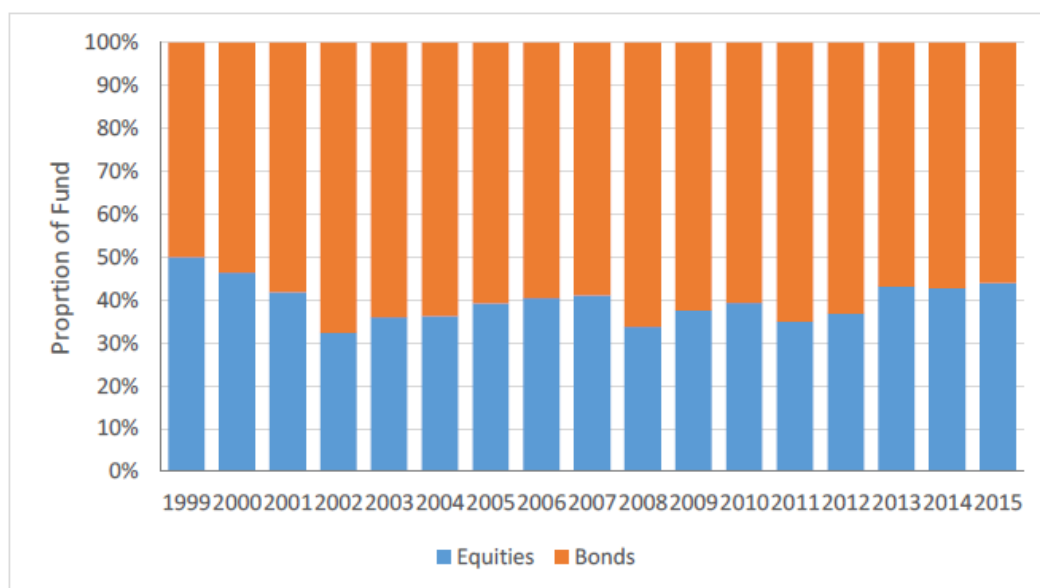
Introducing a tolerance range around each component within the strategic asset allocation allows for a degree of flexibility in managing the investment strategy. For example, subject to ranges not being breached, a decision may be taken to rebalance to an asset class other than the most underweight if, say, the cost of investing in that asset class is considered to be particularly high or an appealing investment opportunity presents itself elsewhere.

Asset Allocation Drift

To illustrate the effects of rebalancing, we have analysed a generic portfolio initially split 50% / 50% between equities and bonds over the period from 1999 to 2015. The chart below shows how the asset allocation of this portfolio would have evolved over the period without any rebalancing being implemented.

Effect of market returns on asset allocation

Appendix B



Note: Allocations are shown as at the end of each year.

Note that, by the end of 2002, our hypothetical portfolio would have become too conservative, with only 34% in equities and 66% in bonds ahead of the strong equity market rally starting in 2003, thereby not reaping the proper benefit. For similar reasons, many portfolios drifted overweight to equities over the period 2003-7, leaving investors over-exposed to the sharp equity market falls that were witnessed in 2008.

Over long periods of time, a portfolio will experience rising as well as falling markets, so the divergence from asset allocation will be mitigated over time. However, what is important is the effect these deviations will have on the return achieved by the portfolio over time. The table shows the effect of rebalancing on the returns from our hypothetical portfolio assuming it was invested over the period from 1 January 1999 to 31 March 2016.

Portfolio	Cumulative return (%)	Average return (% p.a.)
Not rebalanced	220.2	5.0
Rebalanced	232.4	5.3

Note: Annual rebalancing to the 50% / 50% target is assumed. Transaction costs are ignored.

Rebalancing Approach

We have applied financial theory and some historical analysis to illustrate the potential benefits of rebalancing. In broad terms, these can be summarised as locking in gains from outperforming asset classes and, in the process, ensuring that the returns achieved remain close to those of the strategic asset allocation benchmark itself.

In practice, of course, there are a number of factors which need to be considered and which may influence the particular approach taken to establishing a rebalancing process. These include:

- **Liquidity** - while some asset classes are highly liquid and easily tradable (for example, quoted equities and bonds), many others are less easily traded and are more difficult and expensive to transact (for example, property and alternative assets). In addition, dealing opportunities may be limited by the available dealing dates for particular pooled funds.

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- **Dealing Costs** - as explained earlier, frequent rebalancing may simply incur additional costs. It is important to note that such costs vary between markets and over time so any process needs to be reviewed from time to time.
- **Administration** - irrespective of the approach taken, a simple set of rules needs to be implemented by one or more parties; this argues in favour of avoiding unnecessarily complex solutions.
- **Flexibility** – it is important to retain the option of amending the rebalancing process or indeed suspending it altogether, depending on changes in market conditions or practice. Many rebalancing programmes were suspended in 2008 in the light of the extreme market volatility and a sharply downward movement in equity prices seen at that time.

In general, the more complex the investment manager arrangements, the more difficult it becomes to implement rebalancing.

It may help to illustrate some of these concepts in a simple example, using a single scheme with one balanced mandate operated by a single investment manager. The table below summarises a possible rebalancing programme.

Asset Class	Target Asset allocation benchmark %	Rebalancing Ranges % (Simple)	Rebalancing Ranges % (Weighted)
UK Equity	30	25 – 35	25 - 35
Overseas Equity	30	25 – 35	25 - 35
Gilts	10	5 – 15	8.5 – 11.5
Corporate Bonds	20	15 – 25	17 – 23
Index Linked Gilts	10	5 – 15	8.5 – 11.5

In this case, the simple approach is to implement ranges of “+ or - 5%” around the central benchmark. Clearly, the sub-division of asset classes could be extended further to include regional equity markets and other assets. It would be possible to add a further limit on the total equity exposure, taking UK and Overseas together.

In the more complex approach on the right of the table, the ranges themselves vary according to the central benchmark allocation. If one of the principal benefits of a rebalancing programme is to capture the relative outperformance of one asset class versus another, then it makes sense for the permitted ranges to reflect the relative significance of each asset class within the strategic benchmark. In our example, starting from the central position, an outperformance of 20% from gilts relative to other assets would take the gilt weight to around 12% and would fail to trigger a rebalance under the simple ranges - but it would trigger a rebalance under the weighted approach. We are naturally attracted to the latter for this reason, but, in practice, we recognise the merits of the simpler approach.

Rebalancing for the Fund – General Rules

The following general rules will determine how a rebalancing process for the Fund will operate.

Appendix B

- **Rebalancing would apply only to equities, absolute return funds and bonds** - Due to the transaction costs and illiquidity associated with the other investments such as property, we propose that rebalancing for those asset classes be considered on an annual/ad hoc basis; for the purposes of this document we consider rebalancing between equities, absolute return funds and bonds, rebalancing within bond allocations across bond categories and rebalancing within the equity allocation across different managers.
- **Rebalancing would be monitored on a quarterly basis**
- **Each benchmark allocation would have a weighted tolerance range** – A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will occur; the tolerance ranges could be weighted relative to the absolute amount of the benchmark allocation or the simple approach set out above.
- **Cash holdings to be used for rebalancing.** Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.
- **Rebalancing will occur at two levels; at the growth vs matching level, and at the mandate level** – The rebalancing process will determine if rebalancing is required between growth and matching assets, and separately if rebalancing is required between underlying mandates. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates (eg. Longview and L&G global equities).
- **Rebalancing transactions will aim to rebalance allocations outwith their tolerance ranges to the midpoint (at least) of the tolerance range** – The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 60% allocation and a 54%-66% tolerance range, the upper mid-point would be the halfway point between 60-66% (i.e. 63%). The lower mid-point would be the halfway point between 54% and 60% (i.e. 57%). Analysis suggests that this is the best way of balancing the impact of transaction costs against returns.

The allocations to private equity and infrastructure (and to a lesser extent property) will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore we would not recommend any rebalancing to be carried out in relation to the Fund's private equity or infrastructure investments. We also note that Schroders have been instructed to distribute income from the underlying property funds from Q2 2016 onwards and this should help towards reducing the current overweight to property over time. Taking into consideration the time it takes to undertake property transactions and the associated transaction costs, we suggest that any further rebalancing is carried out on an ad-hoc basis taking into account market conditions at the time.

Rebalancing Ranges

The following ranges have been agreed by the committee to set as points as to which rebalancing should take place.

Asset class	Strategic target (%)	Range
Listed Equities	50.0	+/-5
Private Equity	5.5	+/-2

Appendix B

Absolute Return	20.0	+/-3
Property	10.0	+/-3
Infrastructure	2.0	+/-2
Growth Assets	87.5	+/- 5
Absolute Return Bonds	3.0	+/-1
Fixed Interest Bonds	3.5	+/-1
Index-Linked Gilts	5.0	+/-1
UK Financing Fund	1.0	+/-1
Cash	0.0	+/-2
Matching Assets	12.5	+/-5
Total	100.0	

Appendix C



Investment Beliefs

February 2017

Appendix C

Investment beliefs

Background

Good governance

A number of studies have been carried out to help define what makes a good pension fund. Many of these studies have cited clarity of objectives, focus on investment strategy and understanding and managing key risks as being core attributes. However, one other feature often cited, but often overlooked by decision makers, is having a well-defined set of investment beliefs in place.

Investment beliefs

Beliefs are, by definition, unique to each pension committee or trustee body. They reflect the way in which committees (explicitly or implicitly) translate a fund's objectives into its actual investment arrangements. For example, you can have two funds, with broadly similar characteristics and objectives, but very different investment arrangements e.g. the extent of their use of diversification, active and passive management, regional equity exposures, approach to environmental, social and governance matters etc. all because the committees' beliefs are very different.

Having a well-defined set of investment beliefs offers a number of advantages, including:

1. **Clarity of why each mandate is held and the role it performs in the Fund's arrangements** – this clarity is of benefit to committees and the underlying members. It also offers a basis for framing external communication on investment strategy which is of particular relevance where decisions are subject to public scrutiny.
2. **Prioritisation** - having identified which investment decisions are most important, advice can be sought and meetings scheduled around these key priorities.
3. **Long-term thinking** - having a set of stated beliefs, committees are better able to avoid being unduly influenced by short-term market noise and "fads".
4. **Consistency, both of advice and decision-making** – meaning all decisions are reached using the same consistent framework.
5. **Continuity of understanding in decision-making** – having a decision making framework based on a set of beliefs allows decisions to be contextualised which is particularly valuable if there is regular turnover of committee members, i.e. the committee may not "own" the decision on a certain element of the investment strategy, but as they own the framework, they can better understand why the decision was taken.

There is no right answer when it comes to setting beliefs, with each scheme's beliefs being unique, depending on their specific circumstances and their trustees' views. A scheme's beliefs should be revisited on a regular basis to ensure they remain appropriate. It is also important that these beliefs are reflected in the underlying portfolio of assets and in the scheme's ways of working.

Appendix C

Fund specific investment beliefs

The Pension Committee have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held. These are set out below:

Belief: Clear and well defined objectives are essential to achieve future success

The Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection

The Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

Belief: Funding and investment strategy are linked

The Committee understands that a number of funding related aspects feed into investment strategy decisions, including maturity, sponsor covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.

Belief: Long term investing provides opportunities for enhancing returns

The Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long term returns

The Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions..

Belief: Alternative asset class investments provide diversification

The Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index-linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Committee hold a proportion of the Fund's assets in this asset class.

Appendix C

Belief: Fees and costs matter

The Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process.

Beliefs: Rebalancing can add value

Academic studies show that regular rebalancing can help add value over the long-term. As a result, the Fund has put in place agreed tolerance ranges for their liquid assets, with the intention that assets will be rebalanced, at least towards target, should these ranges be breached.

Belief: Active management can add value but is not guaranteed

The Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

Belief: Passive management has a role to play in the Fund's structure

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

Belief: Choice of benchmark index matters

The Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund. Choice of benchmark is particularly relevant for passive mandates where the manager's job is to track the index as closely as possible.

Belief: Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments

The Committee recognises that ESG issues can impact the Fund's returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations.

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Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **Funding Strategy Statement (FSS)**

Purpose of report: **This report covers the review of the Funding Strategy Statement (FSS) for the East Sussex Pension Fund.**

RECOMMENDATIONS – The Committee is recommended to approve the Funding Strategy Statement (FSS).

1. Background

1.1 It is the responsibility of East Sussex County Council, acting in its capacity as Administering Authority to the East Sussex Pension Fund, to prepare, publish and maintain the Funding Strategy Statement having regard to guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in a document entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement".

1.2 Local Government Pension Scheme Regulations require each administering authority, after consultation to prepare, maintain and publish a written statement setting out their funding strategy.

1.3 The statement was prepared by the Council in collaboration with the Fund's Actuary, Hymans Robertson. The statement includes a policy on stabilising employer contribution rates. In 2016 there has been a review of the stabilisation approach adopted during previous valuations. This review concluded that continuing to use this method was still valid and would not result in significantly worse long-term benefits when compared to having no method of stabilisation. The revised statement is effective from **March 2017**.

1.4 The statement is reviewed every three years ahead of the valuation of the Fund. The next full review is due to be started by **March 2019**. However, a revised statement can be issued in the interim if any significant or material change arises.

2. Funding Strategy Statement (FSS)

2.1 The purpose of the strategy statement is:

- to ensure the long-term solvency of the Fund, using a prudent long term view;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund;
- to reflect the different characteristics of different employers in determining contribution rates; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations

2.2 The statement sets out the key financial and demographic assumptions, staff turnover and retirements and future contribution rates. Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and employer's asset share. The strategy sets out the key risks and controls. The risks identified link in with the Pension Fund Risk Register.

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3. Consultation

3.1 In compliance with the Regulations, the FSS must be subject to consultation with the Fund's employers before publication, and this document has been circulated to all relevant interested parties for comment.

4. Conclusion and reasons for recommendations

4.1 The Committee is recommended to approve the Funding Strategy Statement (FSS) that reflects the outcome of the 2016 triennial valuation, and outlines how the Fund calculates employer contributions, what other amounts might be payable in different circumstances, and how this fits in with the investment strategy statement.

PHIL HALL

Interim Chief Finance Officer

Contact Officers:

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Background Documents

None

East Sussex Pension Fund

DRAFT Funding Strategy Statement

January 2017

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DRAFT Funding Strategy Statement

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the East Sussex Pension Fund (“the Fund”), which is administered by East Sussex County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from **DATE POST CONSULTATION**.

1.2 What is the East Sussex Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the East Sussex Fund, in effect the LGPS for the East Sussex area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Funding strategy and links to investment strategy [Section 4](#)).

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- A member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full.
- An employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund.
- An Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money.
- A Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. The regulatory background, including how and when the FSS is reviewed,
- B. Who is responsible for what,
- C. What issues the Fund needs to monitor, and how it manages its risks,
- D. Some more details about the actuarial calculations required,
- E. The assumptions which the Fund actuary currently makes about the future,
- F. A [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries, please contact East Sussex Pension Fund in the first instance.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.2 How does the actuary set the employer contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the employer contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation.
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have an older membership profile, or do not have tax-raising powers to increase contributions if investment returns under-perform.
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that employer contribution rates can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels.
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education.
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in return for a lower contribution rate that would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

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3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies		Transferee Admission Bodies
Sub-type	Major authorities	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing	“Gilts basis” - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future Working Lifetime		Shorter of: Future Working Lifetime of employees, and outstanding contract term
Probability of achieving target – Note (e)	66%	75%	66%	75% or 80% depending on employer risk	75%	See Note (e)
Primary rate approach	(see Appendix D – D.2)					
Secondary rate – Note (d)	Monetary Amount		% of payroll	Monetary amount		
Phasing of contribution changes	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	3 years		none
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
Treatment of surplus	Covered by stabilisation arrangement			Reduce contributions by spreading the surplus over the maximum time horizon		Reduce contributions by spreading the surplus over the remaining contract term.
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is generally assumed not to be possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. in the case of Town & Parish Councils), the cessation debt principles applied would be as per Note (i) .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (i) .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs closed to new entrants)

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority has set a higher funding target (i.e. using a discount rate set equal to gilt yields and extending the allowance for future improvements in longevity), in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see table below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring) or changes in the security of an employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Type of employer	Major authorities	Colleges	Academies
Max contribution increase in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.
Max contribution decrease in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

Note (d) (Secondary rate)

With the exception of Academies, the deficit recovery payments for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient deficit recovery payments being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT.
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions at the ceding LEA rate plus 1% p.a. instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The Fund will consider these on case by case basis);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);

- c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look spread the payment subject to there being some security in place for the employer such as an indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Certain employers, all of which are subject to the stabilisation mechanism, pay an additional 0.75% of pay per annum to meet expected non-ill health early retirement strain costs. Non stabilised employers (and stabilised employers choosing not to pay the additional 0.75% p.a. of pay) are required to pay additional contributions ('strain') wherever an employee retires before attaining retirement age.

3.6 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

3.7 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

The Fund intends to offer ill health insurance to a subset of employers in the Fund. This is likely to be for smaller employers (e.g. CABs and academies) who are typically less able to cope with large and unexpected strain costs. The Fund will be contacting these employers in due course.

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund.

Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach ([see 3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on a regular basis and reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

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Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**;*
and

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 23 January 2017 for comment;
- b) Comments were requested within 30 days;
- c) There was an Employers Forum on 18 November 2016 at which questions regarding the funding strategy could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, on [DATE]

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <https://www.eastsussex.gov.uk/yourcouncil/pensions/guides-and-leaflets>
- A copy sent by e-mail to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at <https://www.eastsussex.gov.uk/yourcouncil/pensions/guides-and-leaflets>.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this</p>

Risk	Summary of Control Mechanisms
	<p>risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p>

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or	The Administering Authority maintains close contact

Risk	Summary of Control Mechanisms
is not heeded, or proves to be insufficient in some way	<p>with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this was 1.6% at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. Retail Prices Index (RPI) per annum thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As was the case at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . In broad terms, this relates to the shortfall of its asset share to its funding target . See

[Appendix D](#) for further details.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **Pension Fund Budget for 2017/18**

Purpose of report: **This report outlines the 2017/18 budget for the Council's statutory function as the administering authority of the East Sussex Pension Fund.**

RECOMMENDATIONS

The Committee is recommended to approve the revenue budget for 2017/18 attached as Appendix 1 to this report.

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Regulations also empower the Fund to admit employees of other 'defined' (e.g. other public bodies) bodies into the Fund.

1.2 The proposed 2017/18 budget for the Pension Fund has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts an annual budget to assist with the discharge of its duties.

1.3 Expenditure for the Investment Management, Strategy & Pension Governance teams is included in the Business Services Department (BSD) budget and actual costs are invoiced to the Pension Fund at the end of the financial year. These expenses are a charge on the Pension Fund, and there is no direct charge to local authorities or other employer bodies for the costs detailed in this report.

1.4 The estimates do not incorporate any provision for investment fees earned by the alternative fund managers, and provision has been built into the budget for manager fees on £3.0 billion of assets.

2. East Sussex Pension Fund (ESPF) Budget – 2017/18

2.1 The budget outlined in this report will assist the Council in monitoring expenditure of the Fund's revenue budget in accordance with its requirement to manage resources effectively. The detail ESPF budget for 2017/18 is attached as Appendix 1. A comparison of the 2016/17 budget with the 2017/18 budget is shown below:

	2016/17	2017/18	
	Budget	Budget	Change
Description	£000	£000	£000
Pension Administration	1,250	1,270	20
Oversight and governance	680	660	(20)
Investment Management	8,850	8,850	-
Total	10,780	10,780	-

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3. Analysis of Budget Movement

3.1 Pension Administration - The slight increase in pension admin budget between 2016/17 and 2017/18 is primarily due an increase in the GMP reconciliation work now due to take place in 2017/18.

3.2 Oversight and governance – The changes in the oversight and governance budget is due to the resources set aside for commissioning work re the ongoing LGPS investment pooling initiative and a reduction in the investment consultant budget on the expectation that less work will be commissioned.

3.3 Investment Management - The Investment Strategy budget reflects potential for a fees reduction from current managers, and the increase in the value of the fund since 31 March due to the current market fluctuation. It is not possible to accurately estimate the fund investment management annual fees because they are linked to the market values of the assets being managed, which continually fluctuate.

4. Budget Monitoring

4.1 The budget will be monitored by officers with a quarterly report to the Pension Board throughout the year. Actual spend is detailed in the Annual Report and Accounts of the Pension Fund which are subject to external audit. As in previous years, the Pension Fund will participate in a number of benchmarking exercises during the year, which will provide a useful cost comparator with other LGPS funds.

5. Conclusion and recommendations

5.1 Pension Fund expenditure on investment and administration are a charge to the Pension Fund. There is no direct charge to local authorities or other employer bodies for the costs detailed in this report.

5.2 The Committee is recommended to approve the revenue budget for 2017/18 attached as Appendix 1 to this report.

PHIL HALL

Interim Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions

Tel. No. 01273 482017

Email: Ola.Owolabi@eastsussex.gov.uk

Local Member(s): All

BACKGROUND DOCUMENTS

none

Appendix 1**2017/18 Pension Fund Revenue Budget**

Description	2016/17 Budget £000	2017/18 Budget £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	40	40	-	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	770	1,110	340	Cost of the joint administration service, and reflects hosting the system by Business Operations
Administration System	340	-	(340)	Budget moved into the Orbis Business Operations Support Services
Guaranteed Minimum Pension	100	120	20	GMP Reconciliation work now due to take place in 2017/18
Administration total	1,250	1,270	20	
Oversight and governance costs				
Orbis Finance Support Services	200	200	-	Staff time spent on oversight and governance
Subscriptions	35	40	5	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	186	120	(66)	Outsource to contractors
Investment Consultancy	135	135	(8)	Outsource to contractors
Investment Pooling	50	100	50	Commissioning work for expert advice on investment pooling
External Audit Fee	29	29	-	External audit of the Annual Report
Internal Audit Fee	17	17	-	Control work performed by the Council's internal audit team
Legal Fees	10	10	-	Legal work commissioned for the fund
Performance Measurement Services	18	24	6	Investment performance monitoring service
Specific Actuarial Work*	180	150	(30)	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(180)	(150)	30	Recovery of work provided by the actuary
Oversight and governance total	680	660	(20)	
Investment Management				
Investment Manager Fees	8,850	8,850	-	Fees paid to the investment managers
Investment Management Total	8,850	8,850	-	
Total PF Budget	10,780	10,780	-	

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**Note – The fund occasional request specific work to be carried out the actuary on the behalf of specific employers, of which the full costs are recoverable from employers.*

Report to: Pension Board

Date of meeting: 9 February 2017

By: Interim Chief Finance Officer

Title: External Audit Plan for East Sussex Pension Fund 2016/17

Purpose: To inform the Board of the content of the Pension Fund external audit plan for 2016/17

RECOMMENDATIONS

The Board is recommended to consider and comment upon the External Audit Plan for the East Sussex Pension Fund for 2016/17

1. Background

1.1 The Plan confirms the core external audit fee as £26,607. This is unchanged from the 2015/16 fee. The fee is based on a number of assumptions, including the Council providing the auditors with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. The audit fee is charged to the Pension Fund and not to the Council itself.

2. Supporting Information

2.1 The attached Pension Fund external audit plan set out in more detail the work the external auditors will conduct in order to audit the Pension Fund's 2016/17 accounts. The Plan reflects relevant issues that have arisen as a result of the 2015/16 Pension Fund accounts audit and other work carried out by KPMG.

2.2 KPMG initial assessment has not identified any significant risks that are specific to the Pension Fund. Areas of audit focus either due to their size, level of judgement or their influence on other balances within the financial statements are:

- Fraud risk from management override of controls (required by ISAs).

3. Conclusion and reasons for recommendations

3.1 KPMG overall audit approach remains similar to last year with no fundamental changes. Officers will continue to liaise with KPMG to ensure that their work is delivered as efficiently and effectively as possible and that internal and external audit plans are complementary and make best use of audit resources. The Plan will be reported to the Pension Committee for approval on 27 February 2017.

PHIL HALL

Interim Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions
Tel. No. 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

Local Member(s): All
Background Documents
None

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External Audit Plan 2016/2017



East Sussex County Council Pension Fund

January 2017

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has set at **£27 million** for the Pension Fund, which equates to 1% of Net Assets.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£1.35 million**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud risk from management override of controls (required by ISAs)

See pages **4 to 8** for more details.

Logistics



Our team is:

- Phil Johnstone - Director
- Scott Walker - Manager
- Sana Naqvi – Assistant manager

More details are on **page 7**.

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 6**.

Our fee for the audit is £ 26,607 (£ 26,607 2015/2016) for the Pension Fund see **page 5**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our key objective, is to audit/review and report on your:

— *Financial statements*: Providing an opinion on your accounts.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.





Financial Statements Audit Planning

Our planning work takes place during January to February 2017. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £27 million which equates to 1% of Net Assets.

We design our procedures to detect individual errors. This is £20.25 million for the year ended 31 March 2016, and we have some flexibility to adjust this level downwards.

Reporting to the Scrutiny Committee for Audit, Best Value and Community Services

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Scrutiny Committee for Audit, Best Value and Community Services any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

We propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.35 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Scrutiny Committee for Audit, Best Value and Community Services to assist it in fulfilling its governance responsibilities.

Other matters

Our audit team

Our audit team will be led by Phil Johnstone (Director) and Scott Walker (Audit Manager) providing continuity at a senior level. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Scrutiny Committee for Audit, Best Value and Community Services. Our communication outputs are included in Appendix 1.

Independence and Objectivity

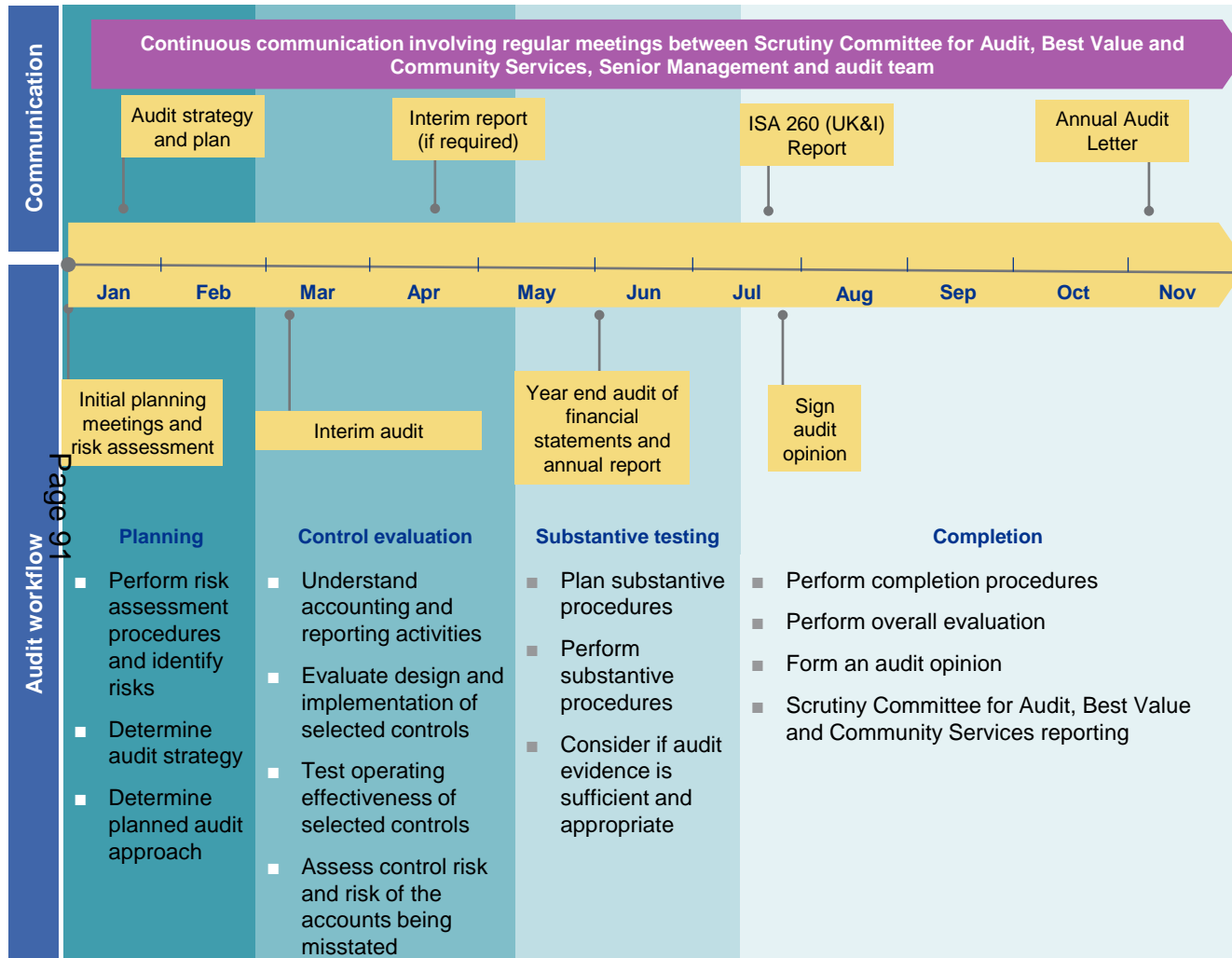
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £26,607 for the Pension Fund (2015/16 £26,607).

Appendix 1: Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team



Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the East Sussex County Council Pension Fund audit last year.



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Name	Phil Johnstone philip.johnstone@kpmg.co.uk
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Scrutiny Committee for Audit, Best Value and Community Services, Chief Executive and Executive Directors.'



Name	Scott Walker Scott.walker@kpmg.co.uk
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Phil to ensure we add value. I will liaise with the Chief Finance Officer, Director of Finance and the Finance Team'



Name	Sana Naqvi sana.naqvi@kpmg.co.uk
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Scrutiny Committee for Audit, Best Value and Community Services.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of January 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Report to: Pension Board

Date of meeting: 9 February 2017

By: Interim Chief Finance Officer

Title: Pension Board Insurance Arrangements

Purpose: This report provides the Board with an update on the Board Insurance Proposal

RECOMMENDATIONS

The Board is recommended to:

1. consider and express its view on the content of the report; and
 2. recommend that the Pension Committee approves the Pension Board Insurance premium for payment.
-

1. Background

1.1 At the Pension Board meeting 4 August 2016, representatives received a report (Appendix 1) for consideration on the legal position of Pension Boards. The consideration by the Board was as follows:

This item was introduced by the Chair - The Chair explained that the opinion of James Goudie QC regarding the legal status of pension boards does not affect how the East Sussex Pension Board has been set up. However, a considerable number of other pension boards were exercising the functions of the pension committee, i.e., the management and administration of their pension fund; and were constituted as if they were local authority committees, i.e., the members of the boards were local authority elected members rather than scheme member and employer representatives. The Board RESOLVED to note the report.

1.2 The report concluded that the QC opinion was adopted by the Shadow Scheme Advisory Board, which will review its guidance on pension boards. There is no concern for the scheme manager (East Sussex County Council), as the East Sussex Pension Board fully complies with the Public Sector Pensions Act 2013 (the 2013 Act) with regard to membership of Boards.

2. Supporting information

Pension Board Insurance Proposal

2.1 The consideration of James Goudie QC's advice on the Board insurance arrangement has lead to representatives expressing concern as to the status of the Board and the insurance arrangements for the representatives.

2.2 It is accepted that the Board is not a Council committee and that it has no decision making functions. However, for the efficient administration of the Board, it is considered appropriate to use as many of the Council's processes as possible. In particular, the "Standards of conduct and conflicts of interest" paragraph of the Terms of Reference states:

Standards of Conduct - The main elements of East Sussex County Council's Code of Conduct shall apply to Board members.

Conflicts of Interest - The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator's code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member's tenure

2.3 The Council's Insurance and Risk Manager has been consulted and has advised: that Council's existing insurance arrangements do not cover the Pension Board's membership, as the Board is not a Council committee, and that a third party insurance (if required) looks like the sensible way to proceed, particularly since it will be a bespoke policy for Pension Boards.

2.4 In addition, comment from Member Services is that ***it will be difficult to foresee how a claim could arise against the Board's membership*** given that it is there to support the Pension Committee and has no direct decision making authority.

2.5 A firm of insurance brokers is currently looking to develop a new insurance product specifically for Pension Boards. The "brokers" to whom the Insurance Manager refers is Aon Hewitt who wrote in their recent newsletter (Appendix 2) that they have been working with colleagues in Aon Risk Solutions to develop an insurance product that will provide cover for members of Pension Boards. AoN has advised and provided the fund with 'UK SPS II Elite Pension Liability for Public Service Pension Boards Policy' attached as Appendix 3, which offered the following levels of cover options for consideration:

Options	Elite PTL for Public Service Pension Boards - Limit of Liability in the aggregate:	Annual Premium (excluding IPT):
1.	£1m	£5,500 per annum
2.	£10m	£10,000 per annum
<i>Each of these premiums is subject to insurance premium tax at 10%.</i>		

2.6 AoN has advised that the pension board liability policy cover is classified by the Financial Conduct Authority (FCA) into the "general insurance area" and that this cover is actually placed by AoN Risk Services and AoN will receive commission on the placement.

3. Conclusion and reasons for recommendations

3.1 The *risk of a claim arising against the Board's membership is very low*, given that the Board is there to support the Pension Committee and has no direct decision making authority. There are no indications that many LGPS funds are considering an insurance premium to cover the Board potential liability.

PHILL HALL

Interim Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions

Tel. No. 01273 482017

Email: Ola.Owolabi@eastsussex.gov.uk

Background documents:

None

Report to: Pension Board

Date of meeting: 4 August 2016

By: Chief Finance Officer

Title: Legal position of Pension Boards

Purpose: This report provides the Board with the legal status of Pension Board.

RECOMMENDATION

The Board is recommended to note the content of this report.

1. Background

1.1 A number of stakeholders have raised questions regarding the legal status of local pension boards in particular their legal relationship with the authority acting as scheme manager.

2. Legal position of local pension boards - Opinion of James Goudie QC.

2.1 The Local Government Authority (LGA) approached James Goudie QC for a view against the following questions:

- The legal status of an LGPS Pension Board.
- The legal relationship between the Pension Board and the Local Government Pension Scheme (LGPS) Administering Authority (i.e. Scheme Manager).
- Whether there is a conflict between the requirements of the Superannuation Act 1972 (the 1972 Act) and the Public Sector Pensions Act 2013 (the 2013 Act) with regard to membership of Section 5(7) Combined Committee Boards?
- Generally on any other issues relevant to this matter

2.2 Mr James Goudie QC concluded (Appendix 1) that:

- Local pension boards are constituted entirely under the Public Service Pensions Act 2013 and are not local authority committees. He goes on to point out some of the practical difficulties that arise from this view such as access to council officers and indemnity insurance cover.
- In his view the relationship is entirely that set out in the Public Service Pensions Act 2013.
- There are conflicts between 1972 Act and the 2013 Act but they are not mutually exclusive and it is possible for a combined committee/board to exist however in his view 'An administering authority should think long and hard before choosing to go down the combined role route'.

2.3 The advice then goes on to point out the difficulties in this area in particular his view that a pensions committee with investment decision making powers is a finance committee and is therefore restricted in its membership.

3. Conclusion and recommendations

3.1 The QC opinion was adopted by the Shadow Scheme Advisory Board, and will review its guidance on pension boards. However, there is no concern for the scheme manager (ESCC), as

the East Sussex Pension Board fully complies with the Public Sector Pensions Act 2013 (the 2013 Act) with regard to membership of Boards.

MARION KELLY
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions
Tel. No. 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

Background documents:
None



The need for Pension Board liability insurance

Local Pension Boards are established under the Public Services Pensions Act 2013 and have been established in order to assist the Administering Authority of a Local Government Pension Scheme to:

- Comply with:
 - The LGPS Regulations 2015
 - Any other legislation relating to the governance and administration of the Scheme
 - Any requirements imposed by the Pensions Regulator
- Ensure effective and efficient governance and administration

However, according to the legal opinion obtained by the LGA from James Goudie QC, the Pension Board itself is not a council committee and therefore there is uncertainty as to whether members of the board are officials who fall within the scope of the councils own indemnity provisions.



[For more information](#)

Insurance of Local Pension Boards

Since the implementation of the Public Service Pensions Act 2013, Aon clients have queried the extent of insurance cover for members of the Pension Boards, and Aon have been in discussion with different insurers to ascertain whether current Officials Indemnity or liability policies can be extended to include such insurance. Many policies contain exclusions relating specifically to claims arising out of a breach of fiduciary duty, responsibility or obligation in connection with any employee benefit or pension plan, and there is some reluctance to extend the scope of cover.

Furthermore any claim under an Officials Indemnity policy is subject to the applicable deductible, but the Authority may be unable to indemnify the individual, leaving the board member personally liable for costs within the deductible. Deductibles for Administering Authorities typically range from £50,000 to £250,000.

To fulfil requirements for certainty of insurance cover, Aon have developed in conjunction with a leading insurer a pension liability policy specifically designed to provide protection to Local Pensions Boards and the personal liability of individual Pension Board members in the event of claims or investigations against them.

What is covered?	Extent of protection
<p>Loss – Insurers will pay for loss suffered as a result of claims made during the policy period for wrongful acts, such as breach of trust, breach of duty, breach of statutory provision, maladministration, neglect, administrative error or wrongful omission, misstatement, misleading statement or any other act committed or allegedly committed by an Insured in connection with their role as members of a Pension Board.</p> <p>Investigation expenses – investigations instituted during the policy period.</p> <p>Mitigation expenses – Expenses incurred in taking action to prevent, limit or mitigate exposure to an actual or potential claim.</p>	<p>Damages – i.e. judgements settlements and awards for which members are legally liable.</p> <p>Defence costs – legal costs and expenses incurred in defending claims brought against them.</p> <p>Investigation expenses – legal costs and expenses incurred in relation to an investigation connected with the Pension Scheme.</p>


Extensions of cover include:

<ul style="list-style-type: none"> • Public Relations Expenses (sub limited)* • Civil Fines and Penalties to the extent permitted in law • Emergency Costs (sub limited)* • Extradition Proceedings Costs 	<ul style="list-style-type: none"> • Loss of Documents (sub limited)* • Prosecution Costs (sub limited)* • Third party provider pursuit costs
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The policy is issued on a “claims made” basis meaning that only claims notified during the policy period are covered.

*Sub limits may vary based on the overall limit purchased. Sub limits form part of and are not in addition to the Limit of Liability.

Limit, deductible and cost	Key underwriting information
<p>Cost of cover is dependent on a number of factors including:</p> <ul style="list-style-type: none"> • Limit of Indemnity required (Limits up to 10m are available) • Size of the Pension Scheme assets • Number of members of the Pension Scheme • No deductible is payable by any individual insured 	<p>Quotations can be provided based on:</p> <ul style="list-style-type: none"> • Latest Pension Scheme accounts • Terms of reference for the Pension Board • Details of the members of the Pension Board • Details of training schedule for board members either undertaken or proposed • Subject to no known claims or circumstance

 For full details of policy wording terms and conditions please contact your usual representative or Deborah Ball deborah.ball@aon.co.uk

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 72,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com/>

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UK SPS II Elite Pension Liability for Public Service Pension Boards Policy

SCHEDULE

Ace European Group Ltd
(herein called "the **Insurer**").

Policy Number:

Item 1: **Policyholder:**

Address:

Item 2: **Limits:**

(A) **Limit of Liability** any one **Claim** and in aggregate in the **Policy Period:** GBP XX,000,000

(B) Sub Limits for each **Policy Period:**

(i) Emergency Costs	GBP	10% of the Limit of Liability in Item 2(A)
(ii) Bail Bond Costs	GBP	10% of the Limit of Liability in Item 2(A)
(iii) Public Relations Expenses	GBP	250,000
(iv) Loss of Documents	GBP	100,000
(v) Mitigation Expenses	GBP	250,000
(vi) Third Party Service Provider Pursuit Costs	GBP	100,000
(vii) Prosecution Costs	GBP	250,000

Item 3. Deductible: Each and Every **Claim** GBP

Item 4: **Policy Period:**

From:

To:

Local standard time at the address shown in Item 1

Both Days Inclusive

Item 5: Pending or Prior Date:

Item 6: Administering Authority:
Pension Scheme:

Item 7 Endorsements effective at inception:

Item 8: Premium:
Taxes in addition:

THIS IS A CLAIMS-MADE POLICY. EXCEPT AS OTHERWISE PROVIDED, IT COVERS ONLY **CLAIMS** FIRST MADE AGAINST AN **INSURED** DURING THE **POLICY PERIOD**

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ACE European Group Ltd. 020 7173 7000 tel
 The ACE Building 020 7173 7841 fax
 100 Leadenhall Street,
 London, EC3A 3BP www.acegroup.com/uk

ACE European Group Limited is authorised and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

ACE Elite Pension Trustee Liability for Public Service Pension Boards

In consideration of the payment of the premium and subject to all terms conditions and limitations of the Policy the Insurer agrees with the Insured as follows:-

1. *Insuring Agreement*

- i) The Insurer will pay on behalf of the Insured all Loss which the Insured are obligated to pay, or which the Pension Scheme is legally required or permitted to pay to the Insured as advancements or indemnity under applicable trusts, indemnity laws or agreements or rules of the Pension Scheme, for a Claim against an Insured for a Wrongful Act, provided the Claim is first made against an Insured during the Policy Period, or Discovery Period if applicable, and notified to the Insurer in accordance with the requirements of this Policy.
- ii) The Insurer will pay on behalf of the Insured all Investigation Expenses in respect of an Investigation, provided the Investigation is instigated during the Policy Period, or Discovery Period if applicable, and notified to the Insurer in accordance with the requirements of this Policy.
- iii) The Insurer will pay on behalf of the Insured all Mitigation Expenses incurred solely and exclusively in taking action to prevent, limit or mitigate the Insured's exposure to an actual or potential Claim for a Wrongful Act, provided that the Wrongful Act is first discovered during the Policy Period, or Discovery Period if applicable, and notified to the Insurer in accordance with the requirements of this Policy.

SIGNED for and on behalf of the Insurer



Andrew Kendrick *Chairman and Chief Executive Officer*

This Policy should be checked and if incorrect returned immediately for correction.

2. Definitions

- (1) Authorised Insured means the Insured who acts on behalf of each and every Insured with respect to the giving and receiving of notice of a Claim or Investigation or of a circumstance that may give rise to a Claim or to an Investigation, the payment of premiums and the receiving of any return premium that may become due under this Policy, the negotiation, agreement to and acceptance of endorsements, and the giving or receiving of any notice provided for in this Policy.
- (2) Bail Bond Costs means the reasonable premium (not including any collateral) for a bond or other financial instrument to guarantee an Insured's contingent obligation for bail or equivalent in any jurisdiction required by a Court in respect of any Claim. The sub-limit of liability for Bail Bond Costs is 10% of the Limit of Liability (such limit shall be part of and not in addition to the Limit of Liability shown in Item 3 of the Schedule).
- (3) Benefit means any obligation under a Pension Scheme to a participant or beneficiary, which is a payment of money or property, including a transfer payment to another scheme, or the grant of a privilege or perquisite.
- (4) Claim means:
 - (a) any written demand made against an Insured alleging a Wrongful Act whether or not containing a demand for monetary damages, asserting legal liability on the part of the Insured;
 - (b) any civil or arbitral proceeding against an Insured;
 - (c) any criminal proceedings against an Insured;
 - (d) any administrative or regulatory proceeding or official investigation commenced against an Insured based upon a specified Wrongful Act;
 - (e) any Extradition Proceeding; or
 - (f) a written request to waive, suspend or extend time under any applicable limitation statute.
- (5) Defence Costs means all reasonable legal and other professional costs and expenses including lawyers', arbitrators' and experts' fees incurred by an Insured, including the cost of an appeal bond but without the obligation to apply for and furnish any such bond, which are necessary to defend or appeal a Claim covered by this Policy which are not Investigation Expenses, Mitigation Expenses, Prosecution Costs or Public Relations Expenses, and which are incurred with the written consent of the Insurer, such consent not to be unreasonably withheld or delayed. Defence Costs do not include the wages, salary or other remuneration of an Insured, nor any Value Added Tax or similar tax to the extent that such tax can be recovered by the Insured.
- (6) Discovery Period means the period of time in Section 5 of this Policy.
- (7) Document means all documents and computer record systems but excluding any bearer bonds, coupons, bank or currency notes or other negotiable instruments whether printed or reproduced by any other method, which are the property of the Insured or for which the Insured is legally responsible and which relate to the Pension Scheme.
- (8) Extradition Proceedings means:
 - (a) a request for extradition, a warrant for arrest or other proceedings under the provisions of the United Kingdom Extradition Act 2003 in respect of or against an Insured for any actual or alleged act or omission connected with the Pension Scheme;
 - (b) any associated appeals and applications for judicial review; or
 - (c) any application or appeal to the European Court of Human Rights; or
 - (d) the equivalent of the above in any other jurisdiction.

A Wrongful Act is not required for cover for Extradition Proceedings.

- (9) Financial Support Direction means a direction issued by the Pensions Regulator against or naming an Insured under Section 43 of the Pensions Act 2004.
- (10) Insured means a natural person who was, is or shall be a member of the Pension Board created specifically for the Pension Scheme. Insured is specifically extended to include the lawful spouse, domestic partner or civil partner of such an Insured and the estate, heirs or legal representatives of such an Insured in the event of death, incapacity, insolvency or bankruptcy, provided always that the Claim against such an Insured would have been covered in the absence of the death, incapacity, insolvency or bankruptcy.
Insured also means the Pension Scheme.
- (11) Insurer means ACE European Group Limited.
- (12) Insured Capacity means the performance of the duties and responsibilities of an Insured in connection with the governance, administration and operation of the Pension Scheme.
- (13) Investigation means an investigation or proceeding connected with the Pension Scheme, outside of the United States of America, commenced by the Pensions Ombudsman, the Financial Ombudsman Service, the Pensions Regulator, the Pensions Regulator Tribunal, the Pensions Regulator's Determinations Panel, the Pension Protection Fund or equivalent body or entity, the Information Commissioner, or any government body or agency, instigated during the Policy Period or Discovery Period if applicable, and having the power to require the Insured to provide evidence or documents.

A Wrongful Act is not required for cover for an Investigation.

- (14) Investigation Expenses means the reasonable legal costs and related professional fees incurred by an Insured with the prior written consent of the Insurer, such consent not to be unreasonably withheld or delayed, in relation to an Investigation; provided that such costs are not recoverable from any other source of insurance or indemnification other than as advancement or indemnity under applicable trusts, indemnity laws or agreements.

Investigation Expenses do not include the wages, salaries or other remuneration of any Insured nor any Value Added Tax or similar tax to the extent that such tax can be recovered by the Insured.

- (15) Loss
 - (a) means any damages, judgements, settlements and awards for which an Insured is legally liable in respect of a Claim (including distress awards or compensation as determined by the Pensions Ombudsman, the Pensions Regulator, the Pensions Regulator Tribunal, the Pension Protection Fund or equivalent body or entity);
 - (b) includes Defence Costs;
 - (c) includes Investigation Expenses;
 - (d) includes Mitigation Expenses;
 - (e) includes Prosecution Costs;
 - (f) includes Public Relation Expenses.

Where the Loss, or part of the Loss, is in respect of Benefits, Loss will be calculated as being the amount which the Insured has paid or becomes liable to pay out of the Pension Scheme in Benefits as a direct consequence of a Wrongful Act, after deduction of the amount the Pension Scheme would have paid or would have been liable to pay in Benefits under the trust deed and rules of the Pension Scheme if the Wrongful Act had not occurred.

In the event that such Benefits are payable by an Insured who is a natural person as a personal obligation, Loss means the amount that they are liable to pay as a direct consequence of a Wrongful Act.

Loss shall not include fines or penalties (other than civil fines and penalties under 7. Extensions (b) of this Policy) imposed by law, taxes or sums payable in relation to taxes and any sum deemed uninsurable under the law under which this Policy is construed. Loss shall also not include the wages, salaries, fees or expenses of an Insured nor any Value Added Tax or similar tax to the extent that such tax can be recovered by the Insured.

- (16) Mitigation Expenses means the costs and expenses of measures taken solely and exclusively by or on behalf of an Insured and which are reasonably and necessarily required to prevent, limit or mitigate the Insured's exposure to Loss to an actual or potential Claim for a Wrongful Act, insofar as this loss, if it occurred, would be covered by this Policy, and which are incurred with the written consent of the Insurer, such consent not to be unreasonably withheld or delayed, up to GBP 500,000 (such limit shall be part of and not in addition to the Limit of Liability shown in Item 3 of the Schedule).

Where Mitigation Expenses include the payment of Benefits, they shall be calculated as being the amount of such Benefits which are a direct consequence of a Wrongful Act, after deduction of the amount the Pension Scheme would have paid or would have been liable to pay in Benefits under the trust deed and rules of the Pension Scheme if the Wrongful Act had not occurred.

Mitigation Expenses do not include the wages, salary or other remuneration of an Insured, nor any Value Added Tax or similar tax to the extent that such tax can be recovered by the Insured.

- (17) Pension Board means a pension board created as required and in accordance with The Public Service Pensions Act 2013 and The Public Service Pensions Act (Northern Ireland) Act 2014.
- (18) Pension Scheme means the scheme named in Item 6 of the Schedule
- (19) Policy means this policy and any endorsement thereto.
- (20) Policy Period means the period of time shown in Item 4 of the Schedule of this Policy.
- (21) Prosecution Costs means the legal and other professional fees, costs and expenses to resist any application for or to bring legal proceedings to obtain the discharge or revocation of:
- (a) an order disqualifying an Insured from holding such office; or
 - (b) an interim or interlocutory order:
 - (i) confiscating, controlling, suspending or freezing rights of ownership of real property or personal assets of an Insured for any actual or alleged act or omission connected with the Pension Scheme; or
 - (ii) creating a charge over real property or personal assets of an Insured for any actual or alleged act or omission connected with the Pension Scheme
 - (c) an order of a court imposing a restriction of the Insured's liberty for any actual or alleged act or omission connected with the Pension Scheme; or
 - (d) the deportation of an Insured following revocation of otherwise proper, current and valid immigration status for any actual or alleged act or omission connected with the Pension Scheme.
- (22) Public Relation Expenses means the reasonable fees and related expenses of a public relations firm or consultant, crisis management firm or law firm, which an Insured may, in the reasonable exercise of its discretion, engage in order to prevent or limit adverse

effects or negative publicity which it is anticipated may arise from any Claim or Investigation (including to disseminate the findings of a final adjudication in favour of an Insured), not including any Value Added Tax or similar tax to the extent that such tax can be recovered by the Insured. The sub-limit of liability for all Public Relation Expenses is GBP 250,000 (such limit shall be part of and not in addition to the Limit of Liability shown in Item 2 of the Schedule).

- (23) Third Party Service Provider means those persons having been appointed by the Insured to provide services in relation to the Pension Scheme and who where necessary are licensed or regulated in that regard by statute or any recognised professional body or institution.
- (24) Wrongful Act means any actual or alleged breach of trust, breach of duty, breach of statutory provision, maladministration, neglect, administrative error or wrongful omission, misstatement, misleading statement or any other act committed or allegedly committed by an Insured in their Insured Capacity in relation to the Pension Scheme.

3. Exclusions

The Insurer shall not be liable to make any payment under this Policy:

1. (a) based on, arising from or attributable to any deliberately dishonest or deliberately fraudulent act or omission or an intentional breach of any law by an Insured; or
 (b) based on, arising from or attributable to any personal profit or advantage gained by an Insured to which such Insured was not legally entitled;
 provided that this exclusion shall only apply if it is established through a judgment or any other final adjudication (including any appeal thereof) or any formal written admission by such Insured that the relevant conduct occurred.
2. based on, arising from or attributable to any pending or prior litigation or other proceedings or Investigation involving an Insured and issued or otherwise begun before the date shown in Item 5 of the Schedule or alleging or derived from the same or substantially the same facts or circumstances alleged in the pending or prior litigation or proceedings or Investigation.
3. based on, arising from or attributable to any fact, circumstance, act, omission, Wrongful Act or other matter of which notice has been given under any policy existing or expired before or on the date shown in Item 5 of the Schedule.
4. based on, arising from or attributable to the failure to fund or procure funds to the Pension Scheme in accordance with the law or the trust deeds (or other similar provisions) or failure to collect contributions which are owed to the Pension Scheme from a participating employer company or any other source, including without limitation any Financial Support Direction. However this exclusion shall not apply to Loss resulting from a Claim against an Insured alleging that such failure to fund or procure funds or to collect contributions arises from, is attributable to or is based upon the negligence of that Insured.
5. for any bodily injury (other than for mental or emotional distress), sickness, disease or death of any natural person, or any damage to or destruction of any tangible property including loss of use of such property, other than a Document.

For the purposes of determining the applicability of the Exclusions, the Wrongful Act of a natural person Insured shall not be imputed to any other natural person Insured.

4. Conditions

(a) Limit of Liability

- (i) The amount shown in Item 2 of the Schedule is the Insurer's maximum aggregate liability for all Loss under this Policy irrespective of the number of claims under this Policy or the number of Insureds who claim and irrespective of the amounts of any such claims or when they are made.
- (ii) The Insurer's maximum aggregate liability for all Loss in respect of which a sub-limit is specified in the Policy, Schedule or any endorsement attaching to this Policy shall be that specified sub-limit (such limit shall be part of and not in addition to the Limit of Liability shown in Item 2 of the Schedule), irrespective of the number of claims under this Policy for such Loss or the number of Insureds who may so claim and irrespective of the amounts of any such claims or when they are made.
- (iii) If a single Wrongful Act or a series of Wrongful Acts or acts which are attributable to the one originating source or underlying cause give rise to a claim under this Policy then all claims arising out of such similar or related Wrongful Acts shall be treated as a single claim

(b) Deductible

- (i) For each claim under this Policy the Insurer shall only be liable for the amount of Loss arising from a Claim which is in excess of the deductible amount shown in Item 3 of the Schedule
- (ii) If a single Wrongful Act or a series of Wrongful Acts or acts which are attributable to the one originating source or underlying cause give rise to a claim under this Policy then all claims arising out of such similar or related Wrongful Acts or acts shall be treated as a single claim and a single deductible shall apply to such claims.
- (iii) The deductible shown in Item 3 of the Schedule shall apply to any Loss for a Claim for which advancement or indemnification by the Pension Scheme is required or permissible under applicable trusts, indemnity laws or agreements or otherwise regardless of whether or not the Pension Scheme actually advance or indemnify the Insured for such Loss. The deductible shall be paid by the Pension Scheme. Where exoneration has been granted, the deductible shall not apply.
- (iv) The Insurer shall have no obligation to pay any Loss for a Claim within the amount of such deductible if applicable, provided that if the Pension Scheme fails or is unable to pay the amount of deductible then subject to all other terms and conditions of this Policy the Insurer shall pay such Loss and be subrogated to the Insured's rights of indemnity.
- (v) The deductible(s) shown in Item 3 of the Schedule shall not apply to Investigation Expenses.
- (vi) In the event a Claim triggers more than one of the deductible amounts shown in Item 3 of the Schedule then as to that Claim the highest of such deductible amounts shall be deemed the deductible amount applicable to such Claim.

(c) Claims and Investigations

- (i) The Authorised Insured shall give written notice to the Insurer of a Claim or Investigation as soon as practicable.

In the event of expiry of the Policy Period, notification must be given in any event no later than 60 days after the expiration of the Policy Period, or, in relation to a Claim first made against the Insured during the Discovery Period if applicable no later than expiry of the Discovery Period.

- (ii) The Insured shall give the Insurer such information and cooperation as it may reasonably require. Notice and all information can be sent in writing to the Insurer at
 200 Broomielaw,
 Glasgow G1 4RU
 (E-mail: claims@ace-ina.com).
 - (iii) The Insured shall not do anything to prejudice any of the Insurer's rights nor shall they admit liability for or settle any Claim or, except as provided by Extension 7(c) Emergency Costs (when covered), incur Defence Costs, Investigation Expenses, Mitigation Expenses, Prosecution Costs or Public Relations Expenses without the Insurer's prior written consent, which consent shall not be unreasonably withheld or delayed. The Insurer shall at all times have the right, but not the duty, to effectively associate in the defence or settlement of any Claim, the incurring of Investigation Expenses, or the taking of measures to prevent, limit or mitigate exposure to direct financial loss to an actual or potential Claim or Investigation to which this Policy may apply and to be given the opportunity to consult with the Insured in relation to any proposed action that the Insured may wish to take in relation to such Claim or Investigation.
 - (iv) If there is a dispute between the Insured and the Insurer about whether to agree a proposed settlement or about whether a Claim should continue to be defended (taking into account whether the Claim is likely on the balance of probabilities to be successfully defended and such possibilities as may exist for settling the Claim), the Insurer may obtain an opinion from a Queen's Counsel or equivalent in a different jurisdiction to decide the issue. That decision shall be binding upon the Insurer and the Insured, who shall act accordingly in relation to the proposed settlement or in continuing or not continuing to defend the action as the case may be.
 - (v) If during the Policy Period or Discovery Period, if applicable, an Insured becomes aware of any circumstances that may give rise to a Claim and during such period gives notice of the same as soon as practicable to the Insurer then any Claim later made against any Insured shall for the purposes of this Policy be treated as a Claim made during the Policy Period or Discovery Period if applicable. A notice of such a circumstance must describe as precisely as possible all facts and details including the reasons for anticipating a Claim, with full particulars as to dates and persons involved and an estimate of quantum as precisely as possible.
 - (vi) If during the Policy Period, an Insured becomes aware of any circumstances that may give rise to an Investigation and during such period gives notice of the same as soon as practicable to the Insurer, then any Investigation later commenced against any Insured shall for the purposes of this Policy be treated as an Investigation during the Policy Period. A notice of such a circumstance must describe as precisely as possible all facts and details including the reasons for anticipating an Investigation, with full particulars as to dates and persons involved and an estimate of quantum as precisely as possible.
- (d) Advancement of Defence Costs and Prosecution Costs and Payment of Investigation Expenses, Mitigation Expenses and Public Relation Expenses**
- (i) The Insurer shall advance Defence Costs or Prosecution Costs on an ongoing basis prior to the final payment or settlement of any Claim; provided that:
 - (a) such costs are incurred with the written consent of the Insurer, such consent not to be unreasonably withheld or delayed; and

- (b) such advance payments by the Insurer shall be repaid to the Insurer in the event that the Insured is not entitled to payment of such Loss or part of such Loss under the Policy (the Limit of Liability shown in Item 3 of the Schedule shall be reduced by such amount until repaid to the Insurer).
- (ii) The Insurer shall advance Defence Costs or Prosecution Costs which the Pension Scheme fails to advance or indemnify.
- (iii) In the event of an Investigation, the Insurer shall pay Investigation Expenses incurred from the time the Investigation is instigated on an ongoing basis provided that such Investigation Expenses are incurred with the written consent of the Insurer, such consent not to be unreasonably withheld or delayed.
- (iv) The Insurer will pay Mitigation Expenses or Public Relations Expenses on an ongoing basis provided that such Mitigation Expenses or Public Relations Expenses are incurred with the written consent of the Insurer, such consent not to be unreasonably withheld or delayed.

(e) Allocation of Loss

- (i) In the event of:
 - (a) a Claim or Investigation against an Insured which is not wholly covered by this Policy; and/or
 - (b) a Claim or Investigation against an Insured being also made against one or more persons or entities who are not Insureds;

the Insurer and the Insureds shall then use their best endeavours to determine a reasonable allocation of Loss that is covered under this Policy and loss that is not covered.
- (ii) In the event of a dispute as to allocation under sub-paragraph (i) above, the Insurer at its option or if requested by the Insured shall submit the dispute to binding arbitration before a panel consisting of one arbitrator selected by the Insured, one arbitrator selected by the Insurer, and a third independent arbitrator selected by the first two. Such arbitration shall be conducted under the Rules of the London Court of International Arbitration, the Rules of which are hereby deemed incorporated.

(f) Other Insurance

If an Insured is or would (but for the existence of this Policy) be entitled to cover under any other policy (save for insurance specifically arranged to apply in excess of this Policy) in respect of any Claim or Investigation, the Insurer shall not be liable for Loss other than in excess of any amount that is or would (but for the existence of this Policy) have been payable under any other such policy.

(g) Subrogation

In the event the Insured notifies any Claim or Investigation or any circumstance that may give rise to a Claim or Investigation, the Insurer shall become subrogated to any Insured's rights of recovery. The Insured shall cooperate with the Insurer in securing such rights and shall not do anything to prejudice the Insurer's ability to assert such rights.

The Insurer shall not exercise any rights of subrogation against an Insured unless it is established that such Insured has committed a deliberate criminal act or obtained profit or advantage to which such Insured was not legally entitled.

(h) Insured Authorisation

The Insured hereby agrees to act as the Authorised Insured and so act on his or her behalf other than in the event of cancellation or termination of this Policy where the prior

written agreement of all members of the Pension Board shall be required in order to effect such cancellation or termination.

(i) Non-assignment

No change in, modification of, or assignment of interest under this Policy shall be effective unless made by written endorsement to this Policy duly executed on behalf of the Insurer.

(j) Policy Interpretation

This Policy shall be governed by English Law. The Insurer and the Insured agree to submit to the exclusive jurisdiction of the English courts in relation to all disputes arising out of, relating to or connected with this Policy and/or its negotiation, validation or enforceability.

(k) Cancellation

This Policy shall be cancelled in respect of all Insureds at the earliest of the following times:-

- (i) immediately upon the Authorised Insured mailing to the Insurer written notice of cancellation; or
- (ii) seven days after the receipt by the Authorised Insured of a written notice of cancellation from the Insurer for non-payment of premium; or
- (iii) upon expiration of the Policy Period; or
- (iv) at such other times that may be agreed upon by the Authorised Insured and the Insurer.

If this Policy is cancelled by the Authorised Insured, the Insurer shall refund 90% of the premium which would have been applicable to the remaining period of cover under the Policy.

If this Policy is cancelled by the Insurer, the Insurer shall refund 100% of the premium which would have been applicable to the remaining period of cover under the Policy.

(l) Contracts (Rights of Third Parties) Act 1999

A person or company who is not a party to this Policy has no rights under the Contracts (Rights of Third Parties) Act 1999 in respect of this Policy.

(m) Sanctions Clause

The Insurer shall not be deemed to provide cover and the Insurer shall not be liable to pay any sum or provide any benefit hereunder to the extent that the provision of such cover, payment of such claim or provision of such benefit would expose the Insurer or its parent to any sanction, prohibition or restriction implemented pursuant to resolutions of the United Nations or the trade and economic sanctions, laws or regulations of the European Union, United Kingdom, or United States of America.

5. **Discovery Period**

- (i) If the Authorised Insured refuses to renew the Policy, any Insured may upon payment of **insert amount agreed** extend the cover under this Policy for a period of 12 months from the date on which the Policy Period expires, for any Claim first made against the Insured during the Discovery Period, but only in respect of Wrongful Acts committed or alleged to have been committed prior to expiry of the Policy Period.
- (ii) If the Insurer refuses to renew this Policy the Insured may upon payment of the **insert amount agreed** extend the cover under this Policy for a period of 12 months from the date on which the Policy Period expires, for any Claim first made against the Insured during the Discovery Period, but only in respect of Wrongful Acts committed or alleged to have been committed prior to expiry of the Policy Period.
- (iii) The Insured's right to purchase the Discovery Period as set out above must be exercised by notice to the Insurer in writing within 30 days of expiration of the Policy Period and is only effective upon payment of the above sum.
- (iv) The Insurer's offer of renewal terms, conditions, limits of liability or premium different from those of the expiring policy shall not constitute a refusal to renew.
- (v) The Insurer shall not be liable to make any payment in respect of any Claim first made against such Insured during the Discovery Period if at any time any Insured obtains any other Pension Board Liability insurance policy covering the whole or any part of the Discovery Period.

6. Severability

This Policy is not avoidable or rescindable in whole or in part and the Insurer shall have no other remedy with respect to any non-disclosure or misrepresentation in connection with this Policy, except with respect to any fraudulent misrepresentation or fraudulent non-disclosure of any Insured, where the fraud is established by final adjudication.

7. Extensions

These extensions are subject to the terms and conditions of this Policy.

(a) Public Relations Expenses

The Insurer will pay Public Relation Expenses arising from a Claim or Investigation first made during the Policy Period, provided such costs are incurred with the prior written consent of the Insurer, which consent shall not be unreasonably withheld or delayed, up to a maximum amount of GBP 250,000 which shall apply in the aggregate for the Policy Period (such limit shall be part of and not in addition to the Limit of Liability shown in Item 2 of the Schedule).

(b) Civil Fines and Penalties

The Insurer will pay civil fines and penalties (to the extent that such civil fines and penalties are insurable under the proper law of this Policy) made against an Insured, either by the Pensions Ombudsman, the Pensions Regulator, the Pensions Regulator Tribunal, the Pensions Regulator Determinations Panel, the Pension Protection Fund or equivalent body or entity, the Information Commissioner, or any government body or agency, arising from any Claim first made or Investigation instigated in respect of an Insured during the Policy Period, provided that:

- (1) the premium for this extension is paid by the Insured or Administering Authority without recourse or reimbursement from the Pension Scheme or any of its assets; and
- (2) the Insurer shall not make any payment for fines, penalties or punitive damages imposed in connection with any criminal act for which an Insured has been or is to be prosecuted

Any payment under this extension shall be part of and not in addition to the aggregate limit of liability shown in Item 2 of the Schedule.

(c) Emergency Costs

If the Insurer's written consent cannot reasonably be obtained before Defence Costs, Investigation Expenses, Prosecution Costs, Mitigation Expenses, Public Relation Expenses or Bail Bond Costs are incurred with respect to any Claim or Investigation, the Insurer will give retrospective approval for such costs provided they would otherwise fall to be paid within the terms and conditions of this Policy wording of up to a maximum amount of 10% of the Limit of Liability which shall apply in the aggregate for the Policy Period (such limit shall be part of and not in addition to any sub-limits specified or the aggregate Limit of Liability shown in Item 2 of the Schedule). The Insured shall give written notice of any emergency costs incurred within 14 days.

(d) Extradition Proceedings

The Insurer will pay for Defence Costs, Bail Bond Costs and Public Relation Expenses in relation to Extradition Proceedings, provided such costs are incurred with the prior written consent of the Insurer, which consent shall not be unreasonably withheld or delayed.

(e) Loss of Documents

The Insurer will pay for all costs reasonably incurred in replacing or restoring Documents, which are during the Policy Period or Discovery Period if applicable discovered to have been lost, damaged or destroyed, provided that:

- (1) such loss, damage or destruction is sustained while the Documents are either in transit or in the custody of the Insured or of any person to whom the Insured has entrusted them;
- (2) such costs are incurred with the consent of the Insurer, which consent shall not be unreasonably withheld or delayed, up to a maximum amount of GBP 100,000

which shall apply in the aggregate for the Policy Period (such limit shall be part of and not in addition to the aggregate Limit of Liability shown in Item 2 of the Schedule); and

- (3) such costs are not available from any other source of insurance or indemnification other than as advancement or indemnity under applicable trusts, indemnity laws or agreements.

The cover provided under this extension excludes any loss, damage or destruction arising out of wear or tear, gradual deterioration, moth or vermin, and in respect of Documents comprising computer records excludes any loss, damage or destruction unless there is physical loss, damage or destruction of the media on which the records were stored.

(f) Prosecution Costs

The Insurer will pay Prosecution Costs arising from a Claim or Investigation first made during the Policy Period, provided such costs are incurred with the prior written consent of the Insurer, which consent shall not be unreasonably withheld or delayed, up to a maximum amount of GBP 250,000 which shall apply in the aggregate for the Policy Period (such limit shall be part of and not in addition to the aggregate Limit of Liability shown in Item 2 of the Schedule).

(g) Third Party Service Provider Pursuit

The Insurer will pay all reasonable fees, costs and expenses incurred by the Insured in the pursuit of legal proceedings against a Third Party Service Provider for the purpose of establishing a breach of professional duty of care, provided that:

- (1) the Insured is first aware of the circumstances [indicating a breach of professional duty of care by the Third Party Service Provider](#) during the Policy Period, or Discovery Period if applicable, and as soon as practicable thereafter gives written notice to the Insurer and demonstrates to the Insurer that they have reasonable grounds to pursue the proceedings;
- (2) such costs are incurred with the consent of the Insurer, which consent shall not be unreasonably withheld or delayed, up to a maximum amount of GBP 100,000 which shall apply in the aggregate for the Policy Period (such limit shall be part of and not in addition to the aggregate Limit of Liability shown in Item 2 of the Schedule); and
- (3) such costs are not available from any other source of insurance or indemnification other than as advancement or indemnity under applicable trusts, indemnity laws or agreements.

In the event of any dispute as to whether the Insured has reasonable grounds to pursue proceedings or whether the Insurer has unreasonably withheld consent to incur costs, the dispute shall be referred to a Queen's Counsel agreed by the Insured and Insurer.

Data Protection

ACE European Group Limited and its group companies ('ACE') will use the information supplied during the formation and performance of this Policy for policy administration, customer services, the payment of claims and the production of management information for business analysis. We will keep this information for a reasonable period.

Where sensitive personal data has been disclosed, including any medical or criminal record information, ACE will also use this information for these purposes. ACE are entitled to ask about criminal convictions in relation to insurance risks. There is no obligation to provide ACE with details of any convictions which are spent under the terms of the Rehabilitation of Offenders Act 1974. ACE may also transfer certain information to countries that do not provide the same level of data protection as the UK for the above purposes. A contract will be in place to ensure the information transferred is protected.

ACE may record telephone calls for quality control, fraud prevention and staff training purposes.

When personal or sensitive data is supplied to ACE about third parties other than the Insured, both during the formation and performance of this policy, ACE assumes that those third parties consent to the supply of this information to ACE, to ACE processing this data, including sensitive personal data, and to the transfer of their information abroad. ACE will also assume that the supplier of the information is authorised to receive, on their behalf, any data protection notices.

ACE may share personal and sensitive personal information with the following organisations for the purposes described above: our connected companies, service providers, agents and subcontractors including loss adjusters and claims investigators; our reinsurers who use this information to assess the terms of specific policies and to administer our insurance policies generally; other insurance companies about other insurance policies you may have; the police, other insurance companies, fraud reference agencies and other representative bodies in relation to the prevention and detection of fraudulent claims or as part of our money laundering checks.

We work with the police, other insurance companies, fraud reference and detection agencies and other representative bodies to prevent and detect fraudulent or exaggerated claims. As part of this we will share information about your claims with providers of software designed to assist in the detection of fraudulent claims. We may also use commercially available databases to prevent money laundering.

Other companies may contact these bodies for information to help them make decisions about insurance or similar services they provide to you.

Individuals whose information has been supplied to ACE are entitled to a copy of that information on payment of a fee and to have any inaccuracies corrected. Such information is available by contacting the Data Protection Officer at 100, Leadenhall Street, London EC3A 3BP.

We do not use personal information for marketing purposes, nor do we share it with any other company for marketing purposes, unless consent to do so has been received in writing from you.

Complaints Procedure

We are dedicated to providing you with a high quality service, and want to maintain this at all times. If you feel that we have not offered you a first class service or you wish to make an enquiry regarding this insurance, please contact the intermediary who arranged this insurance for you or the manager of the branch of the company which issued your policy.

If you are still not satisfied, you may write to our Chief Executive of the company at ACE's head office – the address is shown on your policy.

ACE European Group Limited is a member of the Financial Ombudsman Service (FOS) and you may be able to approach them for assistance if you remain dissatisfied with our response. A leaflet explaining its procedure is available on request.

The FOS's contact details are FOS, South Quay, 183 Marsh Wall, London, E14 9SR, Phone: 0845 080 1800

e-mail: enquiries@financial-ombudsman.org.uk



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Report to: Pension Board

Date of meeting: 9 February 2017

By: Interim Chief Finance Officer

Title: Reporting Breaches Policy

Purpose: To update the Board on the Reporting Breaches Policy

RECOMMENDATIONS

The Board is recommended to consider and note the updated reporting breaches policy.

1. Background

1.1 There is a legal requirement on all Pension Fund Committee Members, Pension Board Members, officers of the Fund, employers, and advisers to report any significant breaches of the law to the Pensions Regulator where they are likely to be of material significance to them. The Pensions Regulator Code of Practice no 14 (Governance and administration of public service pension schemes) states there should be a procedure in place within each Fund to identify and assess these breaches.

2. Supporting Information

2.1 The policy and procedure set out in Appendix 1 details how individuals responsible for reporting and whistleblowing can identify, assess and report (or log/record if not reported) a breach of law relating to the Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

2.2 Where a breach of the law is identified both the Pension Committee and the Pension Board will need to take all necessary steps to consider the breach and if necessary report to the Pensions Regulator. It is stressed that, as set out in the breaches policy, only material breaches are required to be reported to the Pensions Regulator.

2.3 The Committee and Board are required to monitor all breaches and ensure that adequate resources are allocated to managing and administering this process. Officers will effectively be responsible for the management and execution of this policy and for ensuring that training is conducted for all relevant officers, elected members, Members of the Committee and Pension Board on an ongoing basis.

2.4 The identification, management and reporting of breaches is important. It is a requirement of the Pensions Regulator's Code of Practice; failure to report a breach without "reasonable excuse" is a civil offence that can result in civil penalties. Details of significant breaches will be published in the Fund's Annual Report.

3. Conclusion and reasons for recommendations

3.1 Where a breach has occurred and has been identified it should be recorded, assessed and where necessary reported as soon as reasonably practicable. If any breach is considered significant or it is not clear as to whether it is significant, then it will be reported to Committee and the Pension Board to consider. The Council Monitoring Officer will make the final determination as to whether it is materially significant having regard to the guidance set out in the Code and after consultation with the Section 151 Officer.

PHILL HALL
Interim Chief Finance Officer

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Background Documents

None



EAST SUSSEX PENSION FUND

REPORTING BREACHES POLICY

February 2017

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Policy for Reporting Breaches of the Law

1. Background

East Sussex Pension Fund (“the Fund”) has prepared this document in setting out its policy and procedures on identifying, managing and where necessary reporting breaches of the law as covered in paragraphs 241 to 275 of the Pensions Regulator’s Code of Practice no 14: Governance and administration of public service pension schemes (“the Code of Practice”).

This policy sets out the responsibility of elected members, officers of East Sussex County Council (“the Council”), officers involved in the administration of the Fund through any collaborative arrangement (“the administrators”) and the East Sussex Pension Fund local pension board in identifying, managing and where necessary reporting breaches of the law as they apply to the management and administration of the Fund. This policy does not cover the responsibility of other “reporters” (described later in this policy) in relation to their obligation to report breaches in accordance with the Code of Practice where they relate to the management and administration of the Fund. Where a breach of the law is identified all parties will take the necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other “reporters”.

This policy will be reviewed and approved by the Council at least annually. The Council will monitor all breaches and will ensure that adequate resources are allocated to managing and administering this process.

The monitoring officer for the Council will be responsible for the management and execution of this breaches policy.

The section 151 officer will ensure that training on breaches of the law and this policy is conducted for all relevant officers and elected members, as well as members of the local pension board at induction and on an ongoing basis.

2. Overview

The identification, management and reporting of breaches is important. It is a requirement of the Code of Practice; failure to report a material breach is a civil offence that can result in civil penalties.

At the same time, in addition to identifying, rectifying and where necessary reporting a particular breach it provides an opportunity to learn from mistakes and review and improve processes in the areas where the breach occurred.

All staff involved in the administration and management of the Fund are expected, indeed required, to take a pro-active approach to the identification, management and reporting of all breaches that have occurred, or are likely to occur.

The Council, as the scheme manager for the East Sussex Pension Fund, will maintain a log of all breaches of the law as applicable to the management and administration of the Fund.

The Council, administrators and the local pension board cannot rely on waiting for other reporters to report a breach where it has occurred. Where a breach has occurred and has been identified by the County Council, administrators or local pension board it should be recorded, assessed and where necessary reported as soon as reasonably practicable.

3. What is a breach of the law?

A breach of the law is “*an act of breaking or failing to observe a law, agreement, or code of conduct.*”. In the context of the Local Government Pension Scheme (“LGPS”) it can encompass many aspects of the management and administration of the scheme, including, for example, failure:

- to do anything required under the LGPS Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time or non-compliance with the Regulator’s Code of Practice No 14.

4. Responsibilities in relation to breaches

Responsibility to report identified breaches of the law in relation to the Code of Practice falls on the following (known as “reporters”):

- Elected members and officers of the Council, as the Scheme Manager;
- Members of the local pension board;
- Individuals carrying out administration or management functions on behalf of the Fund where such individuals are not officers of the Council;
- Scheme employers;
- Professional advisers (including the Fund actuary, benefit consultant, investment advisers, legal advisers); and
- Third party providers (where so employed).

This policy applies only to elected members and officers of the Council, those carrying out administration or management functions and members of the local pension board. It is for the other reporters to ensure adequate procedures and policies are put in place in order to identify, assess and where necessary report breaches. Both the Council and the local pension board will take all necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other “reporters”.

5. Requirement to report a breach of the Law

Breaches of the law which affect pension schemes should be considered for reporting to the Pensions Regulator.

The decision whether to report an identified breach depends on whether:

- there is reasonable cause to believe there has been a breach of the law;
- and if so, is the breach likely to be of material significance to the Regulator?

It is important to understand that not every breach that is identified needs to be reported to the Regulator. For example, where it can be demonstrated that appropriate action is being taken to rectify the breach, or the breach has occurred due to teething problems with new or revised systems or processes, it may not be necessary to report the incident to the Regulator. It is still necessary that all incidents of breaches identified are recorded in the Council's breaches log. This log will be reviewed on an on-going basis to determine any trends in the breaches log that might indicate any serious failings or fraudulent behaviour.

Where such failings or fraudulent behaviour are identified immediate action will be taken to agree and put in place a plan of action to rectify the matter and prevent such an occurrence in the future.

6. When is a breach required to be reported to the Regulator?

The Code of Practice requires that a breach should be notified to the Regulator as soon as is reasonably practicable once there is reasonable cause to believe that a breach has occurred and that it is of material significance to the Regulator. In any event, where a breach is considered to be of material significance it must be reported to the Regulator no later than one month after becoming aware of the breach or likely breach.

Where it is considered that a breach is of such significance that the Regulator is required to intervene as a matter of urgency (for example, serious fraud) the matter should be brought to the attention of the Regulator immediately (e.g. by calling them direct). A formal report should then be submitted to the Regulator, marked as "urgent" in order to draw the Regulator's attention to it.

7. Assessing "reasonable cause"

It is important that the Council, administrators or the local pension board is satisfied that a breach has actually occurred, rather than acting on a suspicion of such an event.

It will be necessary, therefore, for robust checks to be made by officers, administrators and elected members when acting on any suspicion of a breach having occurred. Where necessary this will involve taking legal advice from Legal Services (who may recommend specialist external legal advice if necessary) as well as other advisers (e.g. auditors or the Fund actuary, benefit consultant or investment advisers).

8. Deciding if a breach is “materially significant” and should be reported to the Regulator

The Regulator has produced a decision tree to assist schemes in identifying the severity of a breach and whether it should then be reported. When determining materiality of any breach or likely breach the Council, administrators and local pension board will in all cases consider the following:

- cause – e.g. dishonesty, poor governance, incomplete or inaccurate information, acting or failing to act in contravention of the law;
- effect – does the nature of the breach lead to an increased likelihood of further material breaches. Is it likely to cause, for example; ineffective internal controls, lack of knowledge and understanding, inaccurate records, potential for further breaches occurring;
- reaction – e.g. taking prompt and effective action to resolve a breach, notifying scheme members where appropriate; and
- wider implications – e.g. where a breach has occurred due to lack of knowledge or poor systems and processes making it more likely that other breaches will emerge in the future.

The decision tree provides a “traffic light” system of categorising an identified breach:

Green – not caused by dishonesty, poor governance or a deliberate contravention of the law and its effect is not significant and a plan is in place to rectify the situation. In such cases the breach may not be reported to the Regulator, but should be recorded in the Council’s breaches log;

Amber – does not fall easily into either green or red and requires further investigation in order to determine what action to take. Consideration of other recorded breaches may also be relevant in determining the most appropriate course of action. The Council, administrators or local pension board will need to decide whether to informally alert the Regulator of the breach or likely breach, formally reporting the breach if it is subsequently decided to categorise the breach as red;

Red - caused by dishonesty, poor governance or a deliberate contravention of the law and having a significant impact, even where a plan is in place to rectify the situation. The Council, administrators or local pension board must report all such breaches to the Regulator in all cases;

It should be noted that failure to report a significant breach or likely breach is likely, in itself, to be a significant breach.

The Council and its administrators will use the Regulator’s decision tree as a means of identifying whether any breach is to be considered as materially significant and so reported to the Regulator.

Any failure of a scheme employer to pass over employee contributions that are considered to be of material significance must be reported to the Regulator immediately.

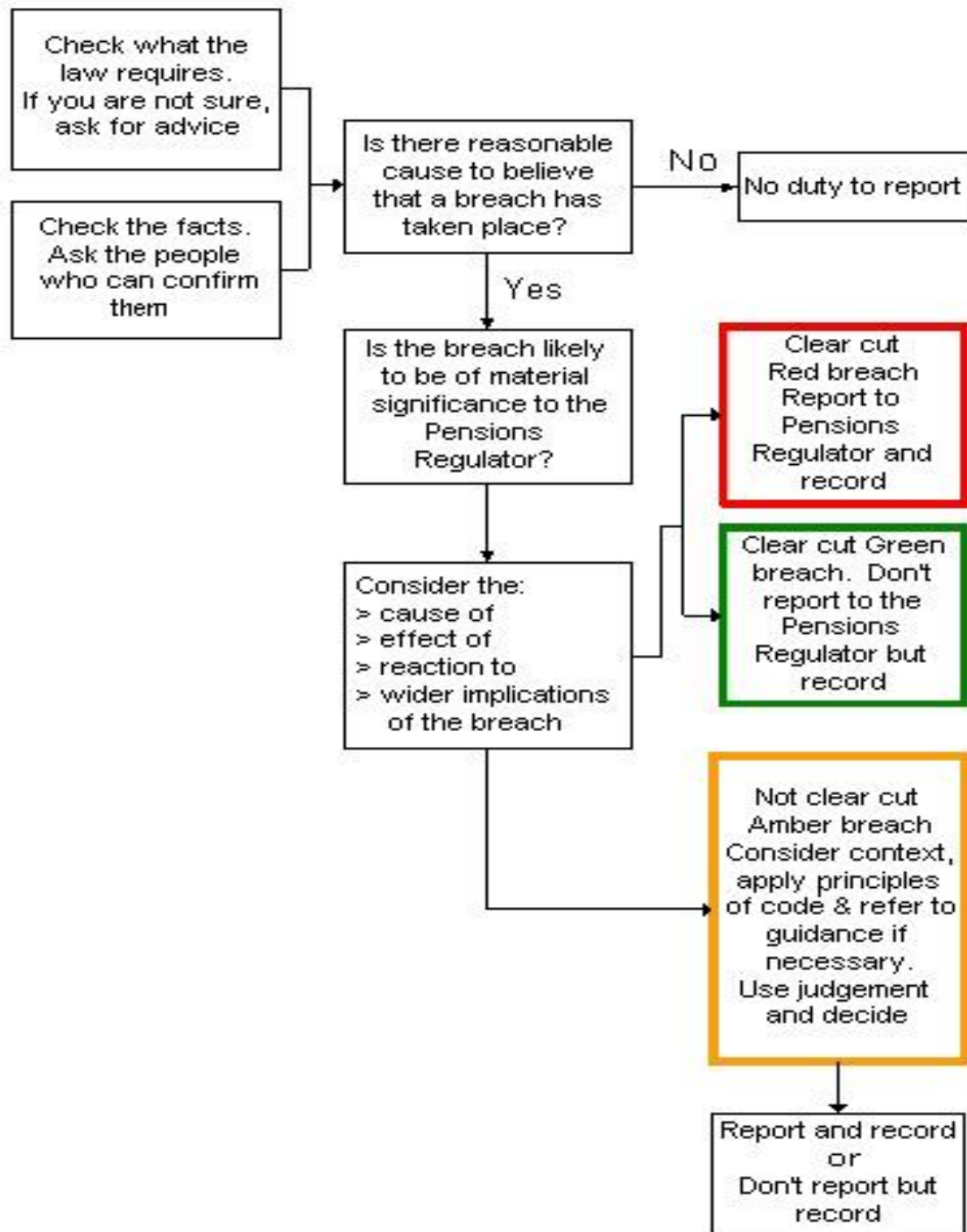
In order to determine whether failure to pay over employee contributions is materially significant or not the Council and its administrators will seek from the employer:

- the cause and circumstances of the payment failure
- what action the employer has taken as a result of the payment failure, and
- the wider implications or impact of the payment failure.

Where a payment plan is agreed with the employer to recover outstanding contributions and it is being adhered to or there are circumstances of infrequent one-off late payments or administrative failures the late payment will not be considered to be of material significance.

All incidences resulting from the unwillingness or inability of the employer to pay over the employee contributions, dishonesty, fraudulent behaviour or misuse of employee contributions, poor administrative procedures or the failure to pay over employee contributions within 90 days from the due date will be considered to be of material significance and reported to the Regulator.

Once a breach or likely breach has been identified, regardless of whether it needs to be reported to the Regulator, the relevant manager, in consultation with the monitoring officer must review the circumstances of the breach in order to understand why it occurred, the consequences of the breach and agree the corrective measures required to prevent re-occurrence, including an action plan where necessary. All breaches must be recorded in the Council's breaches log.



9. Process for reporting breaches

All relevant officers, administrators and elected members of the Council and administrators, as well as all members of the local pension board have a responsibility to:

- identify and assess the severity of any breach or likely breach;
- report all breaches or likely breaches to the monitoring officer and section 151 officer;

- in conjunction with relevant colleagues agree a proposed course of action to rectify the breach and put in place measures to ensure the breach does not re-occur, obtaining appropriate legal or other advice where necessary;
- ensure that the appropriate corrective action has been taken to rectify the breach or likely breach and to prevent it from recurring; and
- co-operate with, and assist in, the reporting of breaches and likely breaches to the Pension Committee, local pension board and where necessary the Regulator.

10. Administration Function responsibilities

Where a breach has been identified by the Fund's administration function, the administrators must alert the monitoring officer and section 151 officer immediately. The administrators must produce a preliminary report setting out an assessment of the breach. The preliminary assessment must contain;

- the circumstances leading to the breach;
- the impact and scale of the breach, both financial and with regard to the impact of service on members;
- the steps that have been taken to rectify the breach; and
- a preliminary assessment, based on the Regulator's traffic light flowchart, of the materiality of the breach.

For the avoidance of doubt all breaches must be reported to the monitoring officer and section 151 officer in this way regardless of whether they are deemed material.

11. Responsibilities of the responsible officer

The Council's monitoring officer will be responsible for the management and execution of this breaches policy.

The monitoring officer will be responsible for reporting breaches and likely breaches. The section 151 officer will be responsible for logging any breaches or likely breaches as follows:

- record all identified breaches and likely breaches of which they are aware in the Council's breaches log;
- investigate the circumstances of all reported breaches and likely breaches;
- ensure, where necessary that an action plan is put in place and acted on to correct the identified breach and also ensure further breaches of a similar nature do not reoccur;
- report to the Pension Committee and local pension board:
 - all materially significant breaches or likely breaches that will require reporting to the Regulator as soon as practicable, but no later than one month after becoming aware of the breach or likely breach; and

- all other breaches at least quarterly as part of the Committee cycle.
- report all materially significant breaches to the Regulator as soon as practicable but not later than one month after becoming aware of the breach.

The monitoring officer will determine whether any breach or likely breach is materially significant, having regard to the guidance set out in the Code of Practice and after consultation with parties they deem appropriate. Such parties might include the Head of Legal Services, the Pension Committee and local pension board.

If appropriate, the matter will be referred to an external party to obtain any necessary legal or other advice before deciding if the breach is considered to be of material significance to the Regulator. Where uncertainty exists as to the materiality of any identified breach the Council, administrators or local pension board will be required to informally notify the Regulator of the issue and the steps being taken to resolve the issue.

12. How should a breach be reported to the Regulator?

All materially significant breaches must be reported to the Regulator in writing. This can be via post or electronically. The Regulator encourages the use of its standard reporting facility via its Exchange on-line service.

The Council and its administrators will report all material breaches to the Regulator via Exchange.

13. How are records of breaches maintained?

All breaches and likely breaches identified are to be reported to the monitoring officer as soon as they are identified. The section 151 officer will log (see appendix 1 below) all breaches on the Council's breaches log, including the following information:

- date the breach or likely breach was identified;
- name of the scheme;
- name of the employer (where appropriate);
- any relevant dates;
- a description of the breach, its cause and effect, including the reasons it is, or is not, believed to be of material significance;
- whether the breach is considered to be red, amber or green.
- a description of the actions taken to rectify the breach;
- a brief descriptions of any longer term implications and actions required to prevent similar types of breaches recurring in the future.

The monitoring officer will be responsible for ensuring the effective management and rectification of any breach identified, including submission of any report to the Regulator. Any documentation supporting the breach will also be retained.

14. Whistleblowing

It is a statutory duty to report breaches of the law. In rare cases this may involve a duty to whistleblow on the part of an employee of the Council, administrators or a member of the local pension board. The duty to report does not override any other duties a “reporter” may have, such as confidentiality. Any such duty is not breached by reporting to the Regulator. Given the statutory duty that exists, in exercising this breaches policy the Council will ensure it adheres to the requirements of the Employment Rights Act 1996 in protecting an employee making a whistleblowing disclosure to the Regulator.

The duty to report, however, does not override ‘legal privilege’, so certain oral and written communications between the Council or local pension board and a professional legal adviser do not have to be disclosed if they meet the principles of legal privilege.

15. Training

The section 151 officer will ensure that all relevant officers and elected members, as well as members of the local pension board receive appropriate training on this policy at the commencement of their employment or appointment to the local pension board as appropriate and on an ongoing basis.

The administrators will be responsible for ensuring that all staff responsible for the administration of the Fund receives appropriate training with regard to this policy and their obligations under it.

East Sussex County Council Administering Authority Breaches Process & Log

All breaches or likely breaches identified are to be reported to the Monitoring Officer and Section 151 Officer as soon as they are identified.

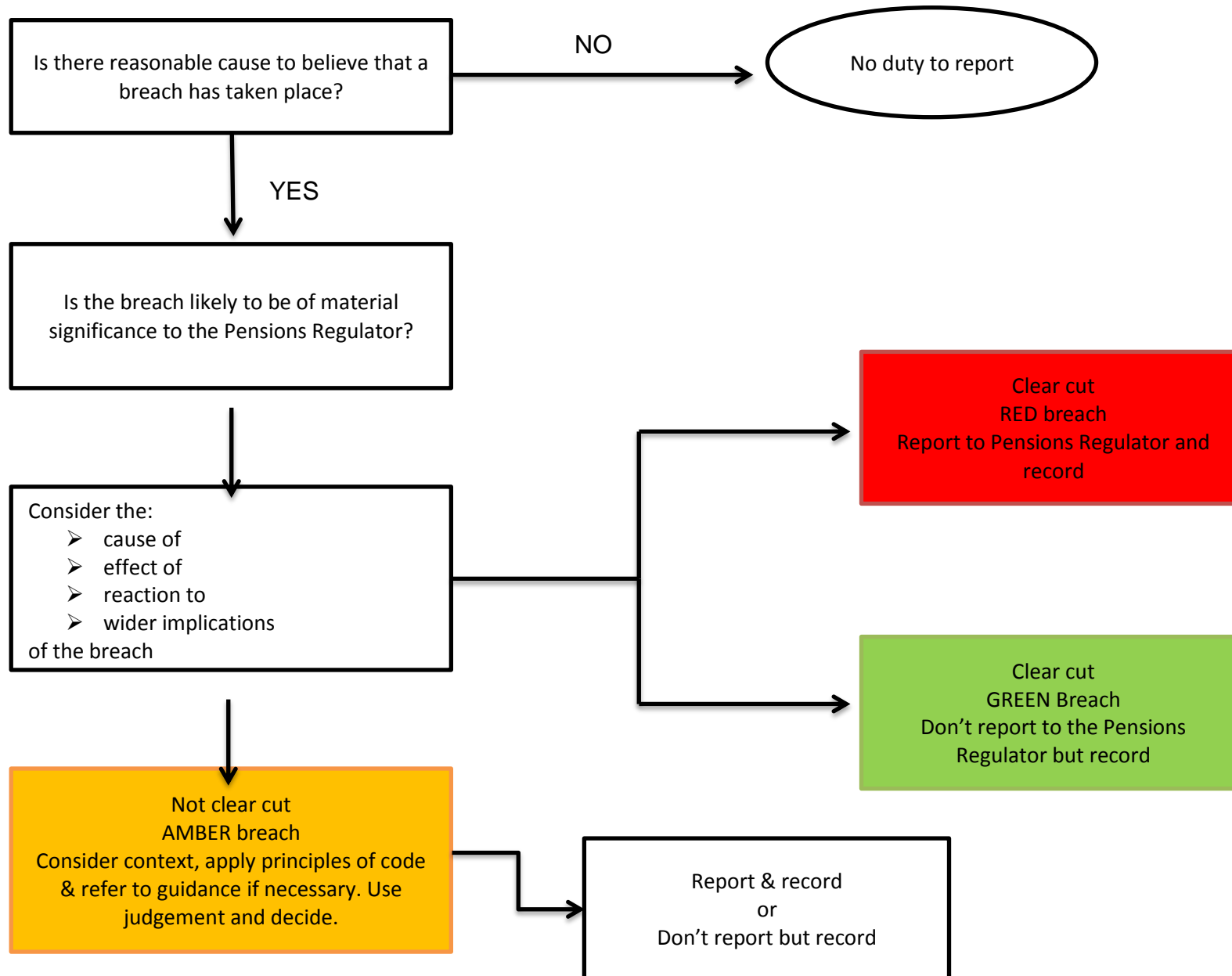
The Pensions Strategy & Governance Manager will log all breaches on the Council's breaches log once notified, this notification will including the following:

- the date the breach or likely breach was identified;
- name of the employer (where appropriate);
- any relevant dates;
- a description of the breach, its cause and effect, including the reason it is, or is not, believed to be of material significance;
- whether the breach is considered to be red, amber or green;
- a description of the actions taken to rectify the breach;
- a brief description of any longer term implications and actions required to prevent similar types of breaches re-occurring in the future.

The Monitoring Officer will be responsible for ensuring the effective management and rectification of any breach identified, including the submission of any report to the Pensions Regulator.

Any documentation supporting the breach will be maintained by the Pensions Strategy & Governance Manager.

Process Flow



Process Flow

Date Identified	Pensions Administration or Employer (if applicable)	Relevant Dates	Description	Red, Amber or Green	Actions Taken	Long Term Effects	Open or Closed with Date	Reported to Committee Y/N + date	Reported to Board Y/N + date	Responsible Officer

Report to: Pension Board

Date of meeting: 9 February 2017

By: Chief Operating Officer

Title: Business Operations Systems - update

Purpose: Update on the effectiveness of current LGPS administration system and market alternatives

RECOMMENDATIONS

The Board is recommended to consider and note the report

1 Introduction

1.1 The Board may be aware that, in April 2016, Business Operations contracted with Heywood for use of the *Altair* system to provide an LGPS administration service. The contract period was five years (with a three year break clause) and Business Operations agreed to provide the Committee and Board with regular updates on developments with *Altair* and options for alternative systems in future.

2 Cost Savings

2.1 Business Operations reported to the Pensions Committee in February 2016 that it expected to make a long-term saving by changing the hosting arrangements for *Altair* and moving the database to the Surrey data centre. This project was completed successfully in October 2016 on budget and the savings are therefore expected to be reflected in the total saving over 5 years of £237,000 as reported to the Committee.

2.2 It is also anticipated that Business Operations will be able to make further modest long term efficiency savings as well as increasing resilience by moving towards a single set of integrating processes and operating procedures now that the databases are no longer separately hosted. This integration is likely to continue on a phased basis over the next twelve to eighteen months.

3 Current Performance

3.1 Although only ten months into the new contract, *Altair* has continued to perform to the expected standards with minimal service interruptions and a number of enhancements implemented over the period. There have been three system upgrades in 2016/17 (the costs of which are covered by the fixed contract price) which included a number of enhancements such as those outlined below:-

- introduction of a workflow dashboard for pensions staff (Feb 2017)
- enhancements to benefit calculations to reflect new actuarial guidance
- enhancements to interfaces and ability to automatically recalculate benefits where there is a retrospective change in circumstances

3.2 In addition to the standard system upgrades, Heywood has demonstrated a willingness to work with Business Operations as a major Local Government Pension Scheme (LGPS) client by arranging four separate visits from Heywood consultants to discuss service enhancements to feed into their developmental roadmap. We understand Heywood has completed 70 client visits in total and this customer-centred approach is a welcome improvement from the previous more rigid stance that Authorities historically reported encountering.

4. Current System Enhancements

4.1 The Board will be aware that Business Operations is currently undertaking a project to provide members with online access to their pension records and to make the 2017 annual statements available online and the system is currently in place and is undergoing security testing by IT colleagues. We will provide an update on live roll out of this facility at the next Board meeting.

4.2 In addition to the facility to bring members records online, Business Operations is also expanding *Altair* access for employers to view records online and use standard reporting facilities. Online access is currently available to some employers via a separately licensed product called *PensionsWeb* and the *Altair* employer access will complement this for those employers that may wish to use the functions available.

4.3 The online access referred to above is an enhancement to the service offered to employers but is unlikely to produce efficiency savings for the pension fund. Business Operations has been able to secure trial access to a separate product (*i-Connect*) which is aimed at improving integrity of data and business processes. Employers upload a monthly extract direct from their payroll system which identifies starters, leavers and material changes and automatically updates the relevant member records as far as possible. Although *i-Connect* are linked to Heywood it is understood the product can link with other systems. Business Operations will be testing *i-Connect* over the forthcoming months.

5. Market Review

5.1 At the time of completing the new contract, Business Operations established that there were only two feasible providers of bespoke LGPS administration systems, Heywood and Civica. As might be expected, in the 10 month period since the new contract there has been no material change to this position. Civica has not taken on any new Funds beyond the 14 and Heywood provide the system for 81 of 100 LGPS funds (including Scotland).

5.2 Business Operations continues to monitor with interest the performance of Civica as an alternative to Heywood and will look to conduct a more formal review in late 2017. In the interim, it is clear from public reports that the Civica system offers a number of benefits but that at least one of the large LGPS pension funds has flagged up continuing transitional issues with operational performance and system development. It is hoped that Civica will be able to iron out these issues over the next twelve to eighteen months and this will provide the opportunity to review a more fully developed alternative.

6. Conclusions and reasons for recommendations

6.1 The Board is recommended to consider and note the report.

Kevin Foster
Chief Operating Officer

Contact Officer: Jason Bailey Tel. No. 020 8541 7473
Email: jason.bailey@surreycc.gov.uk

Background documents:

None

Report to: Pension Board

Date of meeting: 9 February 2017

By: Chief Operating Officer

Title: Officers' Report – Business Operations

Purpose: Update on current administration themes in relation to the service provided to the Pension Fund by Orbis Business Operations

RECOMMENDATIONS

The Board is recommended to consider and note the updates provided in the report

1 Introduction

1.1 Business Operations within Orbis has prepared this summary of topical administration areas that may be of interest to the Board. This report is provided for information and subjects are presented in alphabetical order and not perceived importance.

2 New Key Performance Indicators (KPIs)

2.1 The Board and Committee previously agreed to Business Operations proposals for an updated set of KPIs to provide full transparency of the scale of the scheme administration and to provide assurance of key standards and deadlines being met.

2.2 The new KPIs were operational from 1 October 2016 and Appendix 1 shows the individual months performance levels for Quarter 3 of 2016/17.

2.3 The performance levels of the team over Quarter 3 are generally high, though the Board is invited to comment on any areas of concern. A number of low priority tasks fell below previous levels in November and this is primarily a result of the temporary office disruption caused by the fire at County Hall. None of the reduced turnaround times for this set of tasks is likely to have any detrimental impact on scheme members.

3 CIPFA Benchmarking Exercise 2016

3.1 The Board will be aware that the East Sussex pension fund participates in an Local Government Pension Scheme (LGPS) administration benchmarking exercise on an annual basis in order to provide some assurance that the costs of administration are consistent with other local authority funds. The assessment is based on a review date of 31 March and the full 2016 report is attached as Appendix 2.

3.2 CIPFA has consulted widely with funds over the last few years to ensure there is a consistency of approach in the nature of the data being measured. The data elements are well defined in the completion of the questionnaire CIPFA provide and it is reasonable therefore to assume that the comparisons being made are valid, in spite of differences in the organisational structure of fund administrations.

3.3 A total of 38 of the 100 or so local authority funds (including Scottish funds) participated in the exercise and the average size of membership of the funds taking part was approximately 100,000. The membership of the East Sussex fund on 31 March was 70,820. It is reasonable to assume that those funds who choose to take part will, in the main, be the ones who consider their costs are competitive.

3.4 The headline figure of the total cost of administration per scheme member is shown on page 5 of the report and indicates that the cost for East Sussex was **£15.90**, which compares favourably with a national average of **£18.37**. The bar charts on pages 6 to 10 of the report

illustrate that the total cost per member puts the East Sussex fund just outside the bottom quartile for overall costs.

3.5 Further analysis of the charts on pages 6 to 10 reveals more detail in that the staffing administration costs for East Sussex are amongst the lowest across all participating funds with a cost per member of **£5.34** - compared with the average of **£8.62**. Page 13 of the report also highlights that the number of joiners and leavers to the fund, which directly impacts resourcing requirements, is higher for East Sussex than the average which reinforces efficiency of staffing levels.

3.6 The main costs that are higher than average are IT administration costs which are **£ 3.69** per scheme member compared with the average of **£ 2.78**. It is important to note these costs are based on the IT system costs for 2015/16 which was prior to the new contractual arrangement negotiated by Business Operations agreed by the Pensions Committee in March 2016. This new arrangement will reduce the IT system costs in future years.

3.7 Page 28 of the report shows a time series analysis back to 2011 for the East Sussex fund, demonstrating a lower cost per scheme member in 2016 than each of the four previously measured years. This has been achieved despite the additional administration burden of the introduction of the 2014 CARE scheme.

4 GMP Reconciliation Update

4.1 The Board was advised previously that HMRC will be closing their Guaranteed Minimum Pension (GMP) records in December 2018 and funds need to reconcile their GMP records against HMRC records before that date (assuming they wish to do so).

4.2 Business Operations has investigated the feasibility of recruiting specialist resource to consider carrying out this work in-house but there is a shortage of available skills in the market and this work will need to be offered externally.

4.3 Within the last couple of months, a national procurement framework for ancillary LGPS support services (including GMP reconciliation) has been established and Business Operations is working with procurement colleagues to present options to the Committee for approval for work to commence. The Board will be updated on progress at future meetings.

5. Conclusions and reasons for recommendation

5.1 The Board is recommended to consider and note the updates provided in the report.

KEVIN FOSTER

Chief Operating Officer

Contact Officer: Jason Bailey Tel. No. 020 8541 7473

Email: jason.bailey@surreycc.gov.uk

East Sussex Pensions Administation - Key Performance Indicators 2016-17

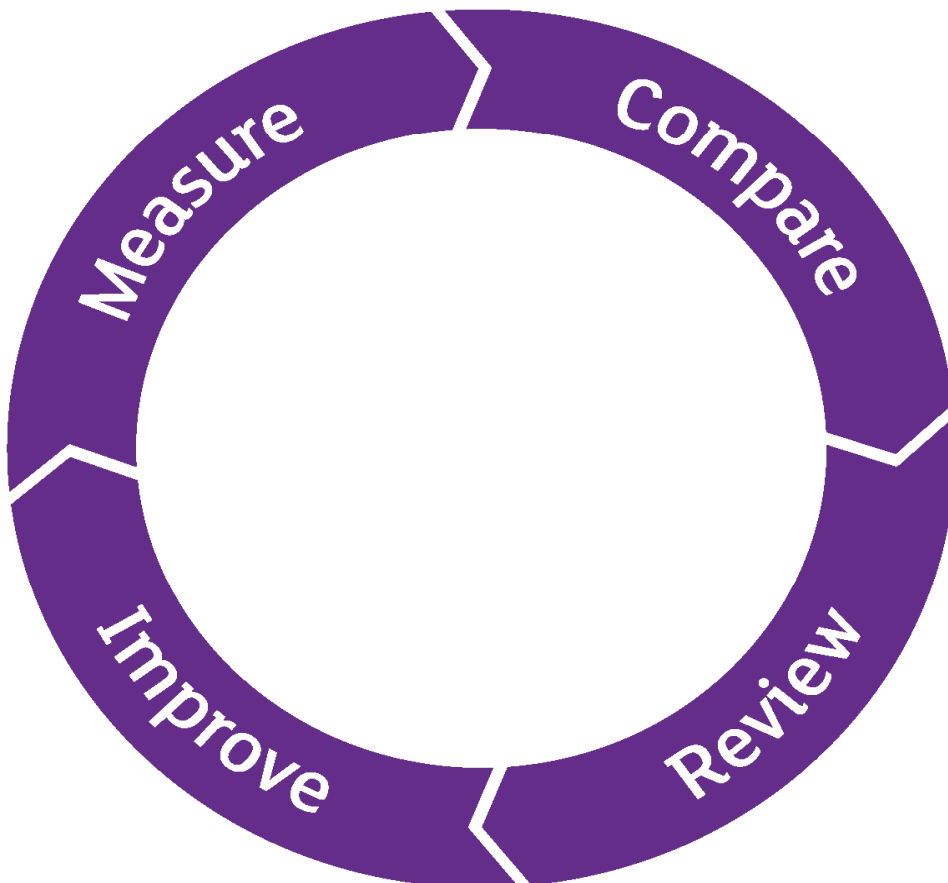
	Activity	Measure	Impact	Target	Oct		Nov		Dec		
	Scheme members	Pensioners, Active & Deferred			69,693		70,681		71,016		
	New starters set up				411		232		506		
	Data quality	Meeting regulatory standards			Commencing Q4						
	Cost per member	Administration cost in CIPFA benchmarking		<lowest quartile	Please see attached report						
	ABS sent - Councillors	Statutory deadline		Due by 31 Aug		Achieved					
	ABS sent - Active	Statutory deadline				13-Sep					
	ABS sent - Deferred	Statutory deadline				Achieved					
					Volume	Score	Volume	Score	Volume	Score	Commentary
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	95%		100%		100%		100%	
1b	Award dependent benefits	within 5 days	H	95%	10	90%	20	95%	11	100%	
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	95%	102	100%	97	95%	93	96%	
2b	Payment of lump sum made	within 5 days	H	95%	93	98%	89	98%	83	98%	
3	Calculation of spouses benefits	within 5 days	M	90%	10	94%	20	95%	11	100%	
4a	Transfers In - Quote (Values)	within 10 days	L	90%	20	90%	40	85%	35	83%	
4b	Transfers In - Payments	within 10 days	L	90%	15	100%	23	87%	34	97%	
5a	Transfers Out - Quote	within 25 days	L	90%	49	100%	43	86%	34	85%	
5b	Transfers Out - Payments	within 25 days	L	90%	7	86%	15	87%	17	94%	
6a	Employer estimates provided	within 7 days	M	95%	137	84%	75	99%	42	97%	Employee and Employer Requests split from November
6b	Employee projections provided	within 10 days	L	95%			70	84%	26	100%	
7	Refunds	within 10 days	L	95%	38	100%	45	100%	28	100%	
8	Deferred benefit notifications	within 25 days	L	95%	264	100%	180	81%	179	100%	
9	Complaints received- Admin				2		1		0		
	Complaints received- Regulatory				0		0		0		
10	Employer survey satisfaction	Overall satisfaction (V Satisfied/satisfied)		90%							
11	Member survey satisfaction	Overall satisfaction (Excellent/good)		90%	16	88%	9	100%	not yet available		
12	Compliments received								3		

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Information Services

pensions administration benchmarking club

2016 - East Sussex Final Report



PREFACE

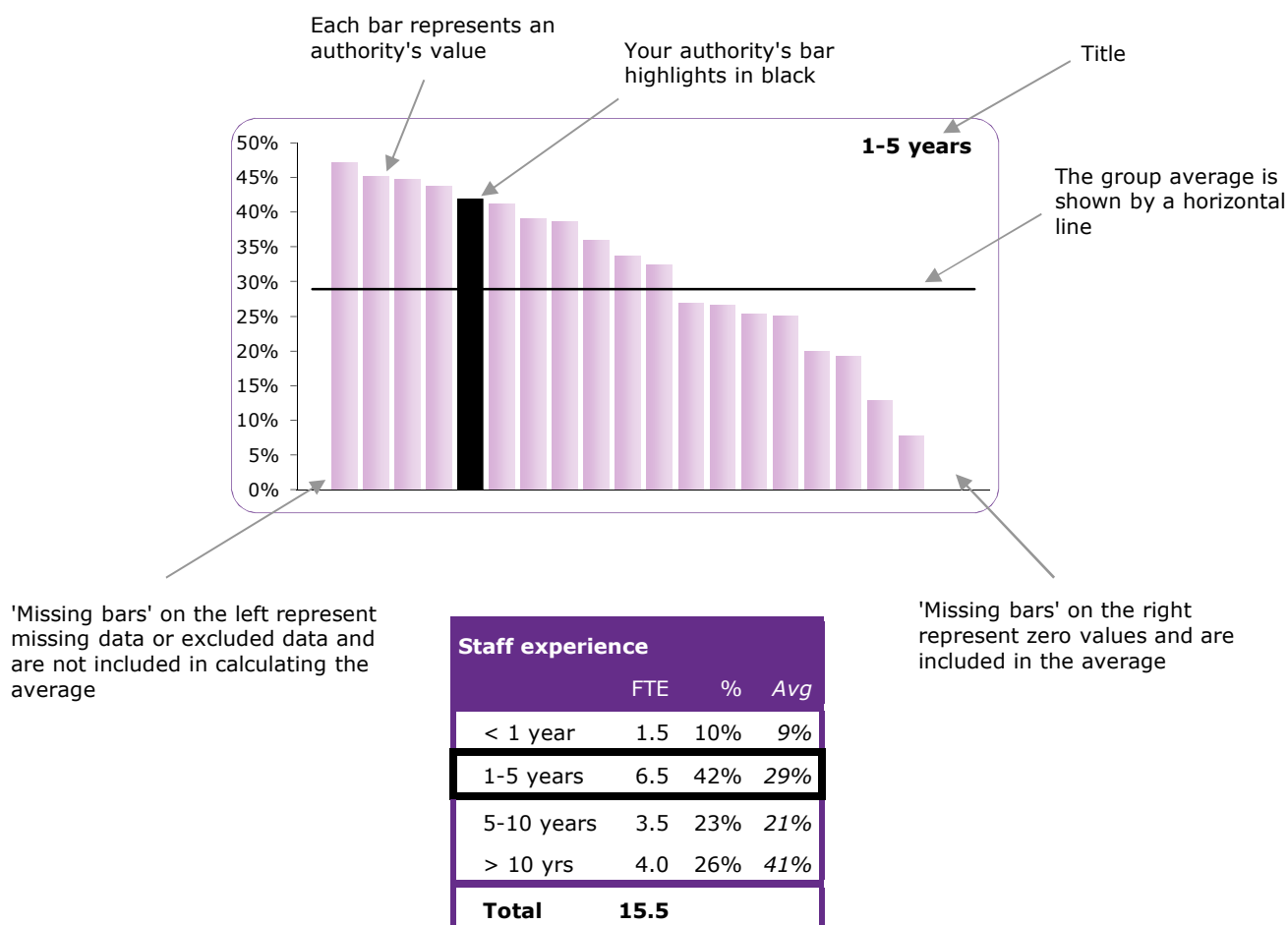
This report compares your data with the group of authorities specified on the title page.

Throughout the report your figures are shown in tables and in graphical form. If you are not familiar with our reports we hope this page will help you to better understand the way we present this data.

Averages: Almost all of our tables and charts compare your figure with a group average. The average is the unweighted mean value for the group. This average value ignores missing data, or data that we have excluded and for this reason sets of averages sometimes do not reconcile precisely.

Charts: We display a large amount of data on charts as this allows us to show the data for the entire group efficiently and gives far more information than a simple average (i.e. range of data, individual authority values etc.). Below we have annotated an example chart to help explain what they are showing.

Bar Charts: These are our standard method of displaying a full set of data



INTRODUCTION

This report compares your performance with the group of authorities specified on the title page. It is divided into the following sections.

	Page
1 Summary 2016	4
2 Cost Measures	5
3 Workload Measures	11
4 Staff Related Measures	22
5 Industry Standard Performance Indicators	26
6 Comparison by method of service delivery } <i>final reports</i>	27
7 Timeseries } <i>final reports only</i>	28

Section 1 - Summary 2016

This page provides a brief summary of the most salient aspects of the report.

Section 2 - Cost Measures

This section concentrates on cost/member ratios starting with total cost/member which is then broken down by staff costs, payroll costs, direct costs, overheads and income. Further analysis of direct costs and overheads is also provided in this section.

Section 3 - Workload Measures

The first measure of workload is the number of members in the scheme, which is shown along with a breakdown by class of membership. This is followed by an analysis of the number and type of LGPS employers.

Other workload measures include:

- Joiners and leavers with a full analysis of the various types of retirements
- Number of quotations provided and actual events processed
- AVCs, ARCs and Added years
- Appeals

Section 4 - Staff Related Measures

The measures included here are an analysis of staff numbers by pay band, sickness absence, pensions work experience, staff qualifications and staff turnover.

Section 5 - Industry Standard Performance Indicators

In this section we show how authorities perform against each of the LGPC performance indicators.

Section 6 - Comparison by Method of Service Delivery (final report only)

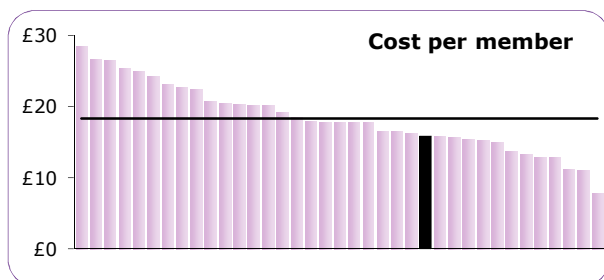
This shows members' costs and averages compared for in-house and externally managed pension schemes.

Section 7 -Timeseries (final report only)

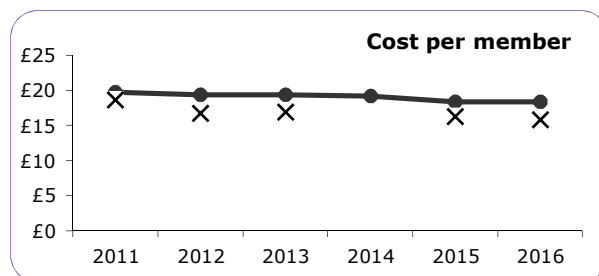
This shows the individual members' performance over time compared to the club average for cost per member, which is analysed over staff cost and other costs.

SECTION 1 - SUMMARY 2015/16

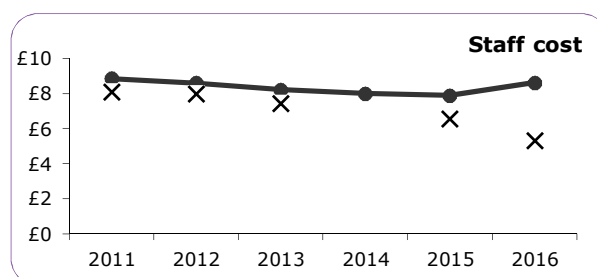
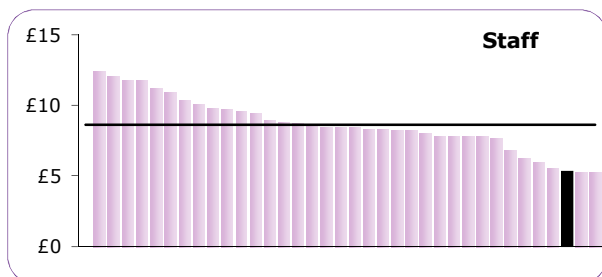
NET COST / MEMBER 2015/16



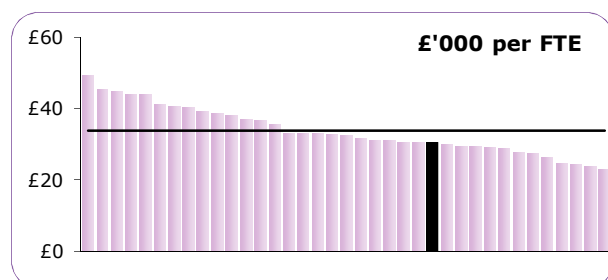
● Club average
X East Sussex



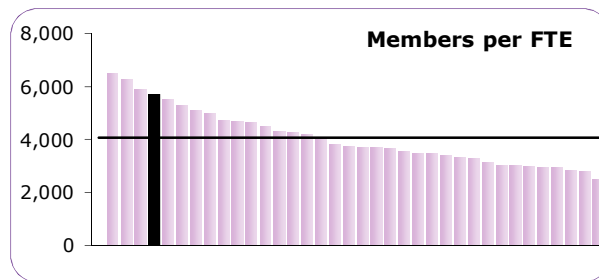
STAFF COST / MEMBER 2015/16



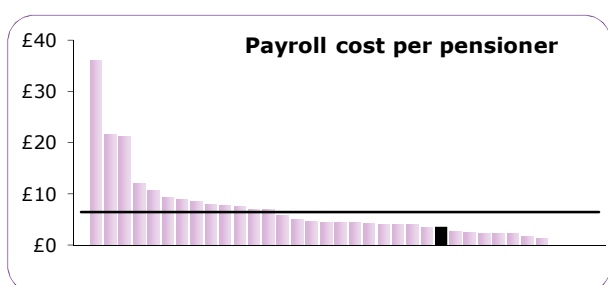
COST £'000 / FTE



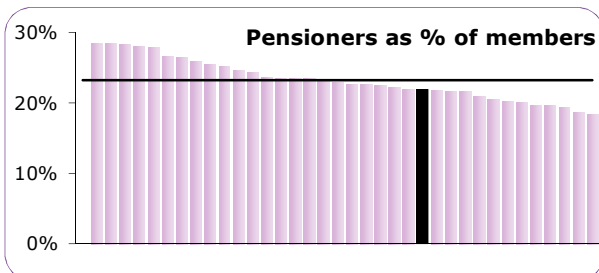
MEMBERS LGPS / ADMIN FTE



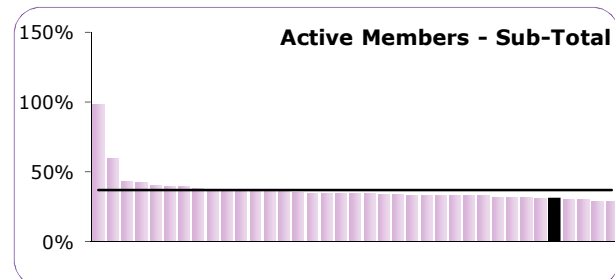
PAYROLL COST / PENSIONER



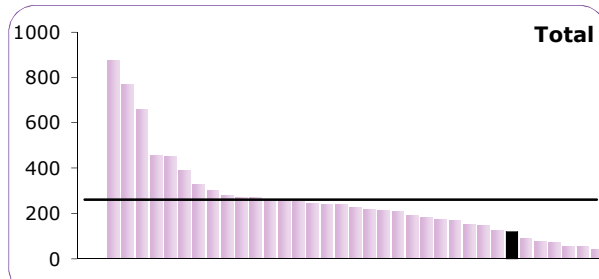
PENSIONERS AS A % MEMBERS



ACTIVES AS A % MEMBERS



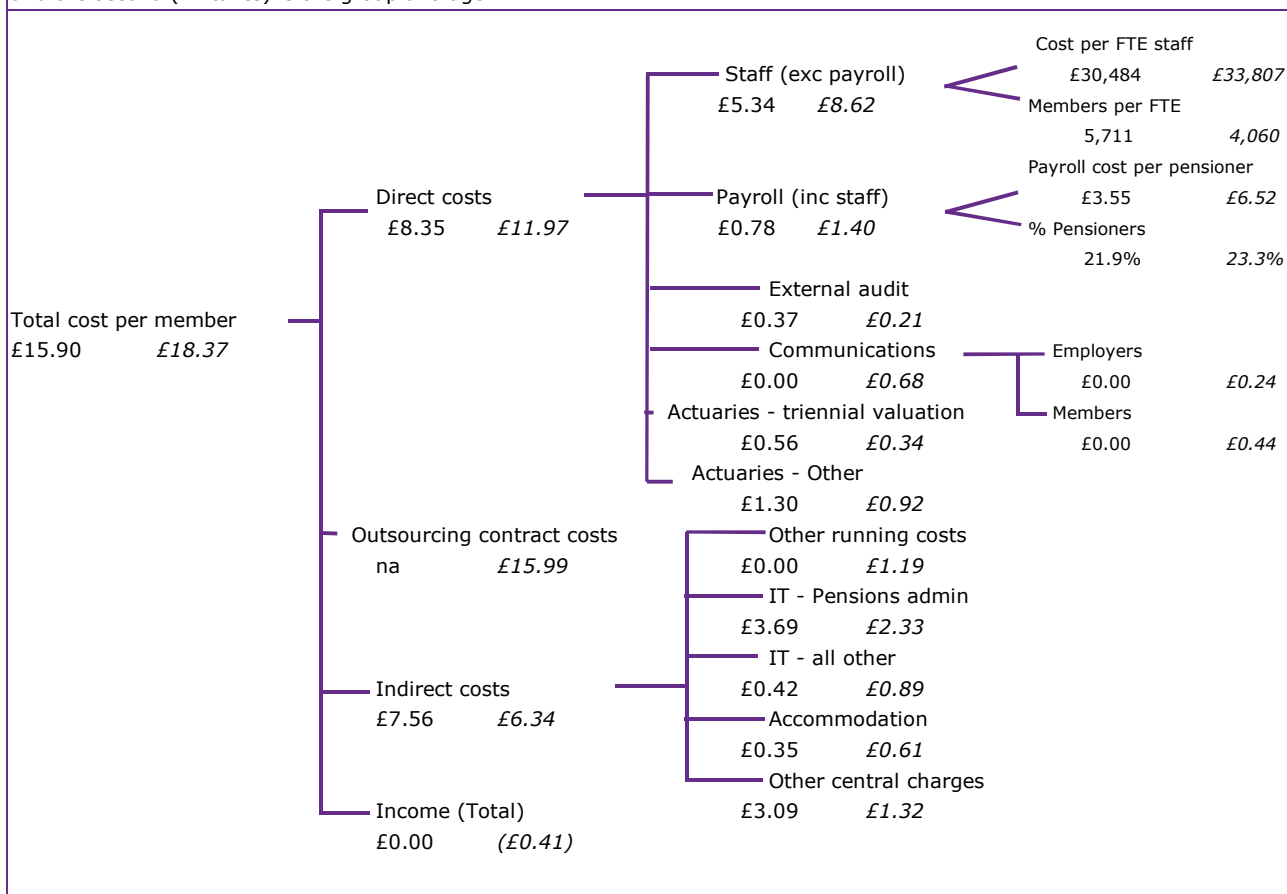
NUMBER OF LGPS EMPLOYERS



SECTION 2 - COST MEASURES

COST/MEMBER TREE 2015/16

This tree diagram analyses the cost per member. For each benchmark two figures are given the first being the authority's cost and the second (in italics) is the group average.



FTE staff	
Pension Section total	15.4
less	
IT staff	-
Payroll staff	1.0
Communications staff	-
Employing authority work	1.0
Work for other schemes	1.0
Other work	-
Admin of LGPS	12.4

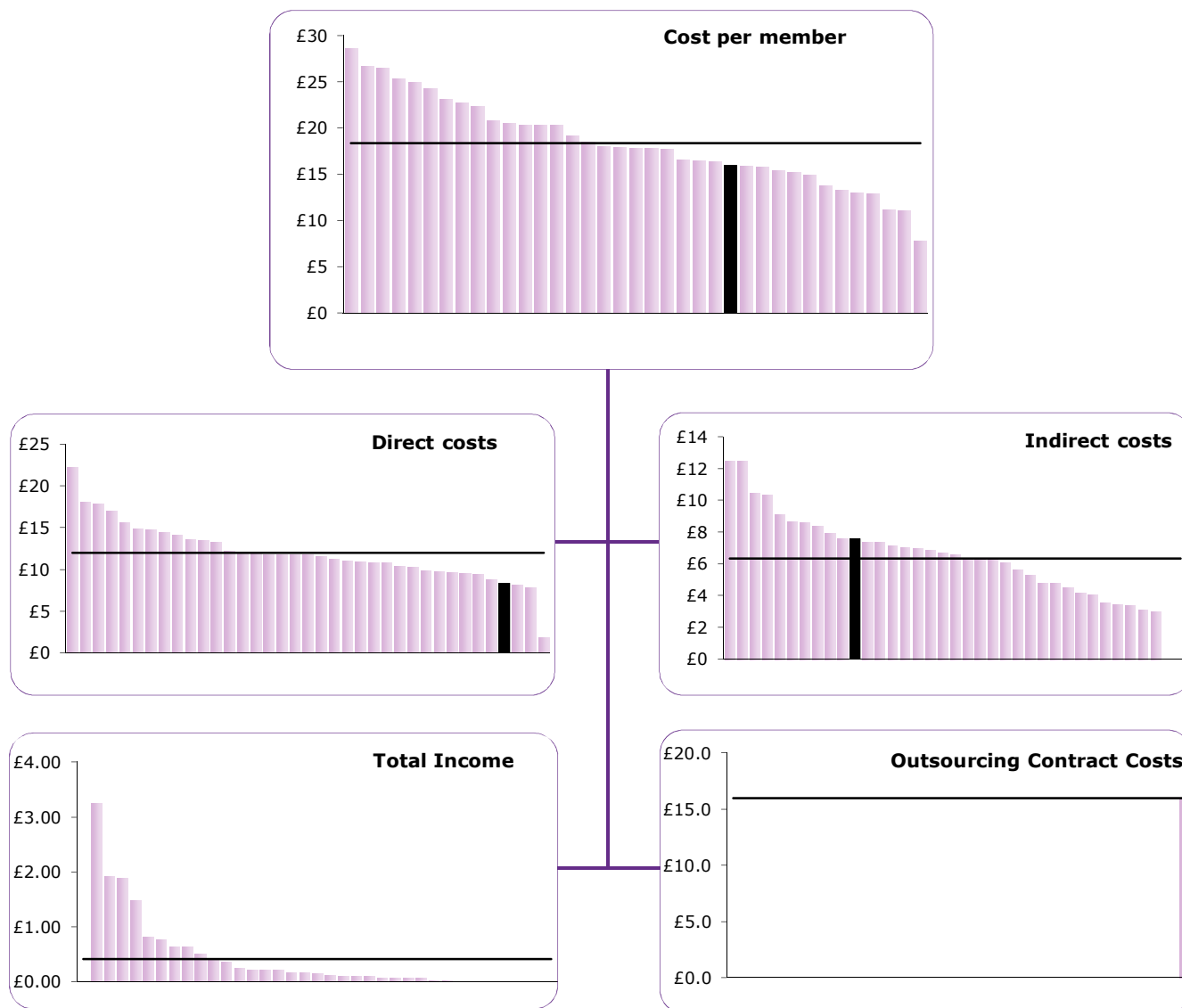
Net Costs £'000	
	£'000
Pension Section total	1,185
less	
Work for other schemes	34
Employing authority work	25
Other work	-
Admin of LGPS	1,126

Admin of LGPS costs	£'000	£ per member	Avg
Staff - administration	378	5.34	8.62
Staff - payroll	26	0.37	0.34
Payroll	29	0.41	1.06
Communications (Total)	-	-	0.68
Actuaries - triennial valuation	40	0.56	0.34
Actuaries - other	92	1.30	0.92
External audit	26	0.37	0.21
Total Direct Costs	591	8.35	11.97
Outsourcing costs	-	na	15.99
Other running costs	-	-	1.19
IT - Pensions admin	261	3.69	2.33
IT - All other	30	0.42	0.89
Accommodation	25	0.35	0.61
Other central charges	219	3.09	1.32
Total Indirect Costs	535	7.56	6.34
Gross Cost	1,126	15.90	18.74
Income - Members	-	-	(0.04)
Income - Employers	-	-	(0.14)
Income - Other	-	-	(0.23)
Total Income	-	-	(0.41)
Net Cost	1,126	15.90	18.37

Total Scheme Membership 70,820

*Outsourcing Contract Costs average only includes those members who have outsourcing costs.

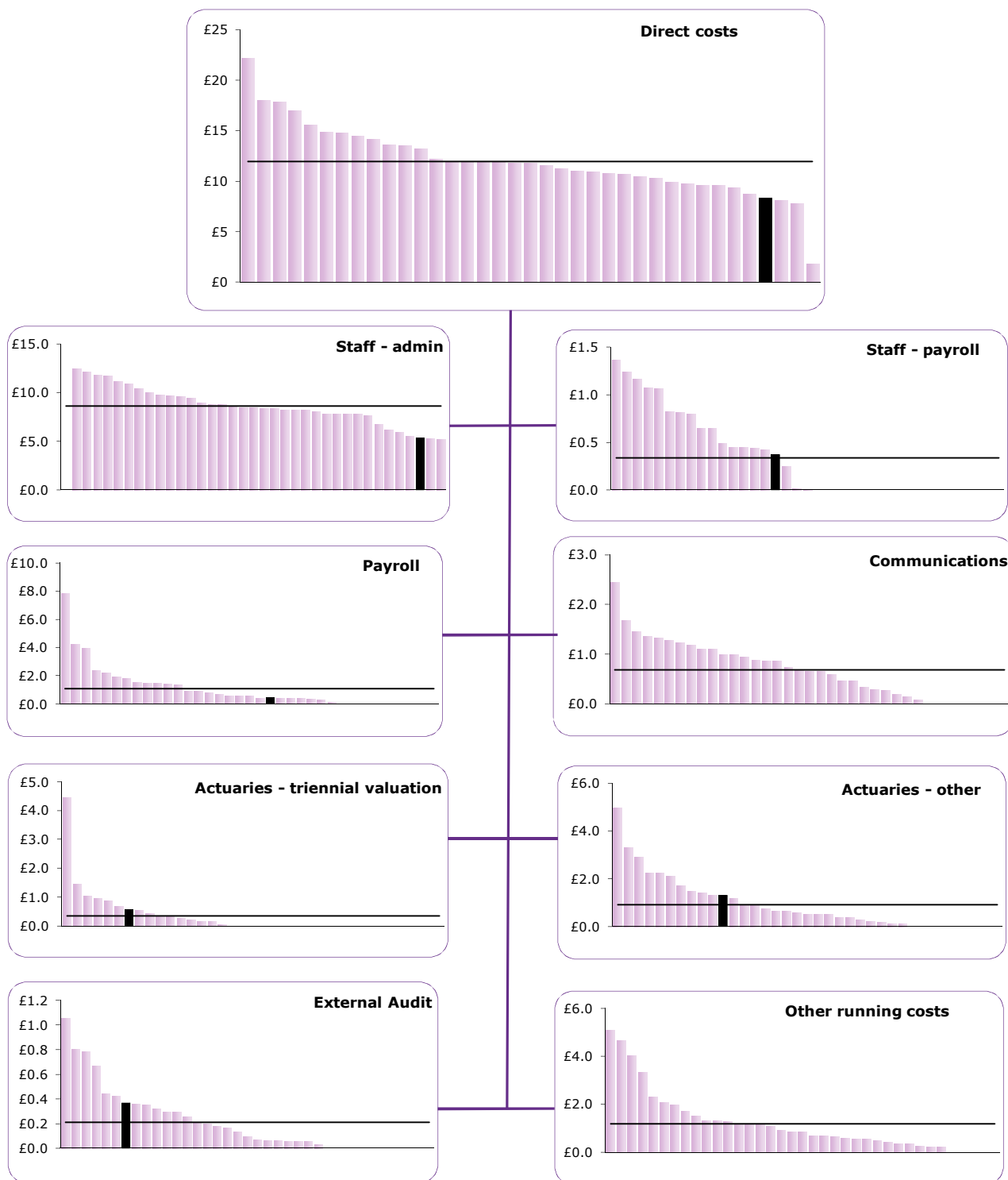
COST PER MEMBER 2015-16



Admin of LGPS costs		£ per member	Avg
	£'000		
Total Direct Costs	591	8.35	11.97
Outsourcing costs	-	na	15.99
Total Indirect Costs	535	7.56	6.34
Total Income	-	-	(0.41)
Net Cost	1,126	15.90	18.37

Total Scheme Membership	70,820
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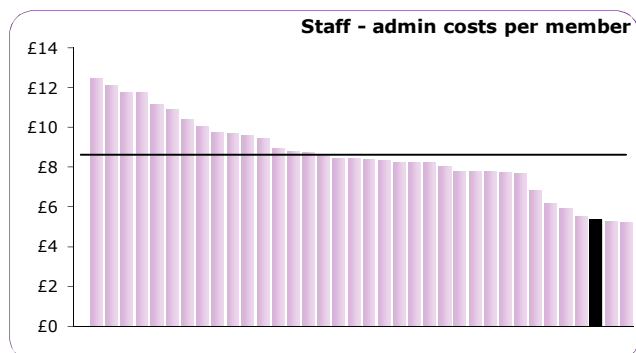
COSTS PER MEMBER - Direct costs 2015/16



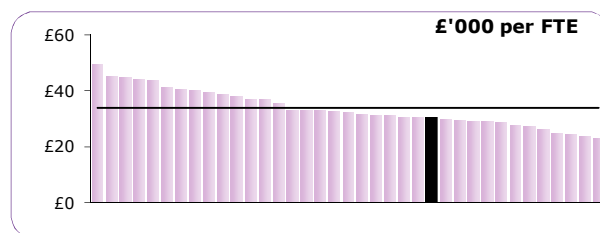
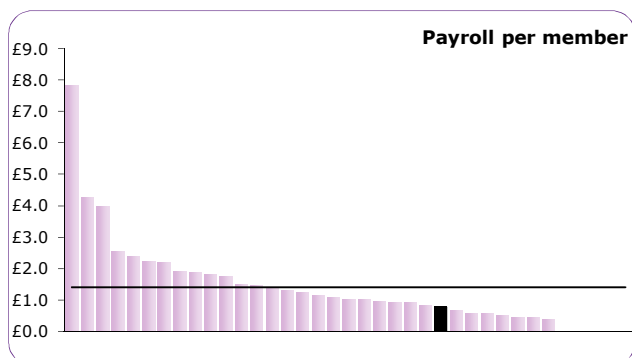
Direct costs	£'000	£ per member	Avg
Staff - admin	378	5.34	8.62
Staff - payroll	26	0.37	0.34
Payroll	29	0.41	1.06
Communications	-	-	0.68
Actuaries - triennial valuation	40	0.56	0.34
Actuaries - other	92	1.30	0.92
External audit	26	0.37	0.21
Total	591	8.35	11.97

DIRECT COSTS PER MEMBER - Staff and Payroll costs 2015/16

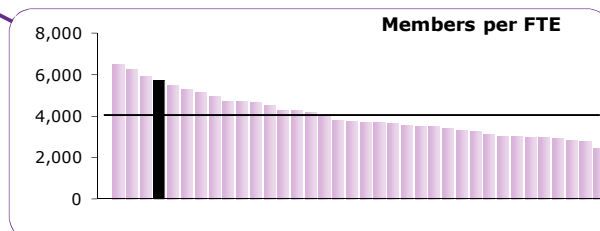
	£'000	£ per member	Avg
Staff - admin	378	5.34	8.62



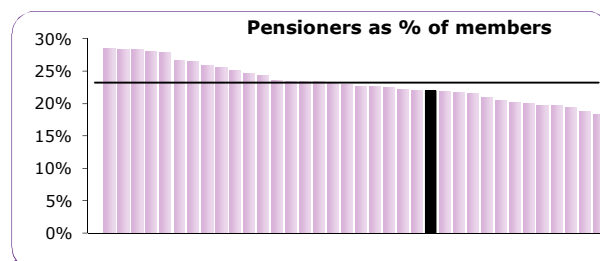
	£'000	£ per member	Avg
Payroll (combined)	55	0.78	1.40



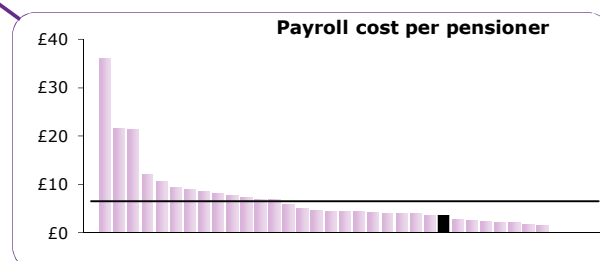
East Sussex 30.5 Avg 33.8



East Sussex 5,711 Avg 4,060

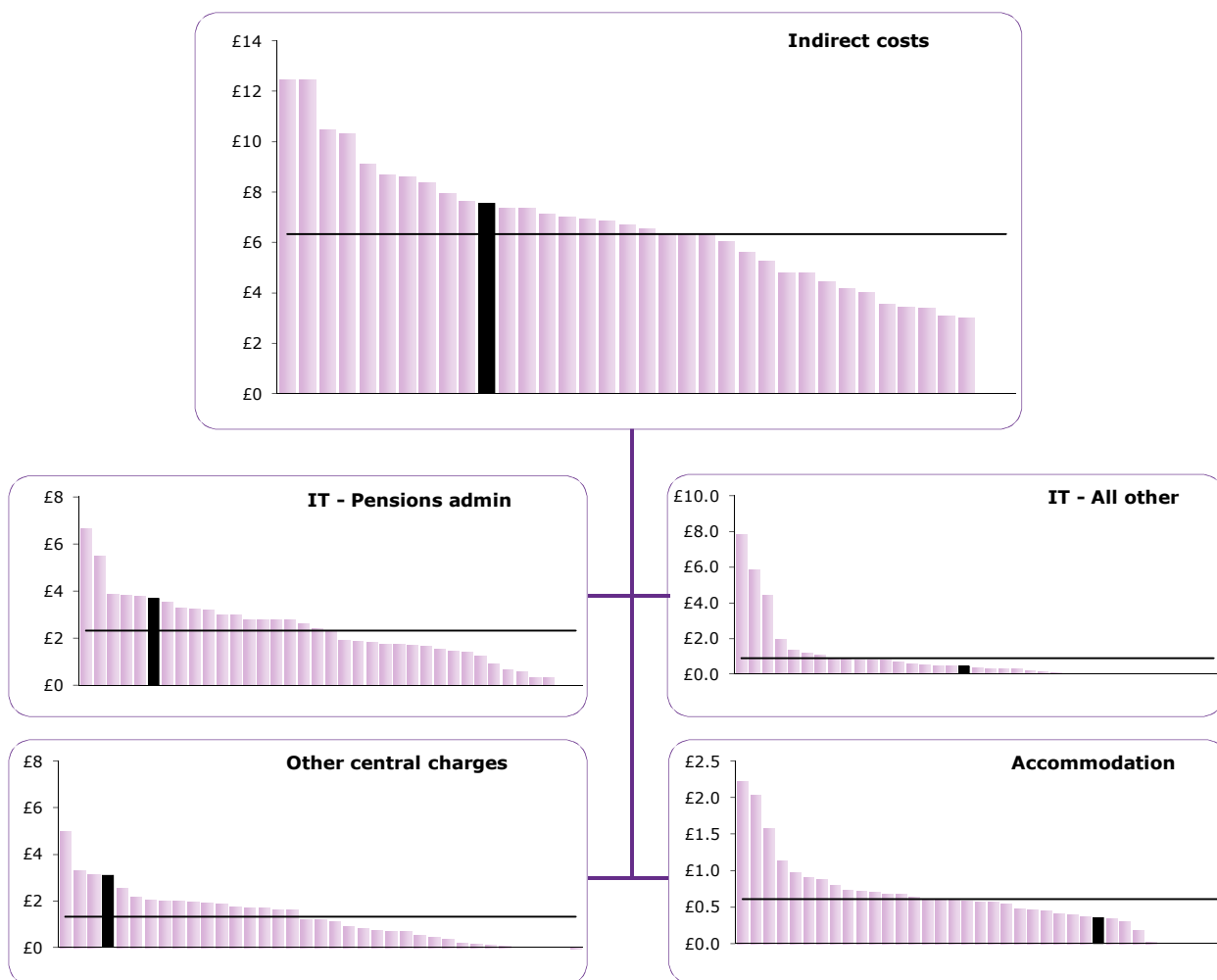


East Sussex 22% Avg 23%



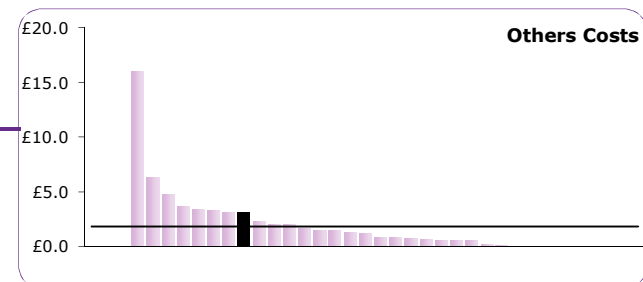
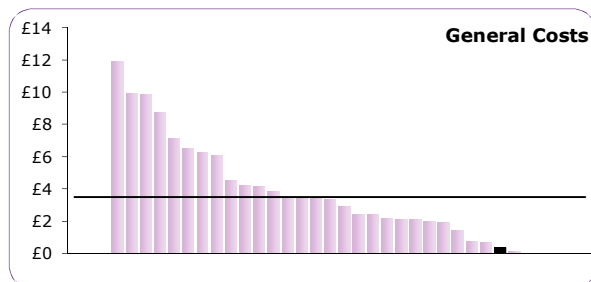
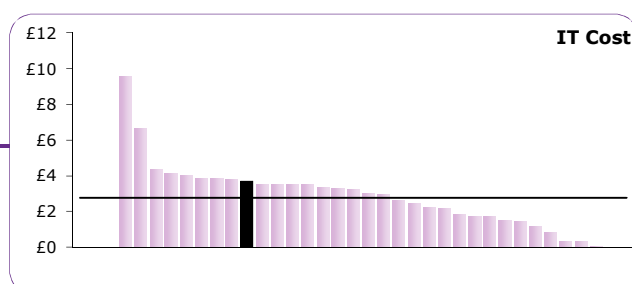
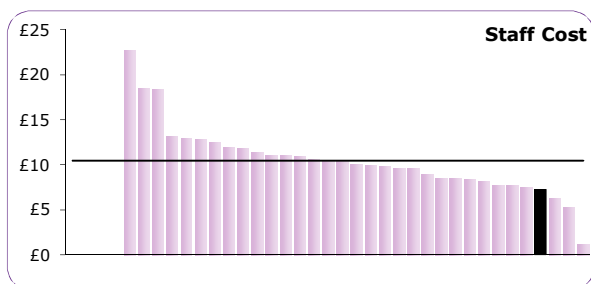
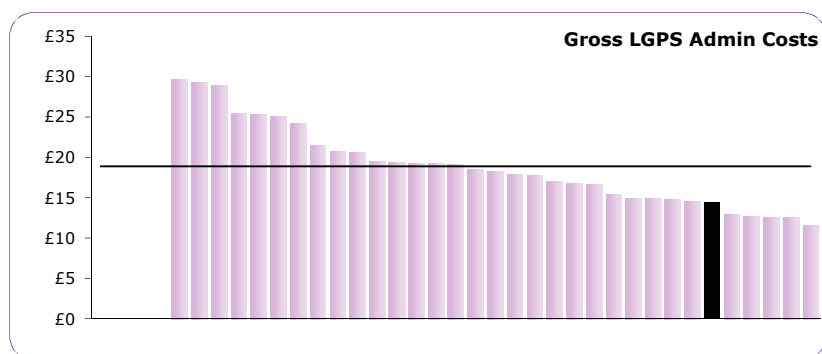
East Sussex 3.5 Avg 6.5

COSTS PER MEMBER - Indirect costs 2015/16



Indirect costs	£'000	£ per member	Avg
Other running costs	-	-	1.19
IT - Pensions admin	261	3.69	2.33
IT - All other	30	0.42	0.89
Accommodation	25	0.35	0.61
Other central charges	219	3.09	1.32
Total	535	7.56	6.34

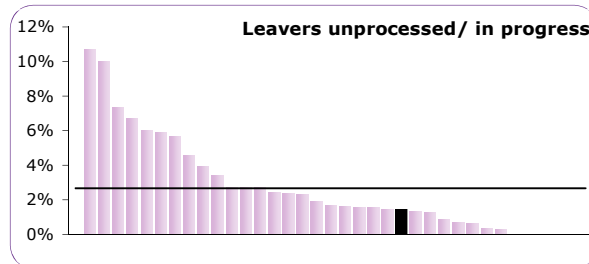
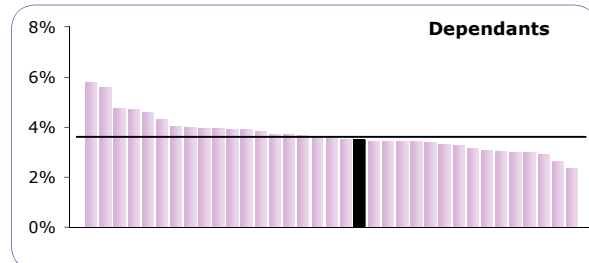
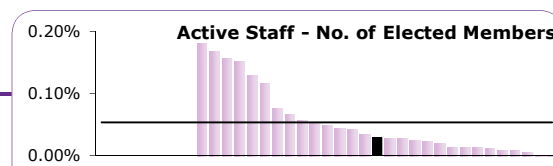
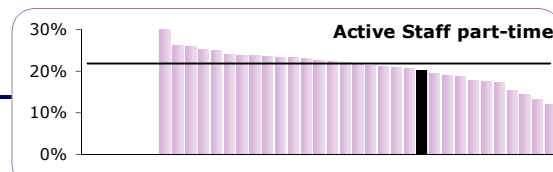
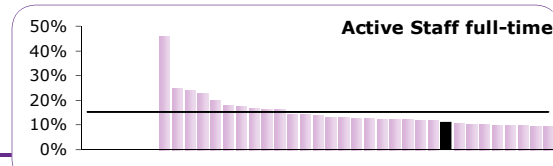
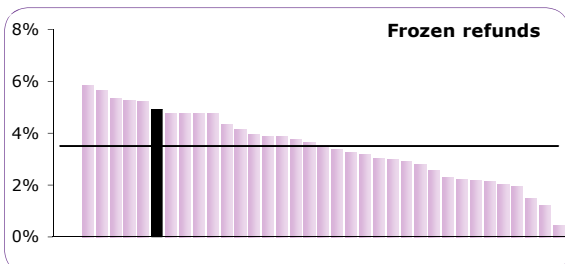
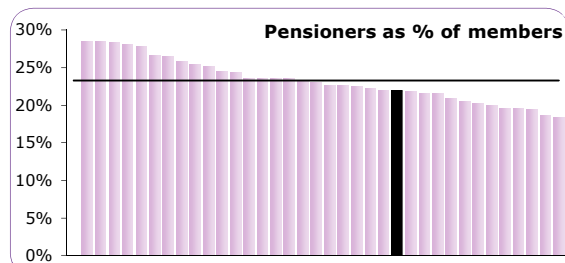
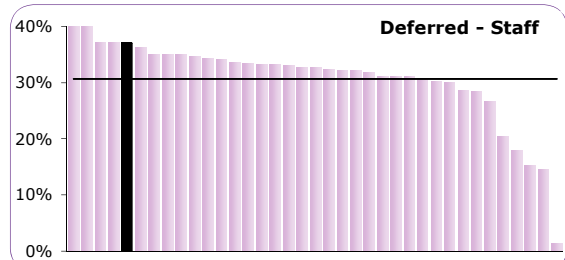
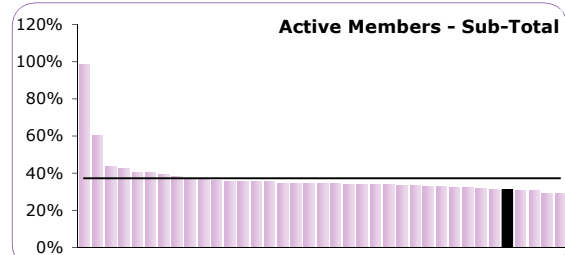
COSTS PER MEMBER - LGPS Administration Expenses Analysis 2015/16



LGPS Administration Expenses		£ per member	
	£'000		Avg
Staff Costs	512	7.23	10.47
IT Costs	261	3.69	2.78
General Costs	25	0.35	3.50
Other Costs	219	3.09	1.85
Gross LGPS Admin Exp.	1,017	14.36	18.85
Gross LGPS Income	-	-	0.67
Net LGPS Admin Exp.	1,017	14.36	248.03

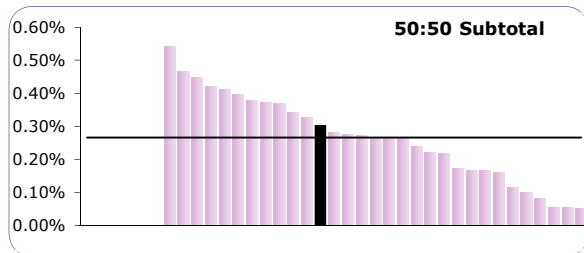
SECTION 3 - WORKLOAD MEASURES

COMPOSITION OF MEMBERS AS AT 31/3/2016



Composition of members				
	No.	%	Avg	Avg %
Active:				
- full-time	7,859	11.1%	17,825	15.1%
- part-time	14,158	20.0%	18,476	21.9%
- no. of elected Members	21	0.0%	38	0.05%
- sub-total	22,038	31.1%	35,339	37.2%
Deferred:				
- Staff	26,288	37.1%	30,930	30.7%
- Elected Members	48	0.1%	32	0.0%
Pensioners	15,496	21.9%	23,651	23.3%
Dependants	2,463	3.5%	3,946	3.6%
Frozen refunds	3,474	4.9%	3,250	3.5%
Leavers unprocessed/ in progress	1,013	1.4%	2,500	2.7%
Total	70,820		99,647	

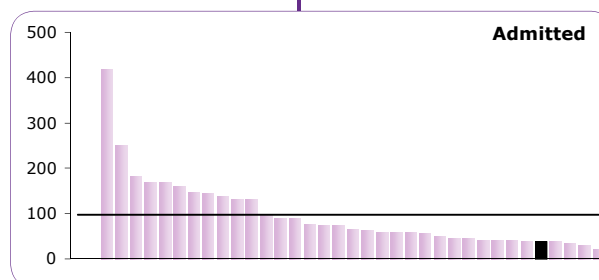
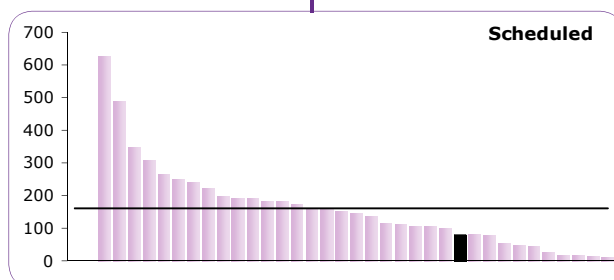
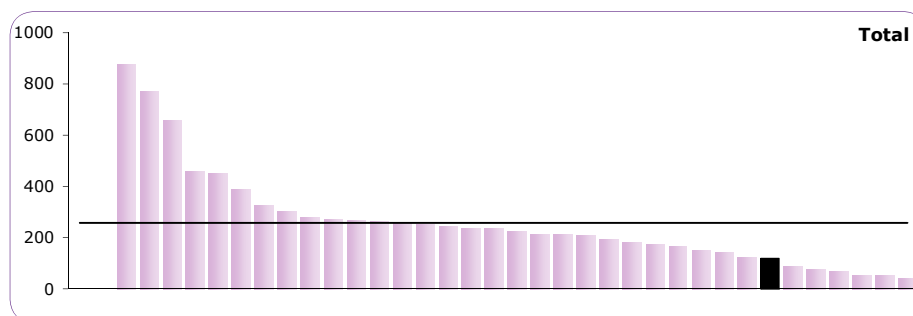
COMPOSITION OF MEMBERS AS AT 31/03/2016



Composition of active members

	No.	%	Avg
50:50	67	0.3%	0.3%

NUMBER OF LGPS EMPLOYERS AS AT 31/03/2016



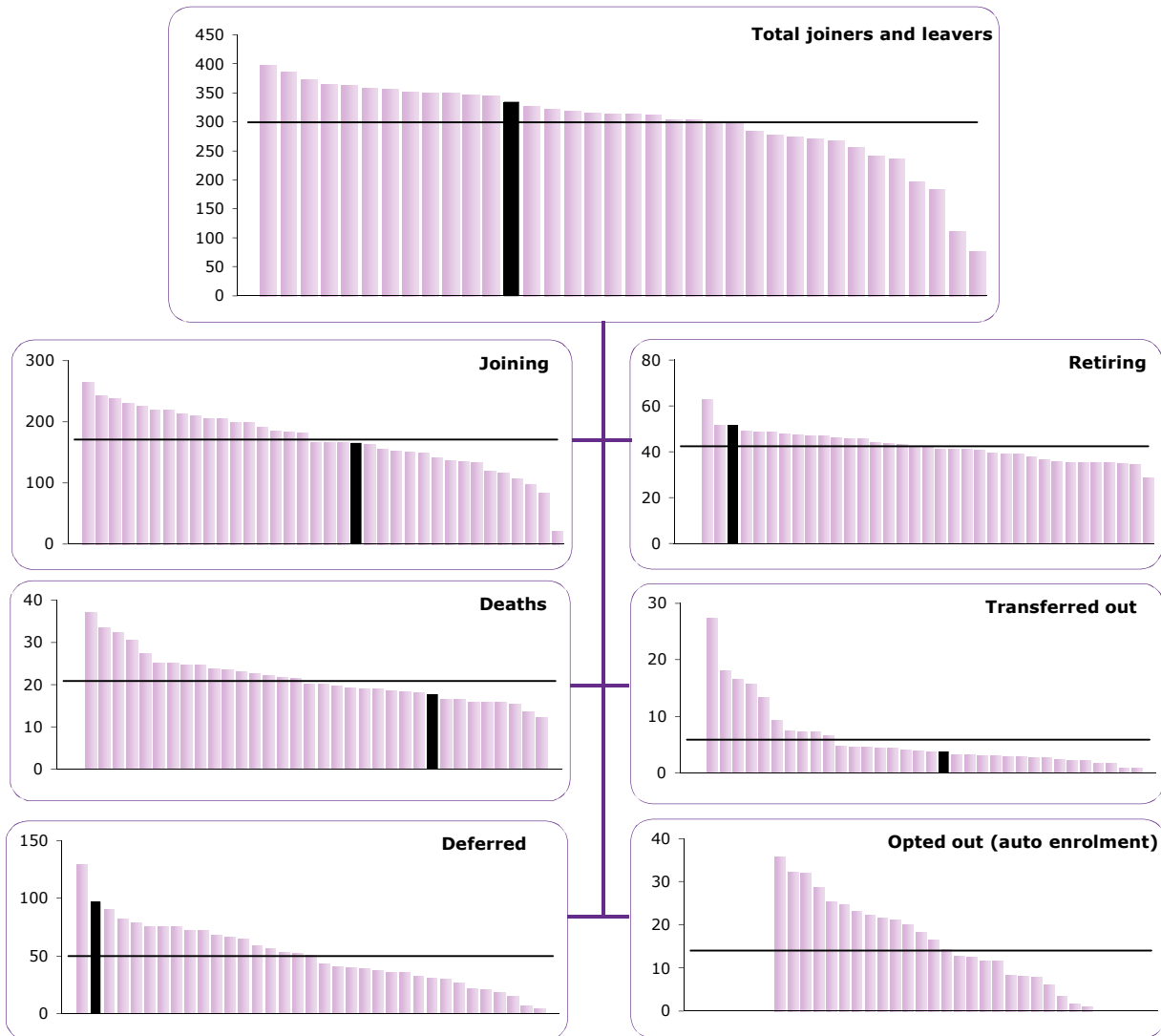
LGPS employers (31/3/16)

	No.	Avg	of which:	No.	%	Avg
Scheduled	82	162	Local Authorities	8	10%	10%
Admitted	39	97	Transferee	29	74%	43%
Total	121	259				

Employer changes 2015/16

	+/- Changes		Admitted		Leaving	
	No.	Avg	No.	Avg	No.	Avg
Scheduled	-	2	8	12	-	1
Admitted	-	1	4	8	-	29

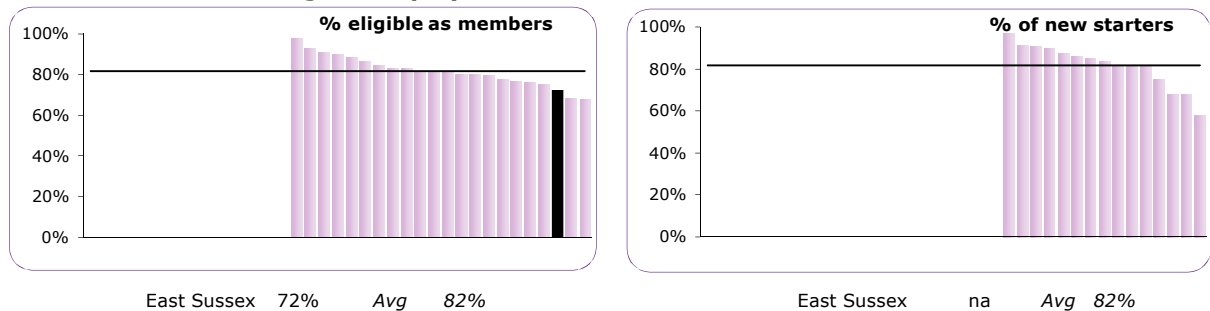
JOINERS & LEAVERS (per '000 active members)



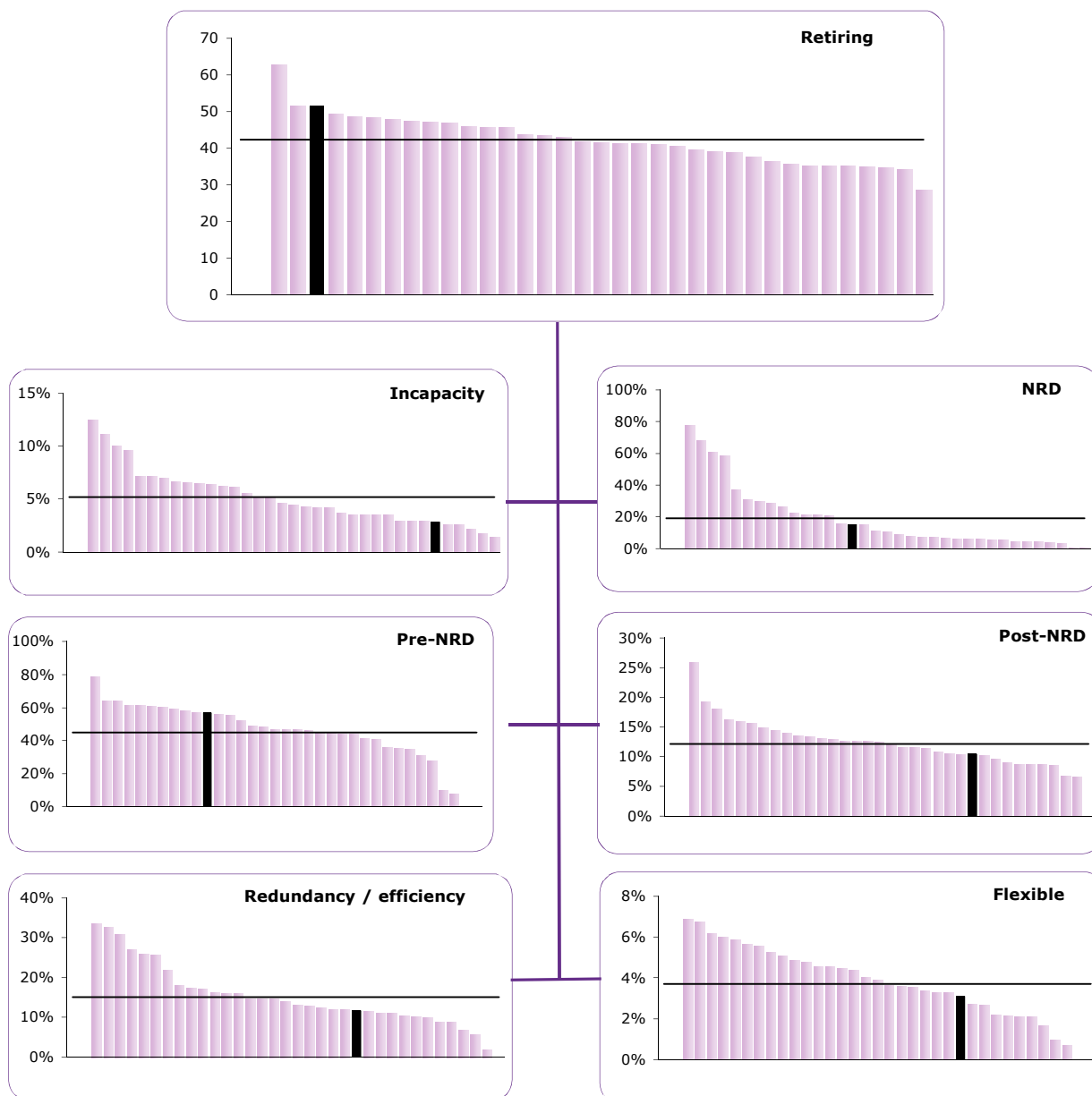
Joiners & leavers (per '000 active members)			
	No.	'000	Avg
Joining	3,641	165	171
Retiring	1,134	51	42
Deaths	389	18	21
Transferred out	82	4	6
Deferred	2,122	96	50
Opted out	-	-	14
Total	7,368	334	299

Active members	
	22,038

LGPS members as % eligible employees



RETIRING (per '000 active members)

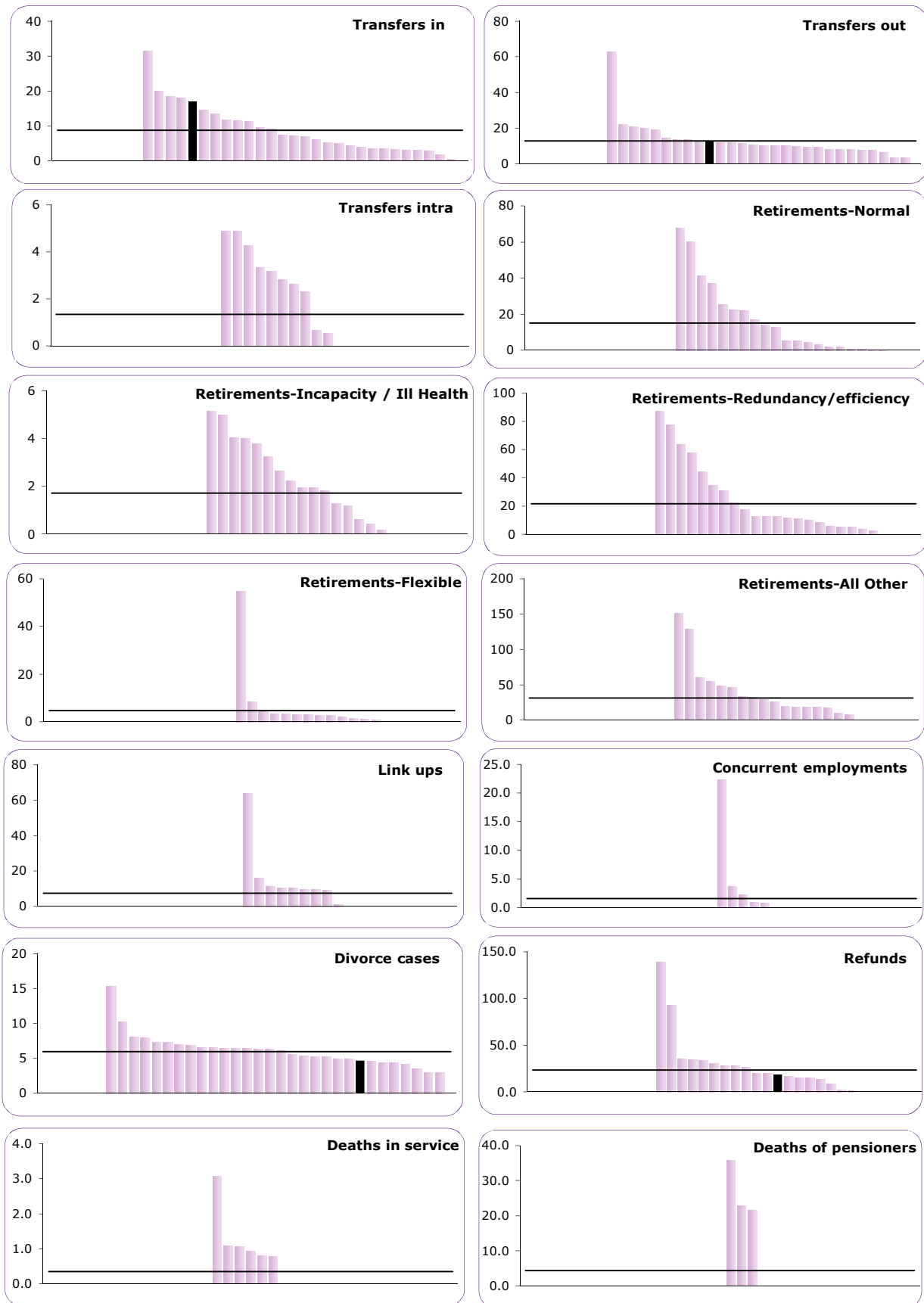


Retirements	No.	%	Avg
Incapacity	32	3%	5%
NRD	172	15%	19%
Pre-NRD	645	57%	45.0%
Post-NRD	118	10%	12%
Redundancy / efficiency	132	12%	15%
Flexible	35	3.1%	3.7%
Total	1,134		

Retiring (per '000 active members)			
	No.	'000	Avg
Retiring	1,134	51	42

Active members
22,038

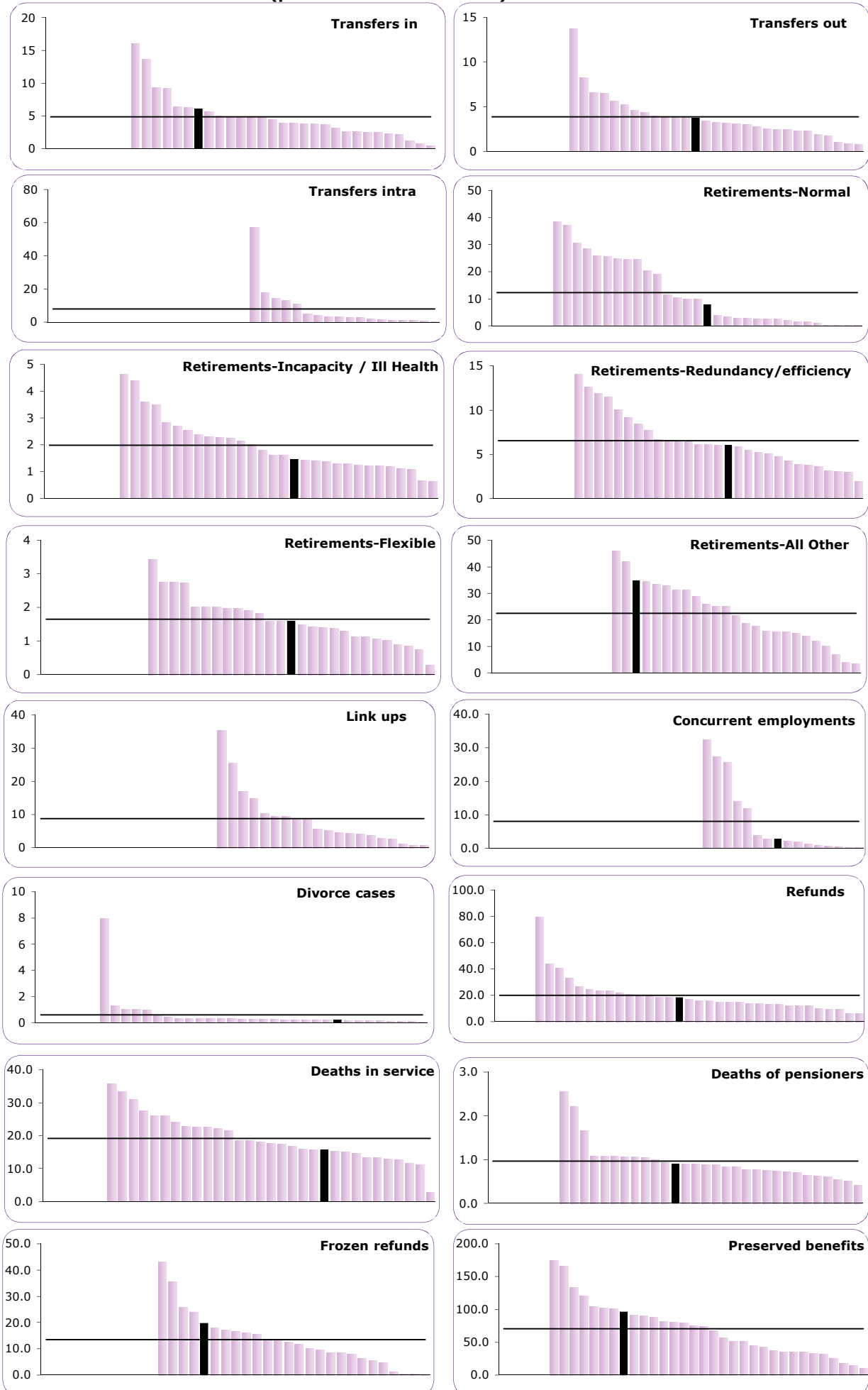
NUMBER OF QUOTATIONS PROVIDED (per '000 active members)



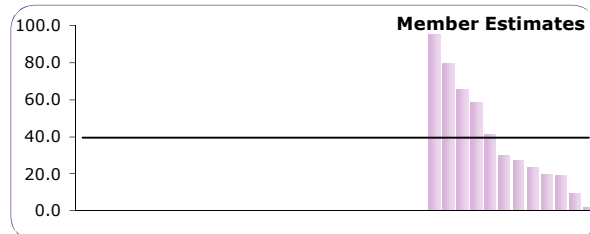
No of bulk transfers	No.	'000	Avg
TUPE -in	3	0	0
TUPE -out	1	0	0
Academies	4	0	0

Active members:		22,038		
Quotations provided		No.	'000	Avg
TUPE -in		3	0	0.0
TUPE -out		1	0	0.0
Academies		4	0	0.0
Retirements:				
- Normal		-	-	15.0
- Incapacity/ill-health		-	-	1.7
- Redundancy/efficiency		-	-	21.6
- Flexible		-	-	4.5
- All other		-	-	31.3
Transfers in		373	17	8.8
Transfers out		269	12	12.8
Transfers intra		-	-	1.3
Link ups		-	-	7.5
Concurrent employments		-	-	1.6
Refunds		401	18	23.3
Divorce cases		102	5	5.9
Deaths in service		-	-	0.4
Deaths of pensioners		-	-	4.5

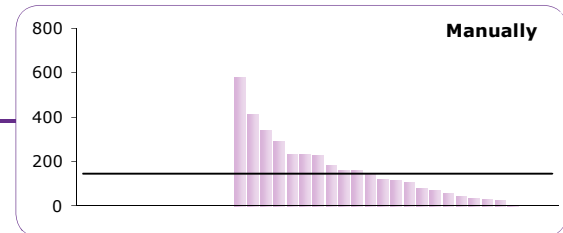
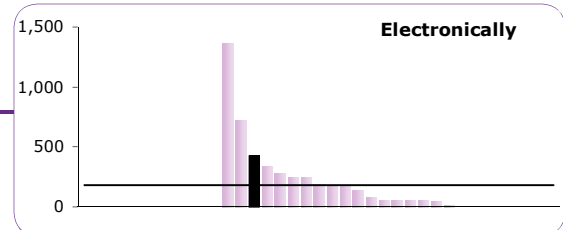
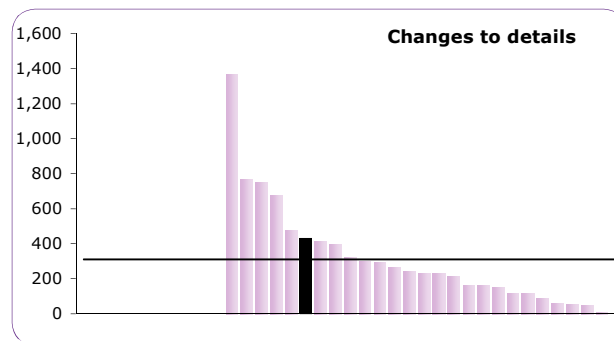
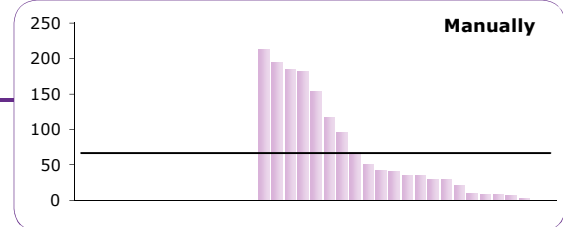
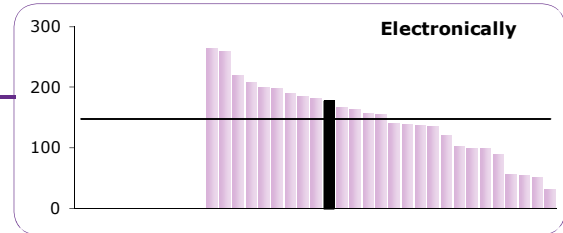
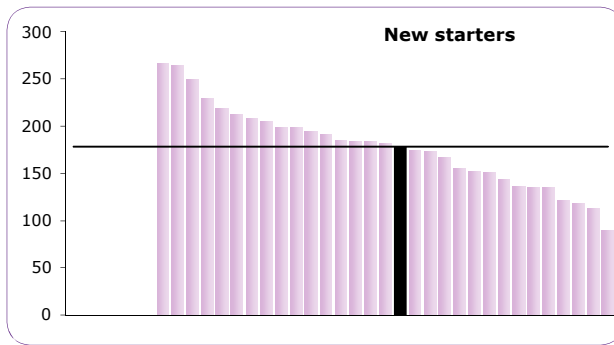
NUMBER OF ACTUAL EVENTS (per '000 active members)



Active members:	22,038		
Actual events	No.	'000	Avg
TUPE -in	3	0	0
TUPE -out	1	0	0
Academies	4	0	10
Retirements:			
- Normal	172	8	12
- Incapacity/ill-health	32	1	2
- Redundancy/efficiency	132	6	7
- Flexible	35	1.6	2
- All other	763	35	23
Transfers in	133	6	5
Transfers out	82	4	4
Transfers intra	-	na	8
Link ups	-	na	9
Concurrent employments	59	3	8
Refunds	401	18	20
Frozen refunds	435	19.7	13
Preserved benefits	2,122	96	71
Divorce cases	5	0	1
Deaths in service	344	15.6	19
Death of pensioners	20	1	1
Single Status / Job Evaluation	-	na	na
Members Estimates	-	na	39

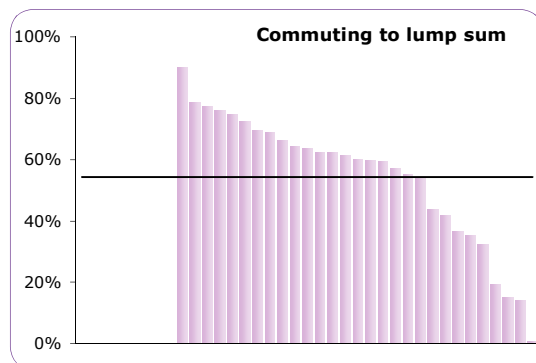


ACTUAL CALCULATIONS (per '000 active members)



RETIREMENTS

Retirements commuting to lump sum



Retirements commuting lump sum			
	Number	% total	Avg
..	na	54%	

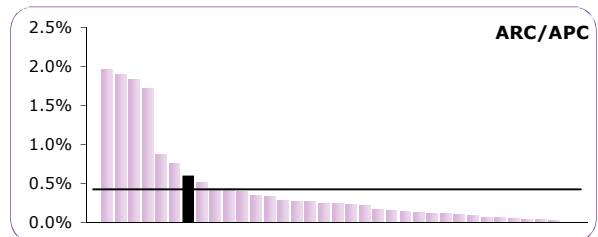
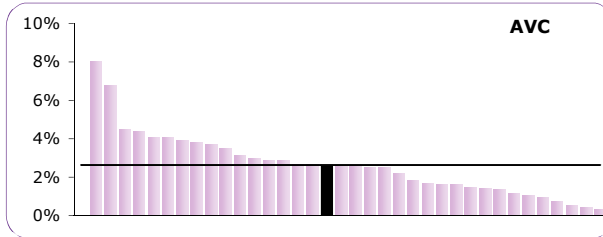
Active members

22,038

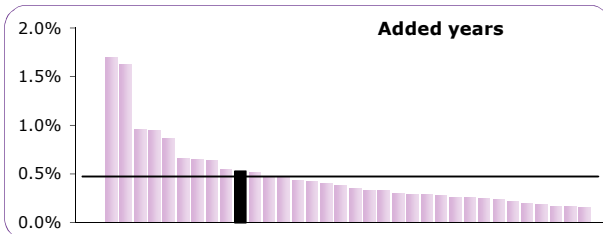
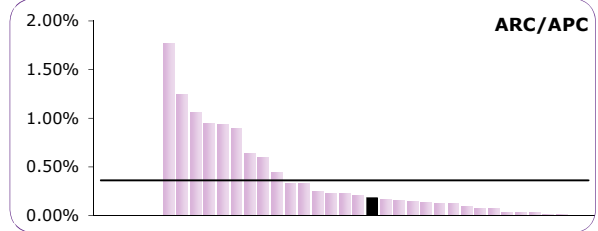
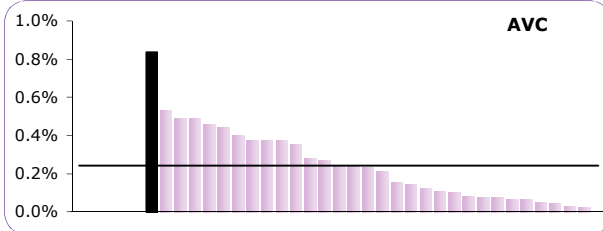
Actual calculations			
	No.	'000	Avg
New starters	3,929	178	178
- electronically	3,929	178	148
- manually	-	na	67
Changes to details	9,482	430	309
- electronically	9,482	430	180
- manually	-	0	146

AVCs, ARCs and Added years

% Currently contributing



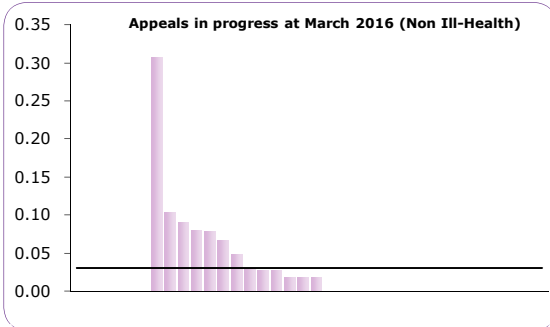
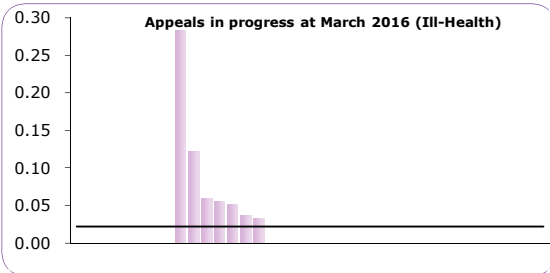
% New contributors this year



Contributors to AVCs and ARCS			
	No.	%	Avg
Currently contributing			
- AVC	564	2.56%	2.64%
- ARC/APC	132	0.60%	0.42%
- Added years	118	0.54%	0.47%
Total	814	3.69%	3.43%
New contributors this year			
- AVC	185	0.84%	0.24%
- ARC/APC	40	0.18%	0.36%
Total	225	1.02%	0.52%

Active members	
	22,038

APPEALS

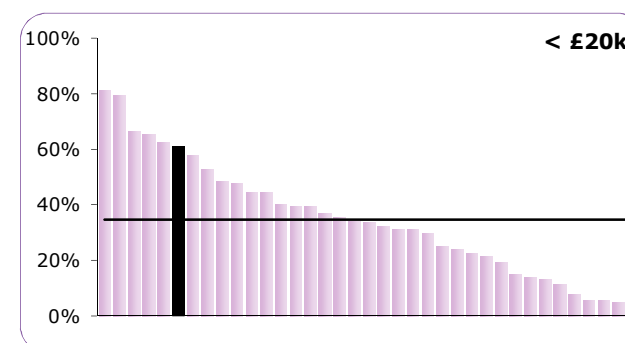
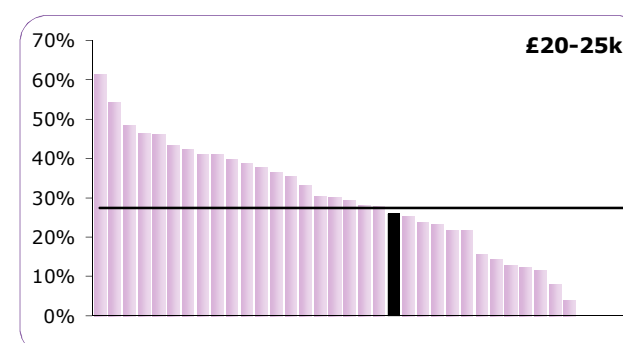
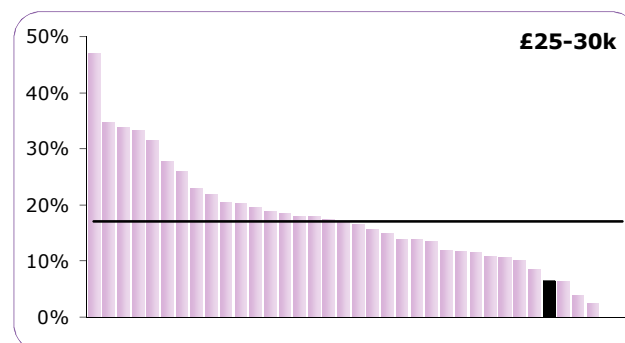
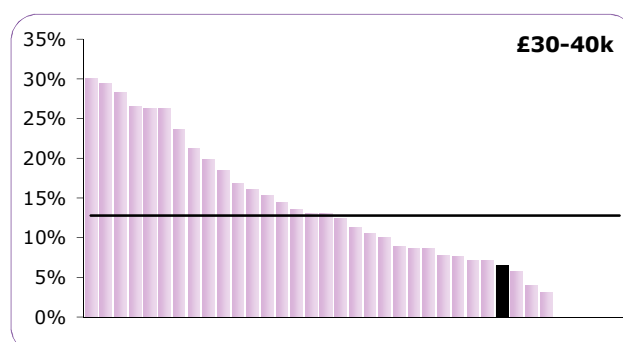
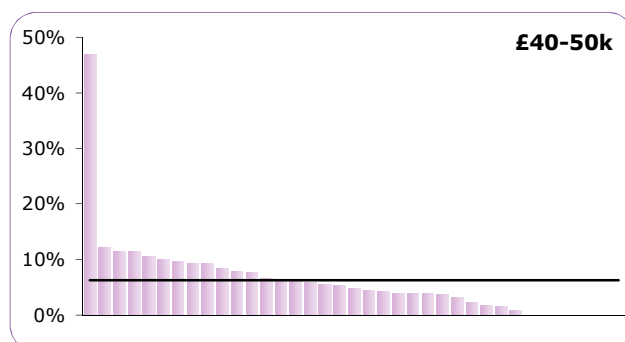
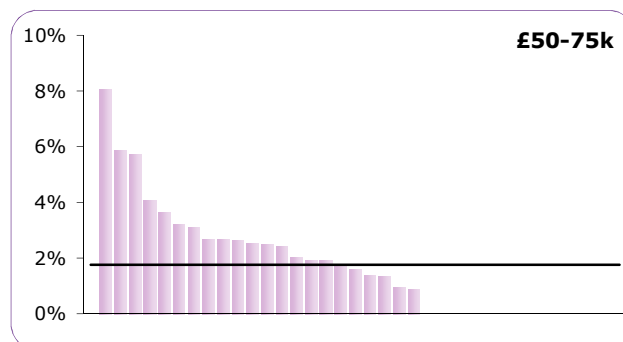
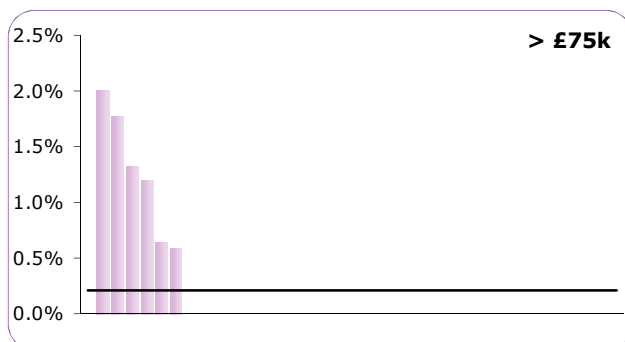


*Club total: This shows the total for all the Benchmarking Club members 2016

Number of appeals	No.	Per '000 members	Avg	Club* total
Ill-Health				
In progress at start of year	1	0.05	0.03	25
In progress at end of year	0	0.00	0.02	29
Non Ill-Health				
In progress at start of year	1	0.05	0.04	31
In progress at end of year	0	0.00	0.03	27
1st Stage				
Appeals in Progress - 03.15	1	0.05	0.03	27
New Appeals in Year	1	0.05	0.14	194
Appeals Withdrawn	0	0.00	0.01	7
Appeals Upheld	0	0.00	0.03	36
Appeals Not Upheld	2	0.09	0.11	156
Appeals in Progress - 03.16	0	0.00	0.03	22
2nd Stage				
Appeals in Progress - 03.15	1	0.05	0.02	14
New Appeals in Year	0	0.00	0.00	59
Appeals Withdrawn	0	0.00	0.00	-
Appeals Upheld	0	0.00	0.02	17
Appeals Not Upheld	1	0.05	0.05	53
Appeals in Progress - 03.16	0	0.00	0.01	(2)
Ombudsman Referrals				
Appeals in Progress - 03.15	0	0.00	0.01	8
New Appeals in Year	0	0.00	0.01	13
Appeals Withdrawn	0	0.00	0.00	1
Appeals Upheld	0	0.00	0.00	1
Appeals Not Upheld	0	0.00	0.01	10
Appeals in Progress - 03.16	0	0.00	0.01	4

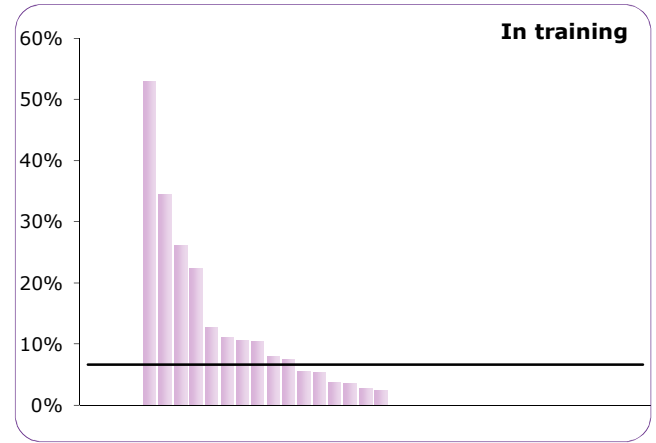
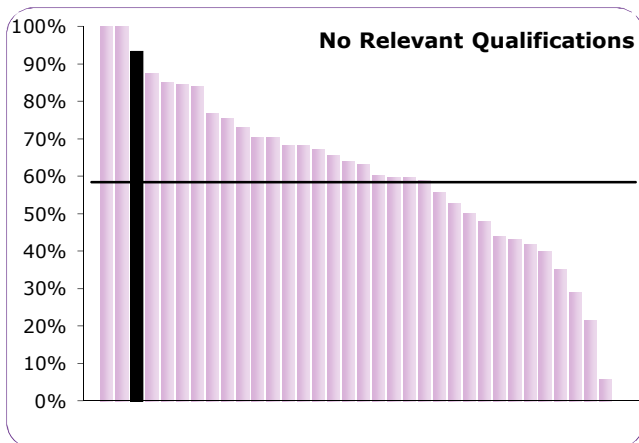
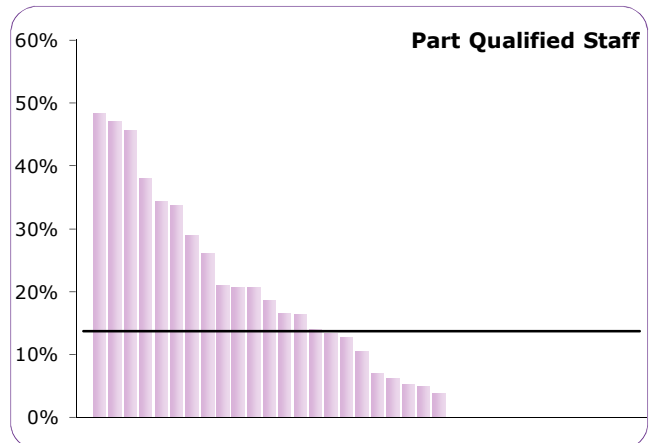
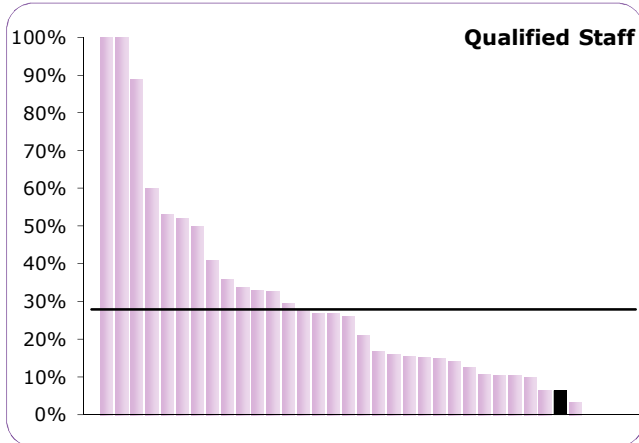
SECTION 4 - STAFF RELATED MEASURES

STAFF PAY



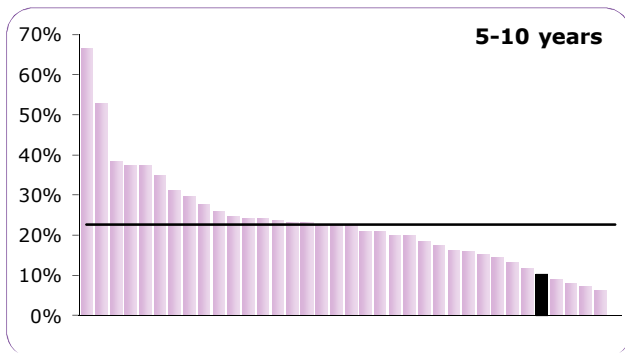
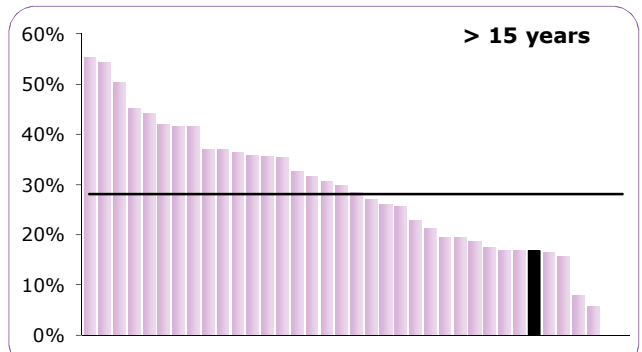
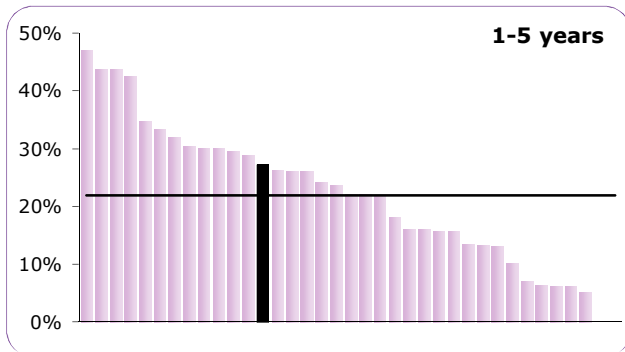
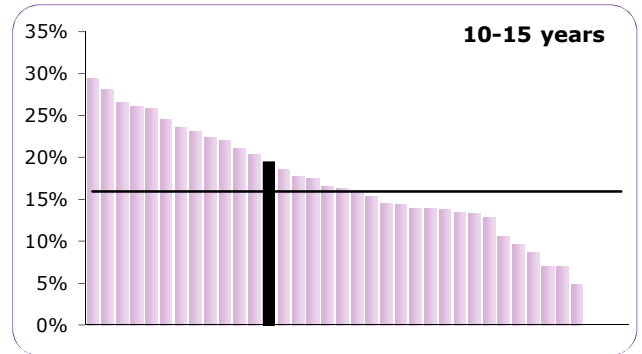
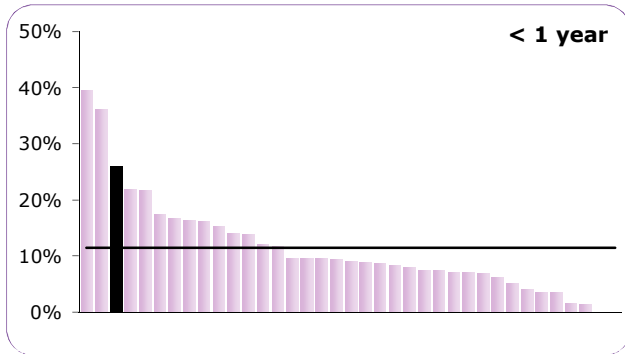
Staff pay			
	FTE	%	Avg
> £75k	0.0	0%	0.2%
£50-75k	0.0	0%	1.7%
£40-50k	0.0	0%	6.2%
£30-40k	1.0	6%	12.8%
£25-30k	1.0	6%	17.0%
£20-25k	4.0	26%	27.4%
< £20k	9.4	61%	34.7%
Total	15.4		

STAFF QUALIFICATIONS



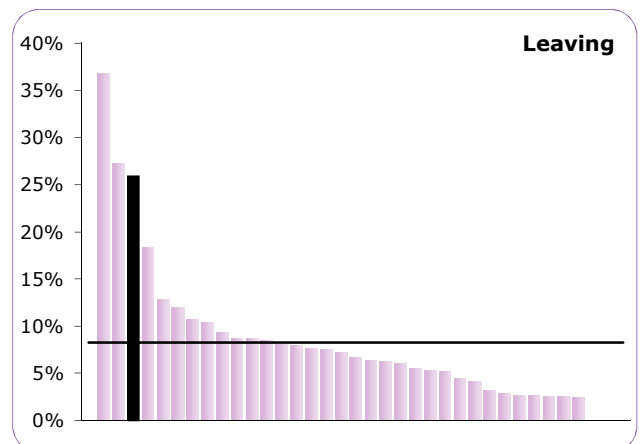
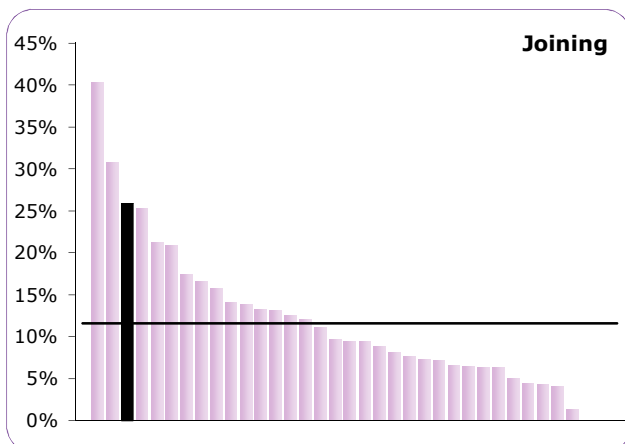
Staff qualifications			
	FTE	%	Avg
Qualified Staff	1.0	6%	28%
Part Qualified Staff	0.0	0%	14%
No Relevant Qualifications	14.4	94%	58%
Total	15.4		
Number in Training	0.0	0%	7%

STAFF PENSIONS EXPERIENCE



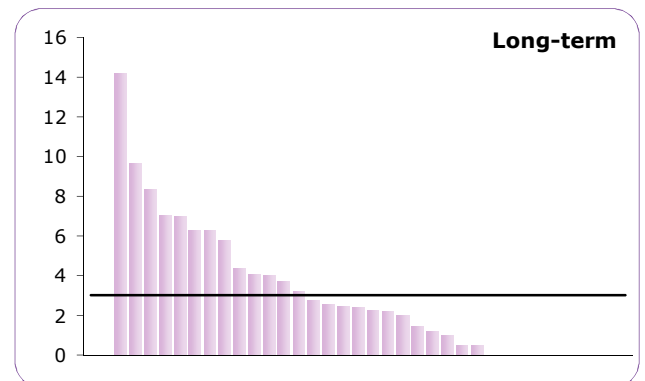
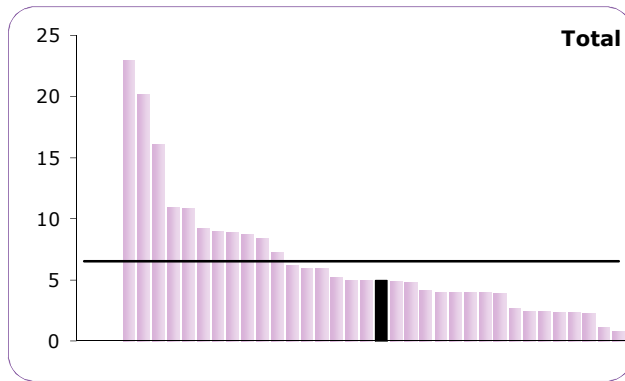
Staff experience			
	FTE	%	Avg
< 1 year	4.0	26%	11%
1-5 years	4.2	27%	22%
5-10 years	1.6	10%	23%
10-15 years	3.0	19%	16%
> 15 years	2.6	17%	28%
Total	15.4		

STAFF TURNOVER



Staff Turnover	FTE	% change	Avg
Staff at 1/4/2015	15.4		
+ Staff joining Pension section	4.0	26.0%	11.6%
- Staff leaving Pension section	4.0	26.0%	8.3%
Staff at 31/3/2016	15.4	0.0%	4.6%

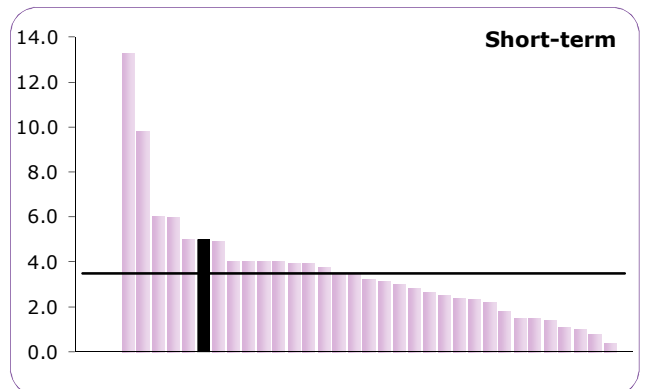
SICKNESS ABSENCE



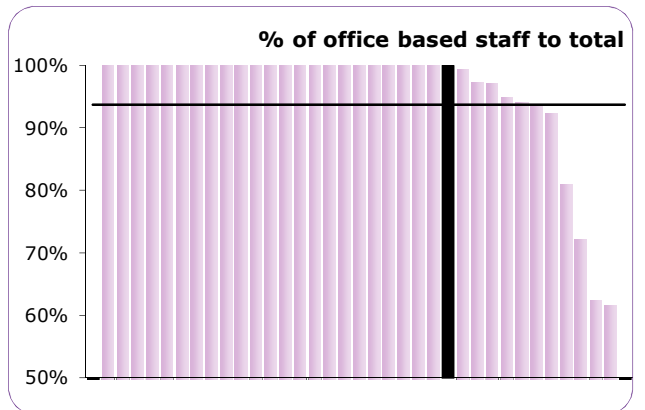
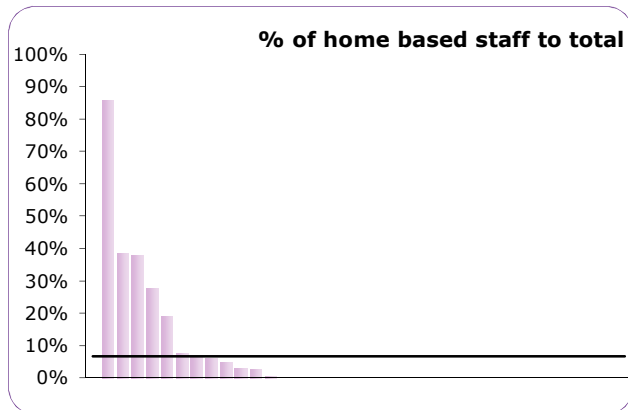
Sickness absence	Days/FTE	Avg
Long-term sickness	0.0	3.0
Short-term sickness	5.0	3.5
Total	5.0	6.5

Long-term sick (periods of sickness over 20 working days)

Short-term sick (periods of sickness of 20 days or less)



STAFF LOCATION

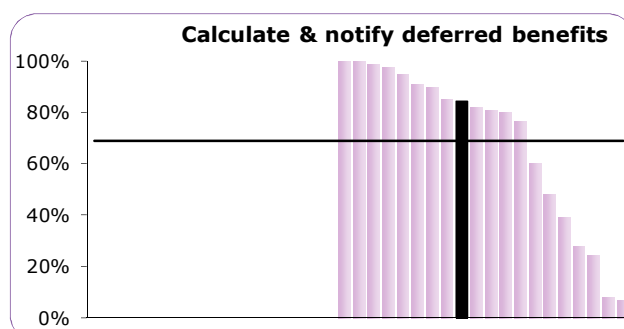
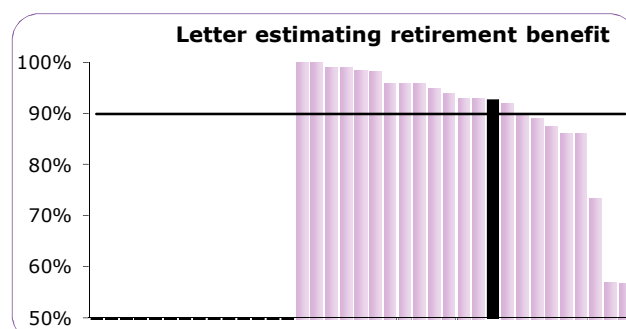
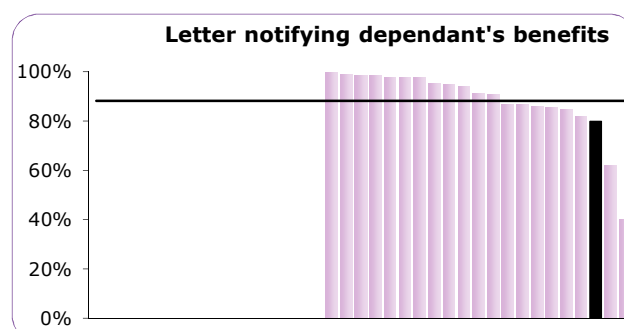
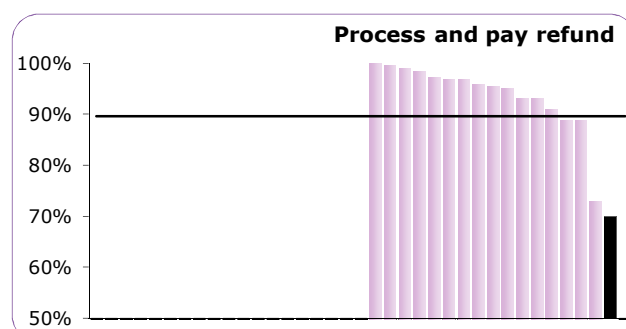
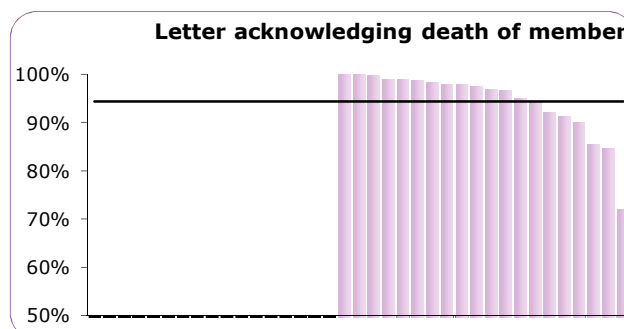
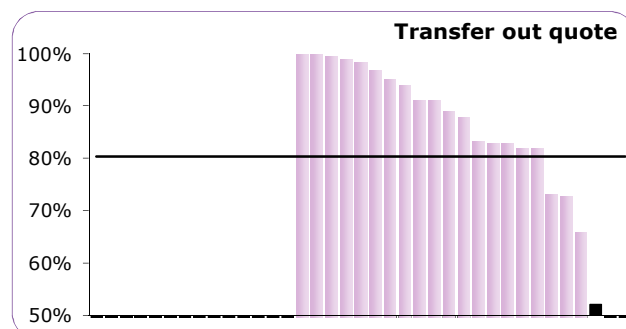
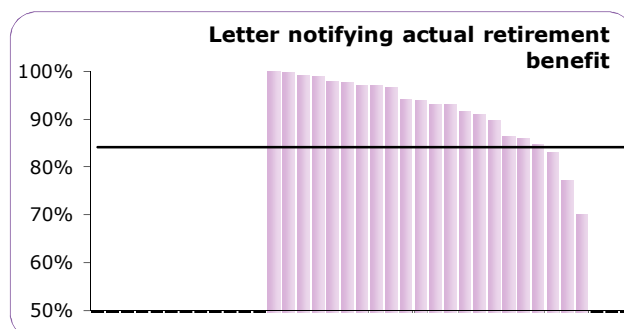
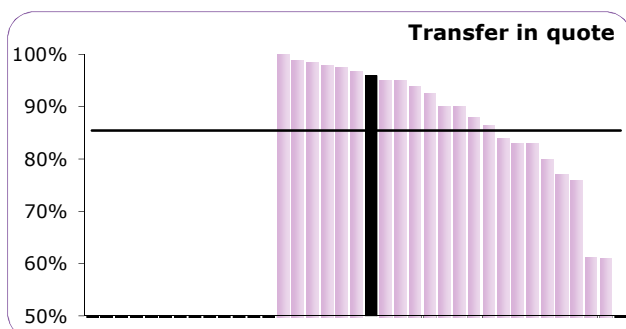


Staff location	FTE	Avg	% to total FTE	Avg
Home based	0.0	2.1	0%	7%
Office based	15.4	33.2	100%	94%
Total	15.4			

Office Based: Staff members who spend >50% of their contracted time working in the office

Home Based: Staff members who spend 50% of their contracted time working from home.

SECTION 5 - INDUSTRY STANDARD PI's



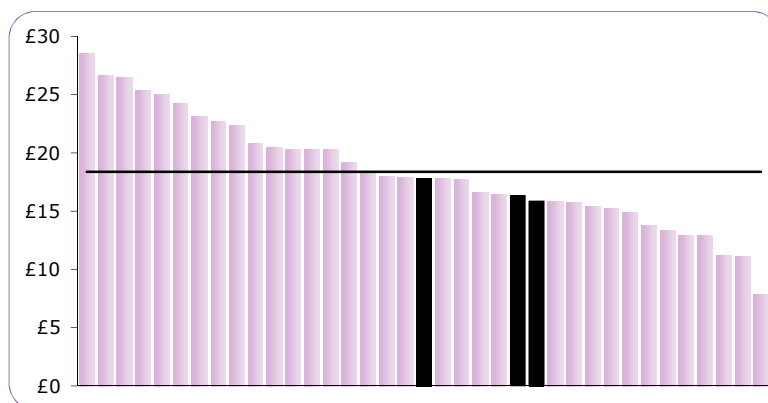
Industry Standard PI's	Target	Achieved	Avg
Letter detailing transfer in quote	10 days	96.0%	85.4%
Letter detailing transfer out quote	10 days	52.2%	80.3%
Process and pay refund	5 days	70.0%	89.6%
Letter notifying estimate of retirement benefit	10 days	92.7%	89.9%
Letter notifying actual retirement benefit	5 days	40.0%	84.1%
Process and pay lump sum retirement grant	5 days	40.0%	84.3%
Letter acknowledging death of member	5 days	n/a	94.3%
Letter notifying amount of dependant's benefits	5 days	80.0%	88.1%
Calculate and notify deferred benefits	10 days	84.5%	68.8%

SECTION 6 - COMPARISON BY METHOD OF SERVICE DELIVERY

COMPARISON OF OUTSOURCED/IN-HOUSE MEMBERS

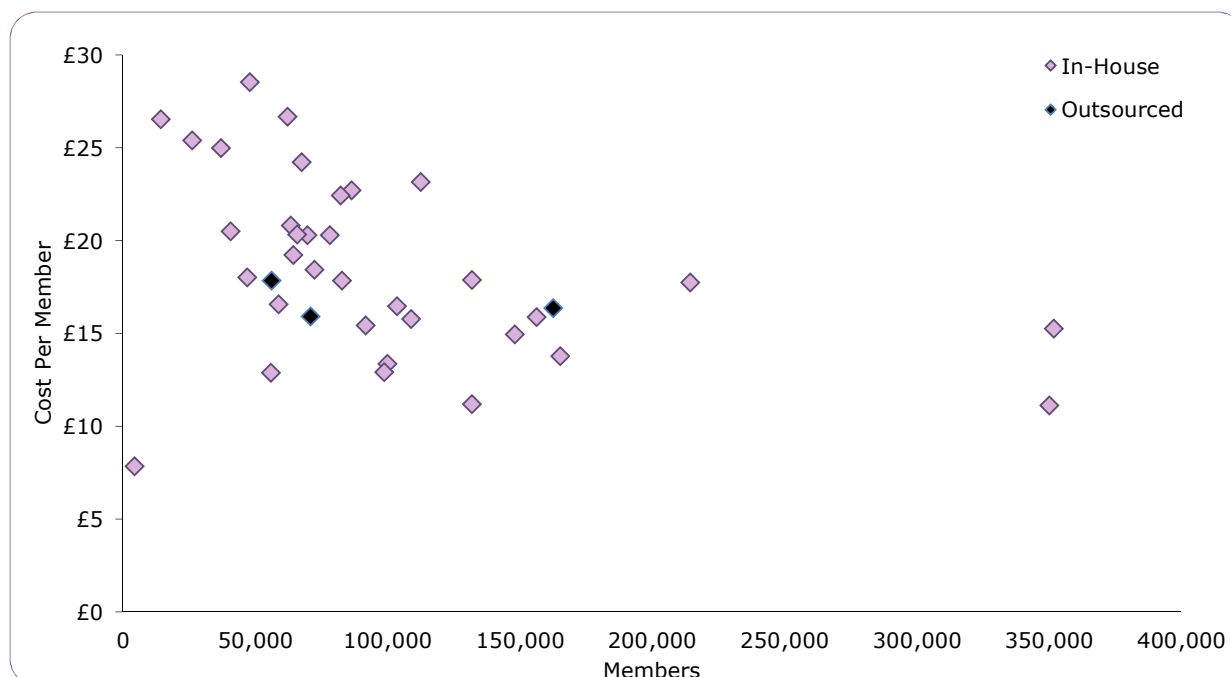
Total members with data:	38
Outsourced members:	3

LGPS ADMIN COST PER MEMBER (INCLUDING PAYROLL)



	Cost	Members	Cost per Member
East Sussex	£1,126	70,820	£15.90
Club average	£1,683	99,473	£18.37
Outsourced average	£1,595	96,455	£16.71
In-house average	£1,690	99,740	£18.52

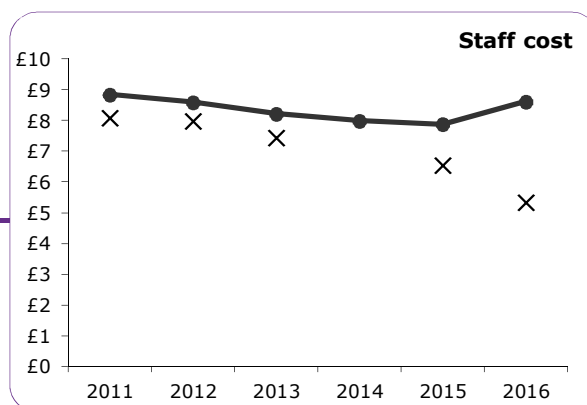
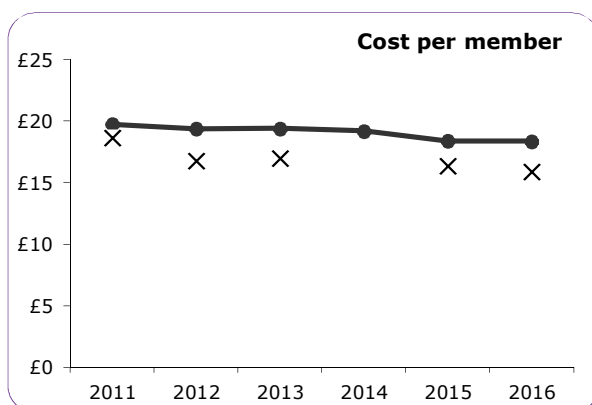
COST PER MEMBER COMPARED WITH NUMBER OF MEMBERS



SECTION 7 - TIMESERIES

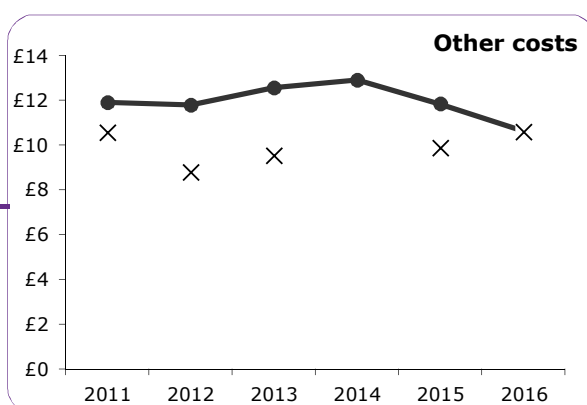
The 2016 averages are the actual club averages.

For previous years, the averages shown here are scaled up or down from the 2015 figure based on the average rate of change in each year. This is calculated using data from members who supplied figures in consecutive years, otherwise the simple average in each year would be distorted by changes in the composition of the club from year to year.



KEY:

● Club average
X East Sussex



Time series analysis						
	2011	2012	2013	2014	2015	2016
Members	57,166	59,199	61,577	..	69,098	70,820
Net cost (£'000)	1,066k	993k	1,046k	..	1,131k	1,126k
Cost per member	£18.65	£16.77	£16.99	..	£16.36	£15.90
Average	£19.75	£19.39	£19.40	£19.19	£18.41	£18.37
Staff cost	£8.10	£7.99	£7.45	..	£6.55	£5.34
Average	£8.85	£8.60	£8.22	£7.99	£7.88	£8.62
Other costs	£10.55	£8.78	£9.53	..	£9.85	£10.57
Average	£11.90	£11.79	£12.55	£12.90	£11.84	£10.61

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www.cipfa.org/services/benchmarking

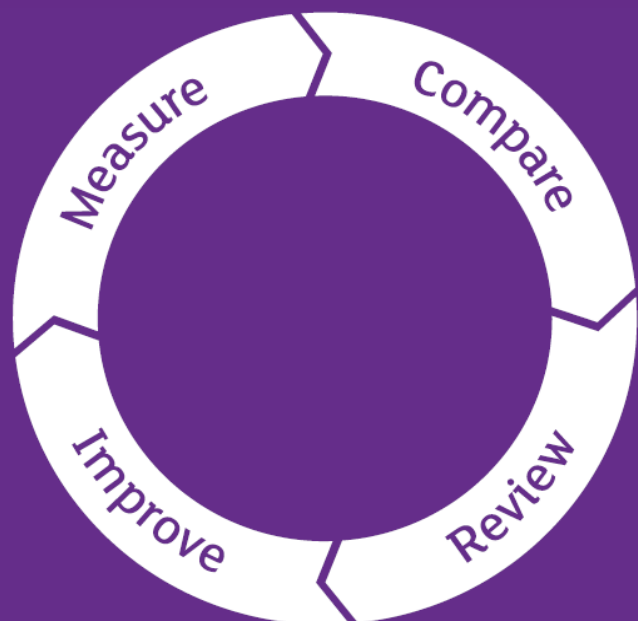
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Report to: Pension Board

Date of meeting: 9 February 2017

By: Interim Chief Finance Officer

Title: Officers' Report – General Update

Purpose: To provide a general update to the Pension Board on matters related to the East Sussex Pension Fund

RECOMMENDATIONS – The Board is recommended to consider and note the report

1. Background

1.1 This report provides an update on matters relating to the East Sussex Pension Fund (ESPF).

2. Supporting information

Cash Flow Forecast and Summary

2.1 The ESPF invests any surplus cash with the Fund's custodian, Northern Trust. Over the past 5 years, the ESPF has been broadly cash flow 'neutral'. The projection for the fiscal year 2016/17 is that the fund will generate a surplus of £7.1m; the estimated cash flow position will be helped by higher employer pension contribution rates set at the last triennial valuation and payable since 1 April 2015. Table 1 below shows the cash projection to 30 September 2016.

PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS	Original 2016/17 £m	Projected Outturn 2016/17 £m	Variance £m
Employees Contributions	28.1	28.4	0.3
Employers Contributions	94.3	89.9	(4.4)
Deficit Recovery	5.2	5.1	(0.1)
Transfers In	4.0	7.7	3.7
TOTAL INCOME	131.6	131.1	(0.5)
Pensions Benefits Paid	(97.4)	(100.7)	(3.3)
Pensions Lump Sum Paid	(19.9)	(19.6)	0.3
Administration expenses	(2.1)	(2.1)	-
Transfers Out (excluding Probation transfer)	(5.1)	(3.9)	1.2
TOTAL EXPENDITURE	(124.5)	(126.3)	(1.8)
SURPLUS CASH	7.1	4.8	(2.3)

Local Government Pension Scheme pooling and Funds Collaboration

ACCESS Pool – Draft Inter Authority Agreement

2.2. The ACCESS funds have jointly commissioned the external legal firm Eversheds to provide assistance in drafting a legally binding Inter Authority Agreement ("IAA") for the pooling of investments. It is not intended that the ACCESS funds will sign an IAA until a decision is made on the form of the pool following the conclusion of negotiation with the Government.

2.3. The IAA will be based on the governing principles that were agreed by the ACCESS pension funds at the outset of their collaboration in February 2016, including:

- working collaboratively,
- all Councils having an equitable voice in governance,
- avoiding unnecessary complexity, and
- running economically and applying value-for-money considerations.

2.4. The most significant principles that will be reflected in the IAA are as follows:

- Governance
- Procurement
- Cost Sharing
- Withdrawal and termination
- Other Provisions
- Timescales

2.5. The Committee will agree recommendations to be made to the County Council at its next meeting, including that authority is delegated to the Chief Operating Officer, in consultation with the Chair of the Pension Committee, to agree the approach to pooling that East Sussex County Council will take, based upon the Government's responses to the options put forward by the ACCESS Pool and the views of the local authorities that make up the ACCESS Pool.

2.6. The Committee agree that in the event that Government responds to the ACCESS Pool's proposals before papers are published for the Council meeting on 21 March 2017, authority is delegated to the Chief Operating Officer, in consultation with the Chair of the Pension Committee, to vary the recommendations to the County Council to reflect the Government's response.

Pension Board Agenda – June 2017

2.7 The draft agenda for the June 2017 Pension Board meeting include the following:

- Key member and employer communications
- Discretionary policy statement
- External Assurance Reports from Third Parties
- Annual Report
- Bulk Transfer, Cessations and Admission policies
- Pension administration statement.

3. Conclusion and reasons for recommendations

3.1 The Board is recommended to note the general update regarding the Pension Fund activities.

PHIL HALL
Interim Chief Finance Officer

Contact Officers: Ola Owolabi, Head of Accounts and Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Background documents:

None

Report to: Pension Board

Date of meeting: 9 February 2017

By: Interim Chief Finance Officer

Title: Forward Plan

Purpose: To update the Board on its Forward plan

RECOMMENDATIONS – The Board is recommended to consider and note the report

1. Background

1.1 The Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom recommends the forward plan set out formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

2. Supporting information

2.1 Attached as Appendix 1 is the Forward Plan for the Pension Board and Committee for 2016/17 which will assist the Board with the Fund's governance arrangements, so that the Council is able to perform its role as the administering authority in a structured way. It also contains an updated training plan with a summary of both external and internal training events that Members and Officers can undertake in 2016/17.

Pensions Regulator Training Toolkit

2.2 The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website. It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes.

Joint Pension Board and Committee Training Session

2.3 The topics to be covered are detailed in Appendix 1. Following the successful joint training session on 26 January 2017, the next joint training session is scheduled to take place in June 2017.

3. Conclusion and reasons for recommendations

3.1 The Board is requested to note the Pension Fund Board/Committee Forward Plan 2016/17.

Contact Officers: Ola Owolabi, Head of Accounts and Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Background documents:
None

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EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2016-17

February 2017

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Key documents to be considered	Page 3
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Business Plan

1 Introduction

- 1.1 Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 67,000 individuals employed by 108 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.
- 1.2 This Business Plan (BP) provides an overview of the Fund's key objectives for 2016/17. The key high level objectives of the fund are summarised as:
 - Optimise Fund returns consistent with a prudent level of risk
 - Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
 - Ensure the suitability of assets in relation to the needs of the Fund.
- 1.3 A bespoke training strategy and plan for this administration was added to the BP after agreement by Members at the Pension Committee in July.
- 1.4 The governance of the Fund is the responsibility of the Chief Finance Officer for the East Sussex County Council, the East Sussex Pension Committee, and the Pension Board. The day to day management of the Fund is delegated to Officers with specific responsibility delegated to the Head of Accounts and Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Finance Manager (Pension Fund Investment).
- 1.5 The Pensions Committee aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

2. KEY DOCUMENTS TO BE CONSIDERED BY THE PENSION BOARD

- 2.1 There are a number of key policy and strategy documents (Appendix 1) which the Local Government Pension Scheme (LGPS) Regulations require to be kept under regular review. These are listed below:
- 2.2 **Annual Report**
This report sets out the Pension Fund activities for the previous financial year. The Council is required to publish the report by December of each year to accompany an audited financial statement. Within the Annual Report are the following documents: Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement, Communications Policy and Pension Fund accounts.

2.3 Funding Strategy Statement

This sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term, including the maintenance, as far as possible, of stable levels of employer contributions. It also identifies the key risks and controls facing the Fund and includes details of employer contribution rates following the Fund's triennial valuation.

2.4 Statement of Investment Principles (SIP)

This document identifies the investment responsibilities of the various parties involved. For example, Pension Committee, Pension Board Officers, Investment Managers, Custodian, and Investment Advisors. It also details the Fund's investment policies and asset allocation approach as well as its compliance with the six Myners' investment principles. These six principles cover:

- Effective Decision Making;
- Clear Objectives;
- Risk and Liabilities;
- Performance Assessment;
- Responsible Ownership; and
- Transparency and Reporting.

What do the regulations require?

Description	Pre 2016	From February 2017
Statement of Investment Principles ("SoIP")	Yes	No
<i>Investment Strategy Statement ("ISS")</i>	No	Yes

Investment strategy statement (ISS) - As part of revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the new regulations propose to remove the schedule of limitations on investments. Instead authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk. The new ISS is expected to be implemented from April 2017.

2.5 Communications Policy

This details how the Fund provides information and publicity about the Pension scheme to its existing members and their employers and methods of promoting the Pension scheme to prospective members and their employers. It also identifies the format, frequency and method of distributing such information or publicity.

2.6 **Governance Compliance Statement**

This is a written statement setting out the administering authority's compliance with good practice governance principles. These principles are grouped within eight categories and are listed within the statement. The Fund's compliance against each of these principles is also detailed, including evidence of compliance and, if appropriate, reasons if there is not full compliance.

2.7 **Valuation Reports**

The Fund's actuary reviews and amends employer contribution rates every 3 years. The last actuarial valuation was based on Fund membership as at 31 March 2016.

2.8 **Administration Strategy**

Sets out standards and guidelines agreed between employers and ESCC to make sure the LGPS runs smoothly. The strategy is reviewed every 12 months and employers are informed of any revisions, which they can also comment on.

2.9 **Employers' Discretions Policy**

Regulations allow the County Council as the administering authority to choose how or whether to apply certain discretions for administering the scheme and the Pension Fund.

2.10 **Myners Compliance Statement**

Sets out the extent to which the fund complies with best practice principles.

1. PENSION BOARD – FORWARD/BUSINESS PLAN

PENSION BOARD FORWARD/BUSINESS PLAN											
Date	November 2016	February 2017	June 2017	August 2017	November 2017	February 2018	May 2018	August 2018	November 2018	February 2019	May 2019
Item											
1	2016 LGPS Regs., and Investment Strategy Statement (ISS)- Guidance	2016/17 External Audit Plan – Pension Fund	Key member and employer communications	Governance Compliance Statement	Internal dispute resolution procedure	Policies of the administering Authority <ul style="list-style-type: none"> · conflicts of interests · record-keeping/meeting attendance · data protection and freedom of information 	Key member and employer communications	Governance Compliance Statement	Internal dispute resolution procedure	Policies of the administering Authority <ul style="list-style-type: none"> · conflicts of interests · record-keeping/meeting attendance · data protection and freedom of information 	Key member and employer communications
2	Internal Audit report - Pension Fund Governance and Investments	Reporting breaches	Discretionary policy statement	Statement of investment principles	Internal Control Register	Reporting breaches	Discretionary policy statement	Statement of investment principles	Internal Control Register	Reporting breaches	Discretionary policy statement

East Sussex Pension Fund

PENSION BOARD FORWARD/BUSINESS PLAN											
Date Item	November 2016	February 2017	June 2017	August 2017	November 2017	February 2018	May 2018	August 2018	November 2018	February 2019	May 2019
3	Risk register	Funding Strategy Statement	External Assurance Reports from Third Parties	Review on the investment strategy and Manager benchmarkin g	Risk register	Communicat ions policy statement	External Assurance Reports from Third Parties	Review on the investment strategy and Manager benchmarkin g	Risk register	Communicat ions policy statement	External Assurance Reports from Third Parties
4	Funds Actuarial Valuation Report - Draft	GMP Reconciliatio n - update	Annual Report	Investment/ Admin Consultant Performance	CIPFA Benchmarki ng	Investment/ Admin Consultant Performance	Annual Report	Investment/ Admin Consultant Performance	CIPFA Benchmarki ng	Investment/ Admin Consultant Performance	Annual Report
5		Business Operation Systems	Bulk Transfer, Cessations and Admission policies	Review on fee arrangement s			Bulk Transfer, Cessations and Admission policies	Review on fee arrangement s	Investment/ Admin Consultant Performance		Bulk Transfer, Cessations and Admission policies
6		Pension Board Insurance	Pension administrati on statement								

2. PENSION COMMITTEE – FORWARD/BUSINESS PLAN

PENSION COMMITTEE FORWARD/BUSINESS PLAN											
Date	November 2016	February 2017	July 2017	September 2017	November 2017	February 2018	May 2018	September 2018	November 2018	February 2019	May 2019
Item											
1	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report	Hymans Robertson - Fund Managers performance monitoring report
2	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update
3	Funds Actuarial Valuation Report-Draft results	2016/17 External Audit Plan – Pension Fund	Discretionary policy statement	Governance Compliance Statement	Risk register	Communications policy statement	Discretionary policy statement	Investment Strategy Statement	Risk register	Communications policy statement	Discretionary policy statement
4	ACCESS LGPS Pooling - update	Funding Strategy Statement	Bulk Transfer, Cessations and Admission policies	Investment/ Admin Consultant Performance	Pension Committee Forward/Training Plan	Investment Strategy Statement	External Assurance Reports from Third Parties	Governance Compliance Statement	Pension Committee Forward/Training Plan		External Assurance Reports from Third Parties
5	Investment Advisor Contract	Pension Admin Cost Analysis	Pension administration statement				Bulk, Transfer, Cessations and Admission policies	Investment/ Admin Consultant Performance			Bulk, Transfer, Cessations and Admission policies

PENSION COMMITTEE FORWARD/BUSINESS PLAN											
Date Item	November 2016	February 2017	July 2017	September 2017	November 2017	February 2018	May 2018	September 2018	November 2018	February 2019	May 2019
6		Investment Strategy Statement									

3. PENSION COMMITTEE FORWARD PLAN – Investment Strategy Day

PENSION COMMITTEE FORWARD/BUSINESS PLAN - Strategy Day		
Date Item	July 2017	July 2018
1	External Audit and Annual Report Approval	External Audit and Annual Report Approval
2	Investment Strategy review day	Investment Strategy review day

East Sussex Pension Fund (ESPF)

Pension Board and Committee Training Strategy

1. Introduction - Target audience

1.1 Pensions Committee:

East Sussex County Council (Scheme Manager) operates a Pensions Committee (the “Pensions Committee”) for the purposes of facilitating the administration of the East Sussex Pension Fund, i.e. the Local Government Pension Scheme that it administers. Members of the Pensions Committee owe an independent fiduciary duty to the members and employer bodies in the Funds and the taxpayer. Such members are therefore required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

1.2 Pension Board:

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role. This strategy sets out the requirements and practicalities for the training of members of both the Pensions Committee and the Pension Board. It also provides some further detail in relation to the attendance requirements for members of the Pension Board and in relation to the reimbursement of expenses.

The East Sussex Pension Funds’ objectives relating to knowledge and skills should be to:

- Ensure the pension fund is managed and its services delivered by Officers who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to its stakeholders for decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives:-

1.3 The East Sussex Pension Fund’s Pension Committee require an understanding of:

- Their responsibilities in exercising their delegated decision making power on behalf of East Sussex County Council as the Administering Authority of the East Sussex Pension Fund;
- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;

- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the Fund.

1.4 East Sussex Pension Fund's Local Pension Board members must be conversant with-

- The LGPS Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund

And have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed

To achieve these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the Scheme Advisory board, the Pensions Regulator and guidance issued by the Secretary of State. Ideally, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's business plan.

Board members will receive induction training to cover the role of the East Sussex Pension Fund, Pension Board and understand the duties and obligations for East Sussex County Council as the Administering Authority, including funding and investment matters.

Also those with decision making responsibility in relation to LGPS pension matters and Board members will also:

- Have their knowledge assessed;
- Receive appropriate training to fill any knowledge gaps identified; and
- Seek to maintain their knowledge.

1.5 The Knowledge and Skills Framework

In an attempt to determine what constitutes the right skill set for a public sector pension finance professional the Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework. This is intended as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs, and an assessment tool for individuals to measure their progress and plan their development.

The framework is designed so that elected members and officers can tailor it to their own particular circumstances. In total, there are six main areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pension finance or for Members responsible for the management of the Fund. These have been outlined in some detail in Appendix 1 and summarised below –

1. Pension Legislation & Governance Context
2. Pensions Accounting & Auditing Standards
3. Financial Services Procurement & Relationship Management
4. Investment Performance & Risk Management
5. Financial Markets & Products Knowledge
6. Actuarial Methods, Standards & Practices

1.6 Scheme Employers now have a greater need –

- Of being kept up to date of their increased responsibilities as a result the introduction of the CARE Scheme in the LGPS and the timeliness of providing data and scheme member information
- Of appreciating some of the determinations being made by the Pensions Ombudsman that impact directly on their decisions concerning ill-health retirement cases
- To be aware of the importance of having written discretion policies in place
- Of their representation role on the East Sussex Pension Board.

1.7 Application of the training strategy

This Training Strategy will set out how ESCC will provide training to representatives with a role on the Pension Committee, Pension Board members and Employers. Officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

1.8 Purpose of training

The purpose of training is to:

- Equip members with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Ensure individuals understand their obligation to act, and to be seen to act with integrity;
- Ensure that members are appropriately skilled to support the fund in achieving its objectives.

1.9 Summary

Officers will work in partnership with members to deliver a training strategy that will:

- Assist in meeting the East Sussex Pension Fund objectives;
- Support the East Sussex Pension Fund's business plans;
- Assist members in achieving delivery of effective governance and management;
- Equip members with appropriate knowledge and skills;
- Promote ongoing development of the decision makers within the East Sussex Pension Fund;
- Demonstrate compliance with the CIPFA Knowledge and Skills Framework;
- Demonstrate compliance with statutory requirements and associated guidance

2. Delivery of Training

2.1 Training plans

To be effective, training must be recognised as a continual process and centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

The basis of good training for a Fund is to have in place a training plan complemented by a training strategy or policy.

The training strategy supported by the plan will set out how, what and when training will be carried out.

Officers will with members conduct reviews of training, learning and development processes and identify gaps versus best practice.

2.2 Training resources

Public bodies such as the Local Government Association (LGA) and Actuarial, Benefit Consultants and Investment Consultants have been carrying out training sessions for LGPS Funds for many years. This means there is a vast readily available library of material to cover many different topics and subjects and the appropriate expert to deliver it.

2.3 Appropriate Training

As mentioned in 2.1 above it is best practice for a Fund to have in place a training strategy and training plan. This will help identify the Fund's objectives and indicate what information should be contained in the training material and presentation. For example, if the East Sussex Pension Fund records its aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skill set within the Framework, the content of training will meet the requirements of the KSF. This is particularly important if the East Sussex Pension Fund is monitoring the knowledge levels of Committee members or Board members, in which case the training must cover any measurement assessment being applied by the Fund in the monitoring knowledge levels.

2.4 Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment if it does not adapt for a particular purpose, there is a change in pension's law or new responsibilities are required of board members. Learning programmes will therefore include some flexibility so they can deliver the appropriate level of detail required.

2.5 E-Learning

The Pensions Regulator has available an online e-learning programme for those involved in running public service pension schemes. This learning programme is aimed at all public service schemes and whilst participation is to be encouraged, taking this course alone is very unlikely to meet with knowledge and understanding requirements of LGPS local pension board members.

3. Training deliverables

3.1 Suitable Events

It is anticipated that at least 1 day's annual training will be arranged and provided by officers to address specific training requirements to meet the Committee's forward business plan, all members will be encouraged to attend this event.

A number of specialist courses are run by bodies such as the Local Government Employers and existing fund manager partners, officers can provide details of these courses. There are a number of suitable conferences run annually, officers will inform members of these conferences as details become available. Of particular relevance are the National Association of Pension Funds (NAPF) Local Authority Conference, usually held in May, the LGC Local Authority Conference, usually held in September, and the Local Authority Pension Fund Forum (LAPFF) annual conference, usually held in December.

3.2 Training methods

There are a number of methods and materials available to help officers prepare and equip members to perform their respective roles. Consideration will be given to various training resources available in delivering training to members of Committee, Board, and officers in order to achieve efficiencies. These may include but are not restricted to:-

For Pension Committee and Pension Board Members	For Officers
<ul style="list-style-type: none"> • On site or off site • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • Internally developed training days • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Shared training with other Funds or Frameworks • Regular updates from officers and/or advisors • A formal presentation 	<ul style="list-style-type: none"> • Desktop/work based training • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • A workshop with participation • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Training for qualifications from recognised professional bodies (e.g. CIPFA, ACCA, etc.) • Internally developed sessions • Shared training with other Funds or Framework

3.3 Training material

Officers will discuss with members the material they think is most appropriate for the training. Officers can provide hand outs and other associated material.

4. Monitoring and Reporting

Each member of the Pensions Committee and Pension Board will inform the Scheme Manager of relevant training attended from time to time. A report will be submitted to the Pensions Committee annually highlighting the training and attendance of each member of the Pensions Committee and Pension Board.

Where the Scheme Manager has a concern that a member of the Pension Board is not complying with the requisite training or attendance requirements it may serve a notice on the Pension Board, requiring the Pension Board to take necessary action. The Pension Board shall be given reasonable opportunity to review the circumstances and, where appropriate, liaise with the Scheme Manager with a view to demonstrating that such member will be able to continue to properly perform the functions required of a member of the Pension Board.

This training strategy will be reviewed on an ongoing basis by the Scheme Manager, taking account of the result from any training needs evaluations and any emerging issues. The Committee/Board will be updated with events and training opportunities as and when they become available and relevant to on-going pension governance

5. Risk

5.1 Risk Management

The compliance and delivery of a training strategy is a risk in the event of-

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored within the scope of the training strategy to be reported where appropriate.

6. Budget

6.1 Cost

A training budget will be agreed and costs fully scoped.

6.2 Reimbursement of expenses

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the fund.

All reasonable expenses properly incurred by members of the Pensions Committee, and the Pension Board necessary for the performance of their roles will be met by the Funds, provided that the Scheme Manager's prior approval is sought before incurring any such expenses (other than routine costs associated with travelling to and from Pensions Board/Committee meetings) and appropriate receipts are sent to the Scheme Manager evidencing the expenses being claimed for.

7. Pensions Regulator Training Toolkit

The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website.

It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes. Each module provides an option to complete an interactive tutorial online and an assessment to test knowledge. The modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law.

The Regulator suggests that each module's tutorial should take no more than 30 minutes to complete. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice, but would not meet the knowledge and skills requirements in other areas such as Scheme regulations, the Fund's specific policies and the more general pensions legislation. Therefore, this toolkit should be used to supplement the existing training plans.

Proposed Members Training Plan for 2016-2018

The proposed Training Plan for East Sussex Pension Fund Committee/Board Members incorporate the ideas, themes and preferences identified in the Self Assessment of Training Needs along with upcoming areas where the Board/Committee will require additional knowledge. The Plan aims to give an indication of the delivery method and target completion date for each area. On approval, officers will start to implement this programme, consulting with Members as appropriate concerning their availability regarding appropriate delivery methods.

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
GENERAL TRAINING								
General overview of LGPS - Induction <ul style="list-style-type: none"> Member's Role 	✓						1	Completed
Members individual needs on specific areas arising during the year <ul style="list-style-type: none"> Advisory Board e-learning 	✓	✓			✓	✓ ✓	1,3,4	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas <ul style="list-style-type: none"> Specific investment Topics Services and providers Procurement process for 		✓ ✓ ✓	✓ ✓ ✓				2,3,4,5	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
services provided externally <ul style="list-style-type: none"> • Performance measurement • Accounts and audit regulations • Role of internal and external audit • Fund responsibilities/ policy • Pension Discretions • Safeguarding the Fund's Assets 		✓ ✓ ✓ ✓ ✓ ✓ ✓	✓ ✓ ✓ ✓ ✓ ✓ ✓					
Pension Fund Forum <ul style="list-style-type: none"> • Valuation Process • Knowledge of the valuation process and the need for a funding strategy • Implications for employers of ill health and outsourcing decisions • Importance of monitoring asset returns relative to liabilities 				✓			1,4,6	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								
General Pension Framework <ul style="list-style-type: none"> LGPS discretions & policies Implications of the Hutton Review 		✓	✓	✓	✓		1,6	
Pensions Legislation & Governance: <ul style="list-style-type: none"> Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme Review of Myners principles and associated CIPFA & SOLACE guidance 		✓		✓			1,2,	
Pension Accounting & Auditing standards: <ul style="list-style-type: none"> Accounts & Audit regulations and the legislative requirements 			✓				1,2	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
Financial Services procurement: <ul style="list-style-type: none"> Current public procurement policy & procedures UK & EU procurement legislation 				✓ ✓			3,5,6	
Investment Performance & Risk Management: <ul style="list-style-type: none"> Monitoring asset returns relative to liabilities Myners principles of performance management Setting targets for committee and how to report against them 				✓ ✓ ✓	✓		3,5,6	Invite to be circulated to when relevant
Financial markets & products knowledge: <ul style="list-style-type: none"> Refresh the importance of setting investment strategy Limits placed by regulation on investment activities in 			✓	✓	✓		4 1 4	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
the LGPS <ul style="list-style-type: none"> Understanding of the operations of the fixed income manager Understanding of Alternative asset classes 				✓			4,5,6	
Pension Administration - <ul style="list-style-type: none"> Shared service 		✓	✓	✓			2,6	
Actuarial methods, standards and practices: <ul style="list-style-type: none"> Considerations in relation to outsourcings and bulk transfers Triennial Valuation refresher 		✓ ✓					1 6	
CHAIRMAN TRAINING								
<ul style="list-style-type: none"> Fund Benchmarking Stakeholder feedback Appreciation of changes to scheme rules 	✓ ✓				✓		2 4 1,5	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
EXTERNAL SEMINARS AND CONFERENCES								
NAPF Local Govt Conference <ul style="list-style-type: none"> Refresher training Keeping abreast of current development 					✓ ✓		1,3,4,5	
LGC Investment Conference <ul style="list-style-type: none"> Fund Manager events and networking 					✓ ✓		1,2,3,4,5,6	

Key

The six areas covered within the CIPFA Knowledge and Skills Framework (KSF):

- | | |
|---|-------------|
| 1. Pension Legislation & Governance Context | KSF1 |
| 2. Pensions Accounting & Auditing Standards | KSF2 |
| 3. Financial Services Procurement & Relationship Management | KSF3 |
| 4. Investment Performance & Risk Management | KSF4 |
| 5. Financial Markets & Products Knowledge | KSF5 |
| 6. Actuarial Methods, Standards & Practices | KSF6 |

EAST SUSSEX PENSION BOARD – TRAINING LOG

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
Benefit Structure		
Joining	22 February 2016	
Contributions	22 February 2016	
Benefits	22 February 2016	
Transfers	22 February 2016	
Retirement	22 February 2016	
Increasing benefits	22 February 2016	
Code of Practice		
About the code	22 February 2016	
Governing your scheme	22 February 2016	
Risk	22 February 2016	
Administration	22 February 2016	
Resolving issues	22 February 2016	
LGPS – Legislative and Governance context		
A recap on who does what in the LGPS focusing on the roles of;	14 June 2016	
The administering authority	14 June 2016	
The employers	14 June 2016	

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
The Committee	14 June 2016	
The LPB	14 June 2016	
S151 officer	14 June 2016	
Conflicts of Interest and Reporting Requirements	14 June 2016	
Consideration of the Committee and Pension Board's responsibilities in the areas of;	14 June 2016	
Conflicts of interest		
Reporting breaches of the law	14 June 2016	
2016 Triennial Valuation refresher		
Funding principles and preparing for the 2016 valuation;	14 June 2016	
Valuation basics	14 June 2016	
Role of the PC & LPB	14 June 2016	
Purpose of the valuation / Funding Strategy Statement	18 July 2016	
2013 valuation overview	18 July 2016	
Whole fund and employer results	18 July 2016	
Contribution stability / Like for like results	18 July 2016	
Funding strategy	18 July 2016	
Employer risk / Employer specific funding objectives	18 July 2016	
Experience from 2013 to 2016	18 July 2016	
Markets (asset returns and yields)	18 July 2016	

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
Longevity experience	18 July 2016	
TPR's Public Sector Online Toolkit (7 modules)		
Conflicts of Interest		
Managing Risk and Internal Control		
Maintaining Accurate Records		
Maintaining Member Contributions		
Providing Information to Members and Others		
Resolving Internal Disputes		
Reporting Breaches of the Law		
TPR Code of Practice no. 14		
Governing Your Scheme		
Managing Risks		
Administration		
Resolving Issues		
Pensions Legislation		
The Legislative Framework for Pensions in the UK		
LGPS Regulations and Statutory Guidance		
LGPS Discretions		
Other Legislation		

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
Pensions Governance		
Understanding National and Local Governance Structure		
Knowledge of Pension Fund Stakeholders		
Knowledge of Pension Fund Stakeholder Consultation and Communication		
Governance Policies		
Pension Administration		
Understanding Best Practice		
Interaction with HMRC		
Additional Voluntary Contributions		
The Role of the Scheme Employer		
Stewardship Report		
Pensions Accounting and Auditing Standards		
Understanding the Accounts and Audit Regulations		
The Role of Internal and External Audit		
Third Party Contracts		
Investment Performance and Risk Management		
Monitoring Assets and Assessing Long-Term Risk		
Myners Principles of Performance Management		
Awareness of Support Services		

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
Understanding Risk and Return of Fund Assets		
Understanding the Financial Markets		
LGPS (Management and Investment of Funds) Regulations		
HMRC and Overseas Taxation		
Procurement and Relationship Management		
Public Procurement Policy and Procedures		
Brief Overview of UK and EU Procurement Legislation		
How the Pension Fund Monitors and Manages its Outsourced Providers		
Additional Training		
LGPS discretions & policies		
Safeguarding the Fund's Assets		
Developing Investment Strategies Statement		
Role of the Global Custodian – Northern Trust		
Pensions legislative & Governance		

AVAILABLE TRAINING AND CONFERENCES 2016 – 2017

Date	Conference/Event	Run By	Delegates/Cost
February 2017	Technical accounting workshops	CIPFA Pensions Network (CPN)	Free
27 February 2017	Local Pension Board Spring Seminar	CIPFA Pensions Network (CPN)	£100
2, 3 March 2017	Investment Seminar	Local Government Chronicle (LGC)	TBC
11 April 2017	LAPFF Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
May 2017	Local Authority Conference	Pension and Lifetime Savings Association (PLSA)	TBC
27 June 2017	LAPFF Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
28 June 2017	Local Pension Boards 2 years on	CIPFA Pensions Network (CPN)	£150
July 2017	Pension Fund Symposium	Local Government Chronicle (LGC)	TBC
September 2017	Investment Summit	Local Government Chronicle (LGC)	TBC
October 2017	Annual Local Government Pension Investment Forum	Informal	TBC
24 October 2017	LAPFF Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
November 2017	Local Authority Forum	Pension and Lifetime Savings Association (PLSA)	Free
6, 7, 8 December 2017	LAPFF Annual Conference	Local Authority Pension Fund Forum (LAPFF)	Free
30 January 2018	LAPFF AGM And Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free

East Sussex Pension Fund

Date	Conference/Event	Run By	Delegates/Cost
On-Line Training			
www.thepensionsregulator.gov.uk	Pension Education Portal	Pensions Regulator	Free on-line
http://www.lgpsregs.org/	LGPS Regulations and Guidance	LGPS Regulations and Guidance	Free on-line
http://www.lgps2014.org/	LGPS 2014 members website	LGPS 2014 website	Free on-line
www.local.gov.uk	LGA website	Local Government Association	Free on-line

Joint Pension Committee and Pension Board Training Session Members Training - Forward Plan

JOINT PENSION COMMITTEE AND PENSION BOARD - FORWARD PLAN					
Date	22 February 2016	14 June 2016	18 July 2016	26 October 2016	26 January 2017
Topics	<ul style="list-style-type: none"> Pension Discretions Procurement process for services provided externally 	<ul style="list-style-type: none"> LGPS – Legislative and Governance context; Conflicts of Interest and Reporting Requirements; Consideration of the Committee and Pension Board's responsibilities; Conflicts of interest 2016 Triennial Valuation 	<ul style="list-style-type: none"> Valuation assumption setting Consistency of assumptions with investment beliefs 2016 valuation early warning Valuation timetable and next steps 	<ul style="list-style-type: none"> Triennial Valuations and Understanding Liabilities Roles of the Pension Regulator Pensions legislative & Governance 	<ul style="list-style-type: none"> LGPS discretions & policies Safeguarding the Fund's Assets Developing Investment Strategies Statement Role of the Global Custodian – Northern Trust

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