PENSION BOARD

MONDAY, 4 FEBRUARY 2019

10.00 AM CC2 - COUNTY HALL, LEWES

MEMBERSHIP - Richard Harbord (Chair)
Councillor Kevin Allen, Angie Embury, Rezia Amin, Sue McHugh, Diana Pogson and Councillor Brian Redman

A G E N D A

1 Minutes *(Pages 3 - 10)*

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 11 - 14)*

6 External Audit Plan for East Sussex Pension Fund 2018/19 *(Pages 15 - 30)*

7 Funding Strategy Statement *(Pages 31 - 72)*

8 East Sussex Pension Board - Terms of Reference *(Pages 73 - 82)*

9 East Sussex Pension Fund 2018/19 Budget monitoring and 2019/20 Budget report *(Pages 83 - 88)*

10 Officers' Report - Governance and Pensions Administration update *(Pages 89 - 98)*

11 Pension Fund - Risk Register *(Pages 99 - 110)*

12 Work programme *(Pages 111 - 142)*

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 Local Government Pension Scheme (LGPS) Pooling - ACCESS update *(Pages 143 - 158)*

16 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
LEWES BN7 1UE

25 January 2019

Contact Harvey Winder, Democratic Services Officer,
01273 481796
Email: harvey.winder@eastsussex.gov.uk

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 5 November 2018.

PRESENT	Richard Harbord (Chair), Councillor Kevin Allen, Angie Embury, Rezia Amin, Sue McHugh, Diana Pogson and Councillor Brian Redman
ALSO PRESENT	Councillor Richard Stogdon, Chair of Pension Committee Ian Gutsell, Chief Finance Officer Ola Owolabi, Head of Pensions Wendy Neller, Pensions Strategy and Governance Manager Brian Smith, Head of Business Operations Michael Mann, Lead Pensions Manager Danny Simpson, Principal Auditor Russell Wood, Principal Pensions Officer Harvey Winder, Democratic Services Officer

15 MINUTES

15.1 The minutes of the previous meeting were agreed as a correct record.

15.2 The Board thanked Brian Smith for his service over the past few years and welcomed Michael Mann as the new Lead Pensions Manager.

16 APOLOGIES FOR ABSENCE

16.1 There were no apologies for absence.

17 DISCLOSURE OF INTERESTS

17.1 There were no disclosures of interest.

18 URGENT ITEMS

18.1 There were no urgent items.

19 PENSION COMMITTEE AGENDA

19.1. The Board considered the draft agenda of the Pension Committee's next meeting.

19.2. Ola Owolabi (OO) explained that all of the reports being considered by the Committee were also being considered by the Board later on its agenda.

19.3. The Board RESOLVED to note the report.

20 RESPONSIBLE INVESTMENT POLICY

20.1. The Board considered a report on the proposed Responsible Investment Policy for the East Sussex Pension Fund (ESPF).

20.2. The Board agreed to discuss this item and item 7 at the same time due to the similarities of the issues in the reports.

20.3. The Board RESOLVED to endorse the Responsible Investment Policy.

21 FINANCIAL REPORTING COUNCIL - UK STEWARDSHIP CODE

21.1. The Board considered a report on the proposal to publish a statement regarding the Fund's compliance with the Financial Reporting Council's UK Stewardship Code.

21.2. Diana Pogson (DP) asked why the draft ESPF UK Stewardship Code Statement contained relatively few references to the ACCESS pool, of which ESPF is a member. OO explained that whilst ESPF is a member of ACCESS, stewardship codes apply only to individual Local Government Pension Schemes (LGPS) – as they are the legal administrative authorities – and not to ACCESS pool as a whole. He added that three of the 11 ACCESS pool members are planning to adopt a stewardship code, including the ESPF.

21.3. Angie Embury (AE) asked how ESPF can ensure that it is a responsible and engaged corporate owner, as is required in the stewardship code, if the rest of the ACCESS pool is not signed up to a similar code. OO explained that the decision regarding asset allocation remains with individual Funds and not with ACCESS. This means that whatever the ESPF agrees it wishes to invest in, it will be down to the ACCESS pool operator (in consultation with the ESPF) to find a suitable investment manager with whom the Fund can invest.

21.4. Councillor Kevin Allen (KA) welcomed the Responsible Investment Policy and in particular its core principle to "evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change". He agreed that personal engagement as a shareholder may get companies such as Shell to deal with bad publicity around poor governance or one-off incidents, but expressed scepticism – which he expected others would share – whether it would have the effect of fundamentally moving the company away from its core business of fossil fuel extraction. OO said that the fund works collectively with the Local Authority Pension Fund Forum (LAPFF) to have an impact on certain companies. Councillor Richard Stogdon (RS) added that if pension funds did not engage companies through the LAPFF as shared holders then who would.

21.5. AE asked whether there is a requirement that the eight pooled funds, including ACCESS, reduce their carbon foot print. The Chair said that the approach to addressing carbon exposure is retained by the 89 individual funds and they may choose how to address the issue. OO added that it is a requirement under the Local Government Pension Scheme Regulations 2016, that the Pension Fund Investment Strategy Statement (ISS) include a policy on how social, environmental or corporate governance considerations are taken into account; in the selection, non-selection, retention and realisation of investments. .

21.6. Sue McHugh (SM) observed that it made sense for members of ACCESS to pool assets in order to achieve efficiencies. However, the more divergent individual funds were in their approach to ESG matters, the more sub-funds would need to be created and the less economies of scale would be realised. She said it would therefore be worth working towards having all 11 members of ACCESS adopting a responsible investment policy like the one ESPF may adopt. OO said that ACCESS members have agreed common policies on other issues such as stock lending and in the long term will be working towards a common ESG policy.

21.7. The Chair observed that it was particularly vital that the Fund had strong policies around corporate governance as it plays a very important role in helping to choose wise investments,

for example, there is a tendency for companies in some parts of the world with weak corporate governance to offer high returns to tempt investors and the Fund should have clear policies to avoid such high risk investments. He said that LAPFF could help to improve corporate governance by encouraging LGPS to vote on pay and remuneration.

21.8. The Board RESOLVED to endorse the adoption of the UK Stewardship Code Statement.

22 INTERNAL AUDIT REPORT - PENSION ADMINISTRATION

22.1. The Board considered a report on the outcome of Internal Audit's audit of Pension Fund Processes and Systems 2018/19.

22.2. The Chair said that the issue of Membership Data Cleansing is one that the Board has discussed before as being of high importance due to it being a requirement of the Pensions Regulator. He said it is of concern that it is an outstanding area for Business Operations to address.

22.3. The Chair asked why the annual schedule of tasks was not developed for 2018 despite requests from the council. He noted that the lack of a schedule did not look good in the context of the missed statutory deadlines for the annual benefits statements. Danny Simpson (DS) confirmed that Internal Audit expected to see the 2019 schedule in place by the start of the next calendar year.

22.4. The Chair recognised that the lack of an annual schedule may be a minor audit issue but was a major issue for the Pension Board given its role in assisting with the management of the pension administration. He also asked whether the annual schedule for 2019 would be developed by 31 December. Brian Smith (BS) said that he believed it would be.

22.5. BS clarified that the statutory deadline for data cleansing exercise for the purpose of the Triennial Valuation was March 2019 and this was different to the deadline agreed between management and Internal Audit of 31 December 2018.

22.6. AE asked whether Internal Audit's deadline for changes to the record keeping of common data items by 12 October had been met. BS confirmed that he would check, but that in any event the 6 November deadline for submitting the annual scheme return to the Pensions Regulator – which includes common data set data – had been met.

22.7. Ian Gutsell (IG) clarified that this report was signed off on 22 August and that, given its audit score, Internal Audit would not have gone back to review progress towards any of the target implementation dates – which usually only happens with 'three-star' agreed actions, or for a report with a 'no' or 'partial' assurance opinion.

22.8. The Board RESOLVED to:

1) note the report;

2) request a report by Business Operations providing an update on the progress against the Internal Audit agreed actions and implementation dates for Membership Data Cleansing, Record Keeping, the Annual Schedules and Annual Review of System Access.

23 GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION PROJECT UPDATE

23.1. The Board considered a report on the progress of the Guaranteed Minimum Pension (GMP) Reconciliation programme and a presentation from Steve Jones (SJ), Senior Manager, and Jane Garton (JG), Project Manager – Data Assurance Services, of JLT.

23.2. Michael Mann (MM) clarified that the contract for the final phase of GMP reconciliation was awarded to JLT in April but contracts were not signed until August. This was due to delays caused by General Data Protection Regulations (GDPR) issues around sharing sensitive data with third parties. JG acknowledged that JLT started the process late but is putting all available resources into resolving the queries, which comprised 12-15 staff who were working on weekends.

23.3. MM clarified that the 31 October deadline for submission of queries to HMRC was for queries that would be reviewed manually by an HMRC employee and that automatic queries would be accepted up to 21 December. MM advised that the actual number of over and underpayments of ESPF members' pensions and the total liability to the Fund would not be known until all queries had been processed by HMRC, which is unlikely to be before Quarter 1 of the 19/20 financial year.

23.4. The Chair said the four-month delay in agreeing the contract with JLT could prove costly and observed that other administering authorities had not suffered delays in commencing the final phase due to GDPR issues. The Chair said it was likely that HMRC would end up delaying responses to administering authorities due to the volume of work they are facing. This was not a concern for the Board, however, but the timely submission of all queries by 21 December was, especially given the concerns raised about the process over the past three years by the Board and Committee, and the delay in signing contracts with JLT until August. Cllr Brian Redman (BR) added that it was disappointing that the Board still did not know about the Fund's potential liabilities despite asking for them for 3 years.

23.5. JG explained that in order to remove a liability from the Fund's balance sheet where records do not match those held by HMRC, JLT must provide evidence to HMRC that an individual transferred out of the East Sussex pension scheme and moved on to a different scheme, e.g., that of a London Borough council. If evidence of this transfer cannot be provided by JLT then HMRC will not move the liability and it will remain with the ESPF, even if the ESPF records show the scheme member moved on. JLT will spend the remaining period from now and 21 December reviewing, matching and querying with HMRC either membership queries (where either HMRC has a record that the Fund should be holding GMP benefits and the fund doesn't, or HMRC doesn't have a record of GMP benefits that the fund is holding), or queries where both have a record of a GMP liability but the differences in the value of GMP between the records held by HMRC and the Fund are greater than the £2 tolerance level. The presentation quoted 18,383 outstanding queries with 8,926 having been submitted to HMRC by 31 October and 9,459 remaining to be investigated by JLT and submitted to HMRC before the deadline of 21 December. As at the time of the meeting the number had come down to 17,552.

23.6. SM asked whether the automated process could result in any controversial queries not being resolved by the end of the process. MM said that it would not be known if a query had failed the automatic process until the very end when JLT hears back from HMRC, but the automated process has been continuously improved over the past three years. Nevertheless, he expected that there will be a small cohort of cases that will not be resolved for each administering authority. HMRC is likely to need to consider whether dedicating clerical resource to them, or administering authorities will need to decide whether to bear the cost of the liability of these individuals. JG added that some queries will not be submitted to HMRC by December as there will not be enough detail about the individual to do so. Administering authorities will need to make a decision whether to accept the liability for these individuals as well.

23.7. AE asked whether ESPF members are aware of the potential impact the process could have on their state pension. MM said that until the process is complete and all discrepancies are

reconciled with HMRC it will not be clear who will be effected and by how much. This will determine what needs to be communicated to Members. DP said that most people do not realise the relationship between their public and private pension resulting from contracting out until they look at the HMRC website to see their eligibility for the full flat-rate state pension; she did not believe it worthwhile to confuse the situation until more is known. JG confirmed that HMRC has not done any advertising about potential liabilities. JLT will advise the Board about its own communications plans once it has a clear idea from HMRC about the extent of the Fund's liabilities in the new year.

23.8. The Board RESOLVED to:

1) note the report;

2) request that the report on GMP going to Pension Committee is circulated to the Board; and

3) request a further update following the end of the December deadline for submissions to HMRC.

24 ANNUAL BENEFIT STATEMENT BREACH

24.1. The Board considered a report providing a summary of the circumstances which led to a breach of the deadline for issuing Annual Benefit Statements (ABS).

24.2. KA asked why the breach of the deadline for issuing the ABS was being blamed on an individual member of the team. BS explained that management took responsibility for the plan which involved switching ABS production to East Sussex rather than Surrey, which left a single person to achieve the goal without sufficient supervision in place from Kingston. MM said that he believed that the issue would not happen in future years.

24.3. SM asked whether the breach of the ABS demonstrated to Internal Audit that there were issues with the control environment for the pension administration team. DS said that Internal Audit had looked at the ABS internal control environment at the time of its recent audit of pension administration and noted slippage in the plan, but had not raised a formal action in the report (though it was noted) as management was working to a revised plan which appeared to be on course.

24.4. The Chair expressed concern that the ABS deadline was breached despite the concern the Board expressed earlier in the year and the reassurance that officers gave through monthly updates leading up to the 31 August deadline. He said that this meant that there was a gap in the credibility of what was being said during the year and the eventual outcome. He hoped that a breach would not occur again as many other administering authorities were able to avoid breaching the deadline, whereas the ESPF had done so now for the previous four years in a row.

24.5. The Chair asked whether officers planned to write to Gildredge House Free School to highlight its role in the breach of the ABS deadline and potential fine from the Pensions Regulator it could have incurred on the Fund.

24.6. OO said that the Pensions Regulator has confirmed that no fine or further action will be taken against the ESPF for the breach caused by Gildredge House.

24.7. The Board RESOLVED to note the report.

25 OFFICERS' REPORT - BUSINESS OPERATIONS

25.1. The Board considered a report providing an update on the services provided to the Fund by Orbis Business Operations.

25.2. The Chair commented that if it had not been for the ABS breach the Business Operations team would have not failed to meet all of its key performance indicators (KPIs) for September, which will have had a demonstrable effect on fund members.

25.3. The Chair suggested that given the complexity of Annual Allowance Statements that when they are sent to members they are accompanied by an explanatory document. BS agreed that this could be provided next year.

25.4. AE asked where the request for an employee presentation at Brighton & Hove City Council (BHCC) had come from and how invites had been disseminated to employees. BS said that he believed the request was made by the council's Human Resources Team and that it had been left to them to send invitations to employees. He added that he would send the details to Board members and inform them as a matter of course of future events.

25.5. The Board RESOLVED to:

1) note the report;

2) request that officers send invitations to Board Members to attend future employee presentations.

26 OFFICERS' REPORT - GENERAL UPDATE

26.1. The Board considered a general update on matters related to the Board's activity.

26.2. The Board RESOLVED to note the report.

27 PENSION FUND - RISK REGISTER

27.1. The Board considered a report providing an update on the Pension Fund's risk register.

27.2. DP asked why some post mitigation risk scores were higher than the pre-mitigation scores. OO said that the risk score calculations would be reviewed.

27.3. The Board RESOLVED to note the report.

28 FORWARD PLAN

28.1. The Board considered the latest version of its forward plan.

28.2. The Chair said that there should be another discussion either at a training event or board meeting about the Pension Administration KPIs.

28.3. BR asked how the Board can influence the pension fund administration process. RS confirmed that the Committee, as the scheme manager, considered the Board's minutes at each meeting and he welcomed any recommendations that the Board may wish to make to the Committee.

28.4. AE agreed to check with Unison about rumours that the Pension Scheme Advisory Board was planning to recommend that the scheme manager role was removed from local authority control.

28.5. The Board RESOLVED to:

1) note the report;
2) request that information about how the administration of the pension scheme works is circulated to the Board.
3) request a future report on potential recommendations from the Pensions Scheme Advisory Board that the scheme manager role is removed from local authority control.

29 EXCLUSION OF THE PUBLIC AND PRESS

29.1 The Board RESOLVED to exclude 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).

30 LOCAL GOVERNMENT PENSION SCHEME (LGPS) POOLING - ACCESS UPDATE

30.1 The Board considered a report providing an update on activities undertaken by the ACCESS pool.

30.2 The Board RESOLVED to note the report.

31 PENSION EMPLOYERS UPDATE

31.1 The Board considered a report providing an update on participating employer pension issues.

31.2 The Board RESOLVED to note the report.

The meeting ended at 12.35 pm.

Richard Harbord
Chair

This page is intentionally left blank

Report to: **Pension Board**

Date of meeting: **4 February 2019**

By: **Chief Finance Officer**

Title: **Pension Committee Agenda**

Purpose: **To consider and comment on the draft agenda of the next Pension Committee meeting**

RECOMMENDATION

The Board is recommended to consider and comment on the draft agenda for the next Pension Committee meeting.

---

1. Background

1.1 The draft agenda or the next Pension Committee meeting is presented to the Pension Board for information.

1.2 If Board members have any specific comments about the agenda 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 for the next Pension Committee meeting.

IAN GUTSELL
Chief Finance Officer

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

This page is intentionally left blank

Appendix 1

East Sussex County Council

PENSION COMMITTEE

MONDAY, 25 FEBRUARY 2019

10.00 AM COMMITTEE ROOM, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Richard Stogdon (Chair)
Councillors David Tutt, Simon Elford, Gerard Fox, TBC

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 Quarterly Performance Report - Hymans Robertson

7 Fund Performance - Schroder

8 Investment Strategy Statement

- Private Debt investment review

9 External Audit Plan - East Sussex Pension Fund

10 East Sussex Pension Fund 2018/19 budget monitoring and 2019/20 budget

11 ESPF Funding Strategy Statement

12 Officers' Report – Governance and Pensions Administration - Updates

13 Forward Plan

14 Any other non-exempt items previously notified under agenda item 4

15 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).

16 LGPS Pooling ACCESS Update

17 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
LEWES BN7 1UE

15 February 2018

Contact Harvey Winder, Democratic Services Officer,
01273 481796
Email: harvey.winder@eastsussex.gov.uk

Report to:	**Pension Board**
Date:	**4 February 2019**
By:	**Chief Finance Officer**
Title of report:	**External Audit Plan for the East Sussex Pension Fund 2018/19**
Purpose of report:	**To inform the Board of the content of the Pension Fund External Audit Plan for 2018/19**

RECOMMENDATION

The Board is recommended to consider and comment upon the External Audit Plan for the East Sussex Pension Fund for 2018/19.

1. Background

1.1 Following the abolition of the Audit Commission, the Government appointed Auditors for each local authority by means of a national procurement exercise. The Council contract with the KPMG ended following the audit of 2017/18 Statement of Accounts. The Council has used the Public Sector Audit Appointments (PSAA) to source the appointment of Grant Thornton LLP to audit the Council and ESPF accounts from 2018/19 to 2022/23. This appointment was made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and approved by the PSAA Board.

1.2 The External Audit Plan confirms the core external audit fee as £20,487. This is a reduction in audit fee, compared to 2017/18 audit fee of £26,607. The planned audit fees are in line with the scale fee published by PSAA, and where the auditors are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual International Accounting Standard Nineteen (IAS 19) calculations, these will be billed in addition to the audit fee on a case by case basis. The audit fee is charged to the Pension Fund.

2. Supporting Information

2.1 The attached Pension Fund external audit plan (Appendix 1) set out in more detail the work the external auditors will conduct in order to audit the Pension Fund's 2018/19 accounts. The Plan reflects risks that in the judgement of the auditor require audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters.

2.2 Grant Thornton (GT) 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).
- Valuation of hard to price (Level 3) investments.
- Revenue cycle includes fraudulent transactions

3. Conclusion and reasons for recommendations

3.1 This is the first GT audit of the Pension Fund and officers will continue to liaise with the new auditors to ensure that their work is delivered as efficiently and effectively as possible. 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 25 February 2019.

IAN GUTSELL
Chief Finance Officer

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

Background Documents
None

Grant Thornton

External Audit Plan

Year ending 31 March 2019

East Sussex Pension Fund

February 2019

Contents

Your key Grant Thornton team members are:

Darren Wells
Engagement Lead
T: +44 (1293) 554120
E: Darren.J.Wells@uk.gt.com

Marcus Ward
Engagement Manager
T: +44 (0)20 7728 3350
E: Marcus.Ward@uk.gt.com

Liulu Chen
In-charge
T: +44 (0)20 7865 2561
E: Liulu.Chen@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Sussex Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Pension Board/Pension Committee and Audit Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Valuation of Level 3 Investments • Management override of controls We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £33m for the Fund, which equates to 0.98% of your net assets for 2017/2018 accounts. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.65m.
Audit logistics	Our interim/advance visit will take place in February/March and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £20,487 for the Fund, subject to management meeting our requirements set out on page 11.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

External Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to a material impact on funding arrangements and the need for updated Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss. As such, we do not anticipate a material impact of this change on the Fund.

The Pensions Regulator (TPR)

TPR's Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

Internal Factors

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. LEAP will enable us to be responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Pension Fund into our risk assessment and testing approach.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with TPR and tailor our audit approach where necessary.

- We will seek to adopt a controls based approach over Scheme Contributions, Benefits Payable and Membership Data.
- We will ensure that our resources and testing are best directed to address your risks in an effective way

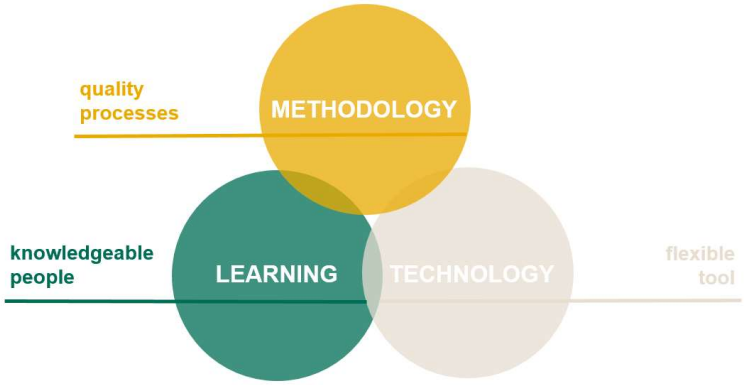
Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW
- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund face external scrutiny of spending and activity, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the Fund, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. .	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority and the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including East Sussex County Council and East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable. We do not consider this to be a significant risk for East Sussex Pension Fund.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of level 3 investments as a significant risk of material misstatement.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for level 3 investments, mindful of the requirements of the Code • test the valuation of a sample of investments by obtaining and reviewing the audited accounts of the level 3 funds, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by East Sussex County Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State;
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and related disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined materiality at the planning stage of our audit to be £33m for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

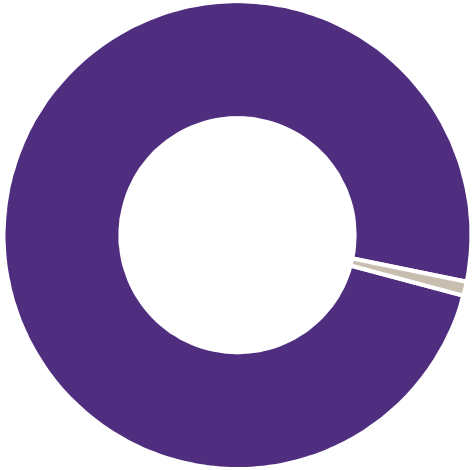
Matters we will report to the Audit Committee

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 Pension Board/Pension Committee and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) '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) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.65m.

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

Prior year net assets

£3,383m



Planning materiality

£33m

▪ Prior year net assets ▪ Materiality

Audit logistics, team & fees

Darren Wells, Engagement Lead

Darren will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. He will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit, Governance and Standards Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work.

Marcus Ward, Audit Manager

Marcus will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. He will attend Integrated Audit and Risk Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Marcus will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for your Annual Governance Statement.

Liulu Chen, Audit In-charge

Liulu will lead the onsite team and will be the day to day contact for the audit. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. She will also undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audit fees

The planned audit fees are £20,487 for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, the Fund and its activities, do not change significantly.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

We will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No other services were identified.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We have not provided to the Fund any non-audit / additional services before we were appointed as auditor.

© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

Report to: **Pension Board**

Date: **4 February 2019**

By: **Chief Finance Officer**

Title of report: **Funding Strategy Statement**

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

RECOMMENDATION – The Board is requested to consider and note 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". Local Government Pension Scheme Regulations require each administering authority, after consultation to prepare, maintain and publish a written statement setting out their funding strategy.

1.2 The statement was prepared by the Council in consultation with the Fund's Actuary, Hymans Robertson. The statement include a policy on the ESPF pass-through arrangements on outsourcing exercises, which is required following the introduction of exit credits under the Local Government Pension Scheme (Amendment) Regulations 2018. The revised statement will be effective from 1st April 2019.

1.3 The statement is reviewed every three years in line with the valuation of the Fund, and the next valuation will be 31 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.

3. Pass-through arrangements

3.1 A pass-through arrangement is where the risks inherent in participating in the LGPS are shared between the new employer and Letting Authority, and typically with the majority of the pensions risk being borne by the Letting Authority rather than the new employer.

3.2 Importantly, it also means that the new employer would not be required to fund any deficit at the end of the contract, subject to any agreed exceptions. This change in policy will not affect any outsourcing procurement exercises currently underway or existing contracts. The Fund is proposing an implementation date of 1st April 2019, following the completion of the Funding Strategy Statement consultation with employers.

3.3 The two approaches that can be adopted by the Fund in setting the contributions payable under pass-through arrangements are:

a. Matches the Letting Authority (employer) - where the contractor is pooled with the letting authority. In this case, the contractor pays the same rate as the letting authority, which may be under a stabilisation approach.

b. Fixed contribution rate - where the contractor pays a fixed contribution rate at the outset and this is not re-calculated during the remainder of the contract. The contractor does not pay any cessation deficit or receive any surplus at the end of the contract term, as the letting authority has retained all of the funding risks.

3.4 The Fund intends to offer 'pass-through' with a fixed contribution rate as the default arrangement for all new contractors. This will replace the current default arrangement (which passes pensions risks from the letting authority to the contractor).

4. Consultation

4.1 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.

5. Conclusion and reasons for recommendations

5.1 The Pension Committee at its meeting on 25 February 2019 will be required to approve the FSS that include a policy and options on the ESPF pass-through arrangements on outsourcing exercises, which is required following the introduction of exit credits under the Local Government Pension Scheme (Amendment) Regulations 2018.

5.2 The Pension Board is recommended to consider and comment on the FSS.

IAN GUTSELL
Chief Finance Officer
Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Background Documents
None

HYMANS ROBERTSON

East Sussex Pension Fund

Funding Strategy Statement

February 2019

Contents

Funding Strategy Statement

Appendices

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 27 February 2017.

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.

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 or surplus 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 or surplus principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt or surplus will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt or surplus (if any) calculated on ongoing basis. Awarding Authority will be liable for any 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: an employer approaching exit from the Fund, 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 or decreased contributions (by reviewing 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.

Historically, 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).

From 1 April 2018, the Fund's policy is that new outsourcings are set up under a "pass through" arrangement (although exceptions will be considered on a case-by-case basis at the Fund's discretion). Pass through arrangements allow for the pension risks to be shared between the letting employer and new contractor. Typically the majority of the pension risk is borne by the letting employer and thus the liability is retained on their balance sheet – as such the contractor would not be required to pay any deficit or receive any surplus at the end of the contract (subject to any agreed exceptions). However, there is some flexibility within a pass through arrangement. . In particular there are two different routes that the letting employer may wish to adopt. The Fund's default approach will be to set up pass through arrangements using a fixed contribution rate for all new contractors. 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) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit or receive any surplus at the end of the contract term.

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 an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and 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 (or surplus) 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 and makes it unlikely that any surplus would be paid to the employer.

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.

Further details of the Fund's arrangement for a ceasing employer are set out the Cessation Policy, which is available on request from the Administering Authority.

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 or receive an exit credit 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 and a cessation deficit 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.

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 27 February 2017..

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/pension-fund-policies/
- 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/pension-fund-policies/

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

Risk	Summary of Control Mechanisms
	risk. 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.
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	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	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: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. 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.
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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
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	with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

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.

This page is intentionally left blank

Report to: **Pension Board**

Date: **4 February 2019**

By: **Chief Finance Officer**

Title of report: **Review of the East Sussex Pension Board**

Purpose of report: **To provide an on update on the Board key activities and to consider future appointment of Pension Board representatives in compliance Pension Board terms of reference.**

RECOMMENDATIONS

The Board is recommended to note:

1. **The commencement of Pension Board representative's appointment process for a new 4 year terms of office; and**
2. **The commencement of the Independent Chair appointment process.**

---

1. Background

1.1 The Local Government Pension Scheme (LGPS) (Amendment) (Governance) Regulations 2015 require each Administering Authority to establish a Local Pension Board for the purposes of "assisting" the Scheme Manager (East Sussex County Council). The East Sussex Pension Board was established in April 2015 under the provisions of Section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013 (as amended).

1.2 The Governance Committee and Full Council agreed the establishment of the Pension Board and its terms of reference. The County Council agreed to delegate authority to the Governance Committee to -

a. determine the selection process for appointment to the Pension Board;

b. appointment process and removal of representatives on the Pension Board.

1.3 Regulation 106 specifies that each Administering Authority should establish its own Local Pension Board with responsibility for assisting the Administering Authority as set out below:

a. securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
b. securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
c. such other matters as the LGPS scheme regulations may specify.
d. must have regard to the desirability of securing the effective and efficient governance and administration of the LGPS scheme.

1.4 In addition, the regulatory powers of the Pensions Regulator (tPR) were extended under section 17 and Schedule 4 of the 2013 Act to cover some aspects of public service pension schemes, including the LGPS. The launch of tPR's 21st century trusteeship campaign marks a significant step forward in the level of and approach to the regulator's engagement with pension schemes on governance and trusteeship.

2 East Sussex Pension Board

2.1 The regulations requirement is that the Pension Board membership must include an equal number of employers and employee representatives, which must not be less than 4 in total. **Regulation 107 w**as amended to allow elected members, i.e. ESCC members to become members of a local pension board. However, **Regulation 107(3)** qualifies this provision by not allowing elected members or officers of ESCC (an administering authority) who are responsible for the discharge of any function under the Principal 2013 Regulations to become a member of the local pension board. Additional members can be added to this board, for example three other people (including an Independent Chair) could be appointed if only 4 employer and employee representatives were appointed but these additional members must not form the majority.

2.2 The East Sussex Pension Board consist of 3 employer representatives; 3 scheme member representatives and a non-voting independent Chair as shown below –

	Representing	**Organisation**	**Board Members**	**Years on Board**
1	Employer	University of Brighton	Sue McHugh	4
2	Employer	Wealden District Council	Cllr. Brian Redman	4
3	Employer	Brighton & Hove C. C.	Cllr. Cllr Kevin Allen	4
4	Scheme Members	UNISON	Angie Embury	4
5	Scheme Members	GMB	Rezia Amin	0.5
6	Scheme Members	Pensioners representative	Diana Pogson	1
7	Independent Chair	-	Richard Harbord	4

2.3 The Pension Board has a monitoring, assisting and reviewing roles and it could be seen as being a critical friend. As such, the general approach of the Pension Board is to seek assurances with evidence from the Pension Fund that the Fund is meeting its objectives, producing the required statements and managing risks so as to achieve the overall objectives as set out above.

2.4 The Board has a legal responsibility to "assist the scheme manager" in securing compliance with its obligations, however it does not have decision making powers for areas of administration and governance of the scheme. The Board is expected to work closely with Pension Officers to ensure that those responsibilities are met. A key part of the Board's role is also ensuring that the Pension Regulator's requirements are met, many of which are focused on efficient and effective administration.

2.5 The Board meetings were scheduled to take place in advance of the Pension Committee meetings to provide the Board with the opportunity to review, discuss, and comment on the Committee agenda and fund policies. In so doing, the Pension Board has been helping to manage the reputational risk of the Pension Fund, and of the Administering Authority, which is more critical now that the LGPS in England and Wales has the Ministry of Housing, Communities and Local Government (MHCLG) and The Pensions Regulator (TPR) as regulators.

2.6 The establishment and initial meetings of the Pension Board coincided with the period of possibly the greatest pressure on Pension Officers, with the Administering Authority having to respond to the MHCLG on the critical consultation documents regarding the proposed pooling of LGPS investments, and also on revised Investment and Management of Funds Regulations. Given the pressure on the Administering Authority, the Pension Board has been able to assist with the Fund decision to be part of the ACCESS Pool.

2.7 The key work of the Pension Board has been about improving Fund governance through refreshing and drafting policy documentation and in ensuring compliance with the Pension Regulator's code of practice. Pension Board have undertaken some significant pieces of work since inception including:

- Monitoring and reviewing of the Pension Committee meetings agenda;
- Development of a policy to Report Breaches of the Law;
- Development of a refreshed Communication Strategy;
- Annual review of the investment managers fees;
- Supporting the development of an Administration Strategy;

- Monitoring and reviewing progress with regard to the LGPS pooling;
- Monitoring and reviewing the triennial actuarial valuation conducted by Hymans Robertson;
- Monitoring and reviewing administration of the Fund, etc.

2.8 There is a budget for the Pension Board within the overall budget of the Pension Fund for travelling and training expenses relating to Scheme Member and Employer representatives, as are the annual salary and expenses of the Independent Chair. The Pension Board is mindful of delivering value for money without compromising the functionality of the Pension Board.

3. Terms of Reference

3.1 The Pension Board operates under Terms of Reference which were agreed by East Sussex County Council (attached as Appendix 1 below) that set out how the Board has been constituted and operates on a day to day basis, which include: Objectives of the Pension Board; Management and operation; Membership; Term of office; Standards of Conduct, etc. Extracts from the terms of reference are that –

- *The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.*
- *The Independent Chair will be the independent member appointed for a term of 4 years by Governance Committee or such time as resolved by the Governance Committee.*

4. Future Board Membership Appointment - Proposal

4.1 The methodology for appointing employer and member representatives is not prescribed by the Regulations. It is therefore up to the Scheme Manager (ESCC) discretion to establish an appropriate process. In accordance with Regulation 107 of the LGPS Regulations 2014, a Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In considering the size of the East Sussex Pension Board, the Council has taken into consideration number of factors including:

- The size of the Council's existing Pension Fund governing arrangement and decision making process;
- The number of scheme members, number and size of employers within the Fund and collective arrangements in place for them to make decisions or provide input in relation to Fund matters;
- The direct and indirect cost of establishing and operating the Board.

4.2 Taking into consideration the expiration of the Board members 4 years term on 31st March 2019, and in line with the Pension Board Terms of Reference, it is proposed that –

- The 4 years term of office for existing Board members will be ending on 31st March 2019, which will be followed with the commencement of a new appointment process.
- The Independent Chair four years term of office be ended on 31st March 2019, and the position is re-filled by seeking nominations through advertisement in local newspapers and on ESPF website.
- The Independent Chairman annual allowance to be determined by the Scheme Manager. The Chair will be entitled to claim travel and subsistence allowances for the Pension Board business (including attending training) at rates contained in the Scheme of Members' Allowances within the East Sussex Council's Constitution.

5. Conclusion and recommendations

5.1 The Board is requested to note the Board key activities and the proposal as set-out in para 4.2 of this report.

IAN GUTSELL
Chief Finance Officer

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Local Member(s): All

Background Documents –
None

Appendix 1

Constitution and terms of reference of the East Sussex Pension Board

1. Introduction

1.1 The Public Service Pensions Act 2013 requires the establishment of a Pension Board with the responsibility for "assisting the Scheme Manager" in securing compliance with all relevant pensions law, regulations and directions – as well as the relevant Pension Regulator's codes of practice. This role is one of providing assurance in and governance of the scheme administration.

1.2 The *scheme manager (East Sussex County Council – ESCC) will provide the necessary input into the Pension Board to support the Board to deliver on its assurance responsibilities. This may require their attendance at meetings at the request of the Board.

1.3 The terms of reference, membership of the Pension Board and any variations thereof are determined by the Scheme Manager, i.e. ESCC.

2. Objectives of the Pension Board

2.1 To help to ensure that the East Sussex Pension Fund (ESPF) is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

2.2 To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by the Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

2.3 To assist with securing effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

- Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.
- Retaining an overview of LGPS policy and strategy and business plan timetable.
- Making representations and recommendations to the Pension Committee as appropriate.
- Considering and, as required, responding to any Government / Responsible Authority performance data concerning the local fund.

2.4. The role of the Board will be oversight of these matters and not decision making.

3. Management and operation of the Pension Board

3.1 The Pension Board shall:

- meet at least 4 times per year
- have the power to establish sub committees or panels as required
- agree a programme of training and development for its members.
- provide the Scheme Manager (ESCC) with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
- ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- consider any issue raised by any Board Member in connection with the Board's work.
- produce an annual report outlining the work of the Board throughout the scheme year, which will help to -
    - inform all interested parties about the work undertaken by the Panel
    - assist the panel in reviewing its effectiveness and identifying improvements in its future operations.
- help to ensure that decisions made by ESCC are fully legally compliant, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;
- monitor administrative processes and supporting continuous improvements;
- ensure the scheme administrator supports employers to communicate the benefits of the LGPS Pension Scheme to scheme members and potential new members.

4. Membership - composition of the Pension Board

4.1 The Pension Board shall consist of:

a) **3 employer representatives** - employer representatives that can offer the breadth of employer representation for the ESPF. (Regulation 107 of the Pension Act permits elected members to sit on a local pension board. However, under Regulation 107(3), elected members or officers of ESCC (as the Scheme Manager), who are responsible for the discharge of any function under the Principal 2013 Regulations, may not sit on the Pension Board.)

b) **3 scheme member representatives** - member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners).

c) **1 Independent Chair**

4.2 The Pension Board shall be chaired by an Independent Chair.

5. Appointment of members of the Pension Board

5.1 The appointment process has been approved by the Governance committee

5.2 All appointments to the Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair and Vice Chair.

6. Term of office

6.1 The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.

6.2 A Board member who wishes to resign shall submit their resignation in writing to the Pension Board Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.

6.3 The role of the Pension Board members requires the highest standards of conduct and the Code of Conduct of the East Sussex County Council will apply to the Board's members. The County Council's Standards Committee will monitor and act in relation to the application of the Code.

6.4 Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Board member, which will be in accordance with the Code of Conduct of the East Sussex County Council.

7. Independent Chair

7.1 The Independent Chair will be the independent member appointed for a term of 4 years by Governance Committee or such time as resolved by the Governance Committee. A job description approved by the Committee will be used to identify the candidate best suited to the role.

7.2 It will be the role of the Chair to -

- Settle with officers the agenda for a meeting of the Board
- Manage the meetings to ensure that the business of the meeting is completed
- Ensure that all members of the Board show due respect for process and that all views are fully heard and considered
- Strive as far as possible to achieve a consensus as an outcome
- Ensure that the actions and rationale for decisions taken are clear and properly recorded.

7.3 Removal of the independent chair will be in accordance with the Code of Conduct of the East Sussex County Council and the County Council's Standards Committee decision.

8. Support arrangements

8.1 ESCC will provide secretariat, administrative and professional support to the Pension Board and as such will ensure that:

- meetings are timetabled for at least four times per year
- adequate facilities are available to hold meetings
- an annual schedule of meetings is produced
- suitable arrangements are in place to hold additional meetings if required papers are distributed 7 days before each meeting except in exceptional circumstances
- minutes of each meeting are normally circulated 7 working days following each meeting.

9. Expert advice and information

9.1 The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.

9.2 Insofar as it relates to its role, the Pension Board may also:

- request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund
- examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
- access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc.,
- access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

10. Knowledge and Skills

10.1 Board members will be required to have the ‘capacity’ to carry out their duties and to demonstrate a high level of knowledge and of their role and understanding of:

- the scheme rules
- the schemes administration policies
- the Public Service Pensions Act (i.e. being conversant with pension matters relating to their role).

10.2 A programme of updates and training events will be organised. Board members will be encouraged to undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.

11. Minutes

11.1 The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.

12. Standards of Conduct

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

13. Access to the Public and Publication of Pension Board information

13.1 Members of the public may attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.

13.2 Up-to-date information will be posted on the East Sussex Pension Fund website showing:

- Names and information of the Pension Board members
- How the scheme members and employers are represented on the Pension Board
- Responsibilities of the Pension Board as a whole
- Full terms of reference and policies of the Pension Board and how it operates.

14. Expense reimbursement, remuneration and allowances

14.1 All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the East Sussex Council's Constitution. The Chair's remuneration will be agreed on appointment. All costs will be recharged to the Pension Fund.

15. Accountability

15.1 The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the National Scheme Advisory Board. The National Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the DCLG) and the Scheme Manager (in this case East Sussex County Council). The Pensions Regulator will report to the Responsible Authority (again, DCLG) but will also be a point of escalation for whistle blowing or similar issues.

15.2 In addition the Pension Board will continue to provide regular updates to the Pension Committee governance process. ESPF officers will be responsible for the contractual arrangements.

16. Decision Making Process

16.1 Employer representatives and scheme member representatives have voting rights albeit the Board is expected to operate on a consensus basis.

16.2 In the event of an equal number of votes being cast for or against a proposal there shall be no casting vote but the proposal shall be considered to have been rejected. The scheme manager shall be alerted when a decision is reached in this manner.

17. Attendance and quorum

17.1 Four of the voting members of the Pension Board shall represent the quorum for Board meetings to discharge business. The Chair or Vice Chair must be present for any meeting to proceed.

17.2 Advisors and co-opted persons do not count towards the quorum.

17.3 No alternate representation or substitution is allowed in the event that a member is unable to attend a meeting of the Board, due to skill requirements and level of training required.

18. Conflicts of Interest

18.1 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.

Report to: **Pension Board**

Date: **4 February 2019**

By: **Chief Finance Officer**

Title of report: **Pension Fund Budget Monitoring and 2019/20 Budget**

Purpose of report: **This report covers 2018/19 Budget Monitoring and outlines the 2019/20 budget for the East Sussex Pension Fund**

RECOMMENDATION

The Board is recommended to consider and comment on the monitoring and revenue budget for 2019/20 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 2019/20 budget for the Pension Fund has been put together to assist in the management of the Fund, and the Council will be 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 The estimates do not incorporate any provision for investment fees earned by the alternative fund managers.

2. 2018/19 Budget Monitoring

2.1 In February 2018 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2018/19 financial year. Appendix 1 (below) provides analysis of the Pension Fund expenditure to date and the projected outturn.

Description	2018/19 Budget £000	2018/19 Projected Outturn £000	Change £000
Pension Administration	1,086	940	146
Oversight and governance	733	709	24
Investment Management	4,650	5,100	(450)
Total	**6,469**	**6,749**	**(280)**

2.2 The projected overspend is mainly due to the re-risking transition costs re movement of assets from the passive manager to the absolute managers, which have resulted in a fees of around £200k along with delays in moving managers into the ACS which has increased the expected fees to be invoiced to the Fund by around £250k. Officers will continue to have ongoing dialog with other fund managers (currently outside ACS) in relation to our fee arrangements.

3. East Sussex Pension Fund (ESPF) Budget – 2019/20

3.1 The budget outlined in this report will assist the Council in monitoring the Fund's expenditure in accordance with its requirement to manage resources effectively. The detail ESPF budget for 2019/20 is attached as Appendix 2. A comparison of the 2018/19 budget with the 2019/20 budget is shown below:

Description	2018/19 Budget £000	2019/20 Budget £000	Change £000
Pension Administration	1,086	1,081	5
Oversight and governance	733	776	(43)
Investment Management (invoiced fees)	4,650	3,000	1,650
Total	**6,469**	**4,857**	**1,612**

Analysis of Budget Movement

3.2 Pension Administration - The budget assumes no change from previous year pending the outcome of ongoing restructure within Business Operations, which might result in efficiencies within the administration service. The budget regarding the on-going GMP reconciliation and data cleansing work is currently being determined, therefore, previous year budget has been assumed.

3.3 Oversight and governance – The changes in the oversight and governance budget are due to the additional resources set aside for the forthcoming valuation, where increases to actuarial costs are expected.

3.4 Investment Management - The Investment Strategy budget allows for potential fee reductions from the Fund's current managers and also mirrors the increase in the value of the fund since 31 March 2018. The budget reflects the renegotiated fee arrangements with investment managers and the subsequent fee savings for the Fund. However, the fund expect invoiced fees to reduce due to pooling and asset pooling will continue to change the way in which fees will be paid as a result of assets being transferred into the ACCESS pool.

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 will be detailed within the Pension Fund Annual Report, which are subject to external audit. As in previous years, the Pension Fund will participate in a number of national LGPS benchmarking exercises during the year, which will provide a useful cost comparator with other LGPS funds.

5. Conclusion and recommendations

5.1 Pension Fund expenditures on investment and administration will be charged to the Pension Fund, and there is no direct charge to local authorities or other employer bodies for the costs detailed in this report.

IAN GUTSELL
Chief Finance Officer

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

Appendix 1

2018/19 Pension Fund Revenue - Projected Outturn

Description	2018/19 Budget £000	2018/19 Projected outturn £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	51	45	6	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	935	854	81	Cost of the joint administration service, and reflects hosting the system by Business Operations
Guaranteed Minimum Pension	100	41	59	GMP Reconciliation work
Administration total	**1,086**	**940**	**146**	
Oversight and governance costs				
Orbis Finance Support Services	263	234	29	Staff time spent on oversight and governance
Subscriptions	36	40	(4)	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	90	96	(6)	Outsource to contractors
Investment Consultancy	100	101	(1)	Outsource to contractors
Investment Pooling	120	132	(12)	ACCESS Pool costs shared equitably between the member funds.
External Audit Fee	26	27	(1)	External audit of the Annual Report
Internal Audit Fee	19	17	2	Control work performed by the Council's internal audit team
Legal Fees	45	35	10	Legal work commissioned for the fund
Performance Measurement Services	24	20	4	Investment performance monitoring service
Other Expense	10	7	3	Conferences, travel, etc.
Specific Actuarial Work*	150	130	20	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(150)	-130	(20)	Recovery of work provided by the actuary
Oversight and governance total	**733**	**709**	**24**	
Investment Manager Fees	4,650	5,100	(450)	Fees paid to the investment managers, de-risking transition fees and delays in moving managers into the ACS.
Investment Management Total	**4,650**	**5,100**	**(450)**	
Total PF Budget	**6,469**	**6,749**	**(280)**	

**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.*

Appendix 2

2019/20 Pension Fund Revenue Budget

Description	2018/19 Budget £000	2019/20 Budget £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	51	46	5	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	935	935	-	Administration service, and reflects hosting the system by Business Operations
Guaranteed Minimum Pension	100	100	-	Ongoing GMP Reconciliation/Data Cleansing work
Administration total	**1,086**	**1,081**	**5**	
Oversight and governance costs				
Orbis Finance Support Services	263	238	25	Staff time spent on oversight and governance
Subscriptions	36	44	(8)	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	90	150	(60)	Outsource to contractors including expected valuation actuarial cost
Investment Consultancy	100	100	-	Outsource to contractors
Investment Pooling	120	120	-	ACCESS Pool costs shared equitably between the member funds.
External Audit Fee	26	26	-	External audit of the Annual Report
Internal Audit Fee	19	19	-	Control work performed by the Council's internal audit team
Legal Fees	45	45	-	Legal work commissioned for the fund
Performance Measurement Services	24	24	-	Investment performance monitoring service
Other Expense	10	10	-	Conferences, travel, etc.
Specific Actuarial Work*	150	170	(20)	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(150)	-170	20	Recovery of work provided by the actuary
Oversight and governance total	733	776	(43)	
Investment Management				
Investment Manager Fees	4,650	3,000	1,650	Fees paid to the investment managers and expecting invoiced fees to reduce due to assets pooling assumptions.
Investment Management Total	**4,650**	**3,000**	**1,650**	
Total PF Budget	**6,469**	**4,857**	**1,612**	

**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.*

This page is intentionally left blank

Report to: **Pension Board**

Date: **4 February 2019**

By: **Head of Pensions**

Title of report: **Officers' Report – Governance and Pensions Administration update**

Purpose of report: **To provide a general update to the Pension Board on matters related to the Board activity including pension administration**

RECOMMENDATION

The Board is recommended to note the update.

---

1. Background

1.1 This report provides an update on matters relating to the Pension Board and Committee activities, including matters relating to pension administration.

2. Report Overview

Cash Flow Forecast and Summary

2.1 The East Sussex Pension Fund invests any surplus cash with the Fund's custodian, Northern Trust. Over the past 6 years, the East Sussex fund has been broadly cash flow 'neutral'. The estimate for the fiscal year 2018/19 is that the fund will generate a surplus of £3.7m; 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 2016. The current/quarter two projected outturn is a surplus of £2.6m, i.e., a variation from estimate of £1.1m. Table 1 below shows the cash projection to 31 December 2018.

PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS	**Original 2018/19 £m**	**Projected Outturn 2018/19 £m**	**Variance £m**
Employees Contributions	29.3	31.0	1.7
Employers Contributions	82.6	87.0	4.4
Deficit Recovery	17.6	15.5	(2.1)
Transfers In	7.4	6.5	(0.9)
TOTAL INCOME	**136.9**	**140.0**	**3.1**
Pensions Benefits Paid	(105.0)	(108.5)	(3.5)
Pensions Lump Sum Paid	(22.7)	(23.9)	(1.2)
Administration expenses	(1.8)	(1.8)	0.0
Transfers Out (excluding College transfer)	(3.7)	(3.2)	0.5
TOTAL EXPENDITURE	**(133.2)**	**(137.4)**	**(4.2)**
SURPLUS CASH	**3.7**	**2.6**	**(1.1)**

3. National Development - updates

3.1. The ACCESS pool update has been provided through a separate report (Part 2) at this meeting. The Ministry of Housing, Communities and Local Government's (MHCLG) has issued an informal *consultation re guidance on LGPS asset pooling,* which sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of

progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it. The consultation closes on 28 March 2019.

4. Pass-through arrangements

4.1 The Pension Committee at its February 2019 meeting will consider an amendment to the Fund's policy on admitting new contractors using pass-through arrangements. Pass-through arrangements are now very common in the LGPS for new contractor admissions with traditional "full pension risk transfer" arrangements in the minority. Options on pass through will be offered within the Funding Strategy Statement with a preferred option of a fixed contribution rate, this is where the contractor pays fixed contribution rate for the term of the contract. This change in policy will not affect any outsourcing procurement exercises underway currently or existing contracts. The Fund is proposing an implementation date of 1st April 2019 and will share the Funding Strategy Statement with employers accordingly to communicate in more detail these changes.

5. 2019 Actuarial Valuation

5.1 The East Sussex Pension Fund (ESPF) is subject to a formal actuarial valuation every three years. The last valuation of the Fund was in 2016 with the next valuation to be undertaken as at 31 March 2019. The results of the valuation will determine employer contribution rates for the period from 1 April 2020 to 31 March 2023. As part of the contribution rate setting process, the Fund is preparing to engage with some employers to fully understand their circumstances, including the level of security they hold as a participating employer. This will be communicated by way of an employer risk questionnaire, and if appropriate, the Fund may commission further work from a financial covenant specialist to investigate the answers provided to the questions.

5.2 Work is underway regarding key financial assumptions affecting the valuation. The Fund actuary is preparing papers to help review and set two of the most significant financial assumptions, the discount rate and the rate of salary increases. The contribution strategy modelling had been scheduled to have been completed by December 2018 with results ready for discussion, which has now been put on hold until the member data quality has been improved. The data cleansing work is scheduled to be completed by March 2019.

5.3 The Fund actuary has confirmed that the preferred approach for modelling the contribution rates of the Councils, Colleges and Academies is to carry this out as soon as possible based on 31 March 2018 data. This is the approach taken by nearly all of the Funds Hymans advice as it allows more time for discussions with the various stakeholders and provides greater budgeting certainty for the employers. The draft 2019 valuation timetable/plan has been updated (attached as Appendix 1).

6. Pensions Administration – updates

Guaranteed Minimum Pension (GMP) - update

6.1 The Board at the 5th November 2018 meeting considered a report on the progress of the Guaranteed Minimum Pension (GMP) Reconciliation programme and received a presentation from the JLT consultants, where it was clarified that the 31 October deadline for submission of queries to HMRC was for queries that would be reviewed manually by an HMRC employee and that automatic queries would still be accepted up to 21 December. Following the deliberations, the Board resolved to request a further update before the deadline submissions to the HMRC.

6.2 The GMP analyses are still ongoing and HMRC has confirmed that they will now be providing a final data cut once the final queries have been responded to in April 2019 (this is a new element of the GMP reconciliation project). JLT will continue to undertake the final analysis of HMRC and Scheme data, in order to confirm the final position from a membership and GMP value perspective. This might potentially lead to an extension of the current JLT contract to complete the GMP Reconciliation project. A further update paper will be provided to the Board within the next few weeks.

Administration System Procurement Plan

6.3 The Pension Committee at its meeting on 4 September 2017 considered a report on the timetable for procuring a system to deliver administration on behalf of the East Sussex Pension Fund. The committee resolved to request an additional report detailing the procurement process including the options appraisal of services offered by other administration system providers. This is to assist in reviewing alternative options for administration systems, in sufficient time to enable implementation at the earliest contractual break clause.

6.4 The administration service has recently received demonstrations from Civica for their UPM system, it is clear that the market for pension administration systems has become more competitive, and officers believed it would be prudent at this stage to begin a full requirements gathering project to review the stakeholders needs pending a tendering exercise.

6.5 With the contracts ending in 2021 with Heywood, the Project Manager and Project Support Officer will commence the system review from February 2019, and anticipate providing members with a report detailing the procurement process including options appraisal of services offered by other administration system providers

Annual Benefit Statements (ABS) - update

6.6 The Board at the last meeting considered and note a summary of the circumstances which led to a breach of the deadline for issuing Annual Benefit Statements (ABS). To prevent future breaches, the service has embarked on issuing an initial communications to all employers to provide advanced notification of the data that will be required and the deadline for submitting data.

6.7 Emphasis were made on the importance of timely and accurate data for this year due to the Triennial Valuation and the possible impact on employer contribution rates if data were late or inaccurate. To ensure dedicated resource are available for this project and reduce the risk of missing the statutory deadlines, the Annual Benefit Statement processes will be managed solely by the Technical Team in Lewes rather than shared with the Technical Team in Kingston. The team will be chasing/escalating non-compliant employers much earlier this year to ensure all relevant data are received in time to avoid the risk of members not receiving an Annual Benefit Statement by the statutory deadline of 31 August 2019.

Membership Data Cleansing - update

6.8 It was highlighted within the recent internal audit report that the Pensions Regulator (TPR) recommends that members' data should be reviewed and cleansed on an annual basis, and that the auditor has found data cleansing exercise carried out in December 2017 using the Fund's Actuary (Hymans Robertson LLP)'s data validation tool has resulted in a number of errors and warnings that need to be resolved.

6.9 All errors and/or warnings from the membership data cleansing exercise are currently being investigated and will be amended, if it is found to be incorrect. A project plan for the data cleanses exercise has been developed, which include a weekly highlight reports being provided to management. The Fund is committed to providing three additional temporary staff to support the data cleanse effort. An updates paper on the progress against the Internal Audit agreed actions will be presented to the Board at the June 2019 meeting.

7. Reporting Breaches Log

7.1 The Fund maintains a log of all breaches of the law as applicable to the management and administration of the Fund. It is necessary that all incidents of breaches identified are recorded in the Fund's breaches log, and the 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 on an ongoing basis.

7.2 The breaches log (Appendix 2) has been updated following the identification of an issue with the end of year admin process for 1 employer (Care Outlook Ltd) in 2017/18. The employer entered leave dates on the annual return and as a result the members under this employer were moved to leaver status on the pension's admin system. Therefore, they have not received an Annual Benefit Statement for 2017/18. A query was sent to the employer in question, however no response was ever received and this was never chased/escalated.

8. Pension Board Agenda – 10 June 2019

8.1 The draft agenda for the February 2019 Pension Board meeting include the following

- LGPS Pooling – ACCESS Pool Update;
- Pension Committee Agenda
- Meeting the Training Requirements - Board Members
- Officers' Report - Business Operations
- Officers' Report - General Update
- Forward Plan
- Pension Fund – Risk Register
- Pension Fund 2018/19 Annual Report
- Polices of the administering Authority
- Draft Internal Audit Pension Fund Strategy and Internal Audit Reports

9. Conclusion and reasons for recommendations

9.1 The Board is recommended to note the general update regarding the Pension Fund activities**.**

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

East Sussex Pension Fund: 2019 Valuation draft Timetable

Month commencing	Tasks - Hymans Robertson	Tasks - East Sussex Pension Fund	Meetings - Hymans & officers (including s.151)	Committee meetings
Jul-18			HEAT demo following strategy day (done)	Strategy Day - valuation overview, HEAT and employer strategies
Aug-18				
Sep-18				Pension Board (10 Sept) and Committee (24 Sept) update
Nov-18	Employers Valuation Assumptions Engagement - Forum			2018 Annual Employers Forum – 23rd November 2018
		Initial 'Risky employers' analysis"	HEAT planning meeting - 18th December	
Jan-19		"Spring clean" of employer database		
	Risky employers' analysis and strategy			
	Carry out assumptions modelling e.g. AOA, salary increase etc.	Provide backdated cashflows for April 2016 for HEAT		
Feb-19	Employer risk profiling (for contribution rate setting purposes)	Discuss assumptions modelling results and confirm valuation assumptions to use Provide backdated cashflows from 1 April 2016 to 31 March 2017	Meetings with 'risky employers' (throughout month) Employer pre-valuation briefings/training (throughout month)	Pension Board and Pension Committee update
Mar-19	Agree scope of comPASS modelling (contributions & investment)			Committee valuation training - Joint PB/PC TBC
		Provide backdated cashflows from 1 April 2017 to 31 March 2018		

Month commencing	Tasks - Hymans Robertson	Tasks - East Sussex Pension Fund	Meetings - Hymans & officers (including s.151)	Committee meetings
Apr-19	Discuss risk bandings & RAG ratings for funding strategy	Submit all outstanding new employer work before the valuation	Agree implementation plan for bespoke employer investment strategies	
	Post ABS data cleansing via Data Portal (initial anticipated start date) Discuss results of data cleanse	Liaise with Orbis to update data after data cleansing, Liaison with employers to discuss issues with data	Review of data cleanse	
	comPASS modelling	HEAT - provide cashflow data for 1 April 2018 - 31 March 2019		
May-19	HEAT system goes live	Confirm valuation assumptions to use		
	Issue comPASS modelling results	Receive comPASS modelling results	comPASS results meeting with all officers (including s.151)	
Jun-19		Submit triennial valuation data to Hymans via Data Portal	Employer grouping and investment strategies using HEAT	Assumptions and bespoke employer funding and investment strategies Pension Board and Pension Committee update
Jul-19	Sign off valuation data	Respond to data queries on 2019 valuation data		
Aug-19	Carry out whole fund calculations	Communicate investment strategy changes to employers		

Month commencing	Tasks - Hymans Robertson	Tasks - East Sussex Pension Fund	Meetings - Hymans & officers (including s.151)	Committee meetings
Sep-19	Issue whole fund valuation results Discuss whole fund valuation results Carry out employer level calculations	Receive whole fund valuation results Discuss whole fund valuation results	Initial results meeting & FSS discussion (including s.151)	Whole fund and section 13 results
Oct-19	Discuss employer results Agree funding targets for employers Agree recovery periods Confirm contribution stability mechanism		Employer results meeting (including s.151)	
Nov-19	Refine employer results Prepare individual results schedules Draft FSS			2019 Annual Employers Forum Employer results and draft FSS
Dec-19	Issue individual results schedules	Issue individual results schedules to employers Issue draft FSS for consultation to employers	Employer forum Employer surgeries (throughout month)	
Jan-20	Consultation on employer contribution rates Consultation on FSS		1-to-1 employer meetings to discuss provisional rates (throughout month)	
Feb-20	Finalise employer results Update FSS post consultation	Close FSS consultation		
Mar-20	Issue final valuation report and R&A certificate	Present final FSS to Committee for sign off		Sign-off FSS and note final valuation report

This page is intentionally left blank

Breaches Log

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
03 Sep 2018	Pensions Admin	31st August 2018	Some Active member annual benefit statements ranging over a number of employers were not issued prior to the statutory deadline of 31/8/2018. Failure to complete validation on certain records was identified after the deadline resulting in approx. 1,500 records being incomplete which meant these individuals ABS failed to be produced.		Since identification was made, immediate and urgent action was taken to correct the affected records. This was completed on 20th Sept and the 1,500 ABS's were produced on 21st Sept by a mix of on line invitations to those members registered for self serve and by paper copies for the remainder.	None	Closed	Y – 24 Sep	Y – 10 Sep	Brian Smith
20 December 2018	Pensions Admin	31st August 2018	It has been identified that there was an issue with the end of year admin process for 1 employer (Care Outlook Ltd) in 2017/18. The employer entered leave dates on the annual return and as a result the members under this employer were moved to leaver status on the pensions admin system. Therefore, they have not received an Annual Benefit Statement for 2017/18. A query was sent to the employer in question, however no response was ever received and this was never chased/escalated.	Red	Upon identification of the issue the 6 members impacted were moved back to active status. Annual Benefit Statements have not yet been sent to these members as an issue with pensionable remuneration has been identified and raised with the employer.	None	Open			Clare Chambers

This page is intentionally left blank

Report to: **Pension Board**

Date: **4 February 2019**

By: **Chief Finance Officer**

Title of report: **Pension Fund Risk Register**

Purpose of report: **To consider the Pension Fund Risk Register.**

RECOMMENDATION

The Board is recommended to note the updated Pension Fund Risk Register.

---

1. Background

1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the Pension Fund. It is not a process for avoiding or eliminating risks. A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

1.2 Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources, including the funding position, Local Government Pension Scheme (LGPS) Pooling, General Data Protection Regulation (GDPR), investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks.

2. Risk Register.

2.1 The updated Risk Register (Appendix 1) highlights key risks in relation to the East Sussex Pension Fund (ESPF), the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Pension Governance and Strategy.

3. Assessment of Risk

3.1 Risks are assessed in terms of the potential impact of the risk event should it occurs, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. In terms of investment, the Fund has a diversified portfolio of assets to mitigate against downturns in individual markets, but market events may lead to a fluctuation in the Fund value, which demonstrates that if the markets as a whole crash, then there is little that mitigating actions can do.

3.2 The ESPF, risk profile (Appendix 1), has been updated and additional identified risks have been added to the register. As is normal, there have been changes to control measures across the risk portfolio. Additional added risks are –

- The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation;
- 2019 Triennial actuarial valuation;
- The Pensions Committee and the Pension Board are unable to fulfil their responsibilities effectively;
- Accounting - Failure to comply with CIPFA new pension fund accounting regulations. Risk of the accounts being qualified by the auditors.

3.3 The following risks have been reviewed and post mitigation risk score amended -

- Guaranteed Minimum Pension (GMP) reconciliation;
- Data Cleansing – failure to provide timely and accurate member data.
- Loss of key/senior staff both Orbis Finance & Business Operations and loss of knowledge & skills

3.4 In addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and the level of risk will be reviewed once these additional actions have been implemented.

3.5 Further risks are likely to arise from future decisions taken by the Pension Committee, ACCESS Joint Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

4. Conclusion and reasons for recommendations

4.1 Monitoring of the Risk Register is an important role for the Pension Board, and should the Board identify specific concerns requiring policy changes, then reports will be brought to the Pension Committee for approval.

IAN GUTSELL
Chief Finance Officer

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Background Documents
None

Appendix 1

The risk scores are calculated using the risk matrix below:

LIKELIHOOD					
	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

For the **likelihood**, there are four possible scores:

1 HARDLY EVER	2 POSSIBLE	3 PROBABLE	4 ALMOST CERTAIN
Has never happened No more than once in ten years Extremely unlikely to ever happen	Has happened a couple of times in last 10 years Has happened in last 3 years Could happen again in next year	Has happened numerous times in last 10 years Has happened in last year Is likely to happen again in next year	Has happened often in last 10 years Has happened more than once in last year Is expected to happen again in next year

For the **impact**, there are four possible scores, considered across four areas:

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day-today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comments.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
Pensions Administration (Orbis -Business Operations)								
1	**Pension contributions:** ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS17/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● Improved employer contribution forms ● Annual year end checks ● Pensions Web	3	2	6
2	**Poor or inadequate delivery of Pensions Administration by service provider (Orbis -Business Operations)** ● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman)	3	3	9	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance	3	2	6

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
3	**Loss of key/senior staff both Orbis Finance & Business Operations and loss of knowledge & skills** • Damaged reputation • Inability to deliver and failure to provide efficient pensions administration service; major operational • Disruption and inability to provide a high quality pension service to members. • Concentration of knowledge in a small number of officers and risk of departure of key and senior staff. • The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.	3	3	9	• Diversified staff / team • Look at other authorities with best practices to ensure Orbis positions still desirable • Attendance at pension officers user groups • Procedural notes which includes new systems, section meetings / appraisals • Succession planning • Robust business continuity processes in place around key business processes, including a disaster recovery plan. • Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. • - Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.	3	2	6
4	**Paying pension benefits incorrectly** ● Damaged reputation ● Financial loss ● Financial hardship to members	3	3	9	● Internal control through audit process ● Constant monitoring / checking ● In house risk logs ● SAP / Altair reconciliation ● Task management ● Vita cleansing	3	2	6

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
5	**Guaranteed Minimum Pension (GMP) reconciliation** • Financial loss • Members of pensions scheme exposed to financial loss • Legal issues • Inaccurate record keeping • Damaged reputation	3	3	9	• Awareness of Pension Regulator Guidance • Public Service Pensions Act 2013 • Internal Audit • Key performance indicators • Task Management • Reports to Pension Board and Committee	3	2	6
6	**Failure to issue Annual Benefit statements 31st August** • Reputational risk and complaints • Fines	3	3	9	• Project management approach • Regular contact with employers to get data. • Monthly interfacing to reduce workload at year end • Statements to employers in time to allow time for distribution to staff prior to 31/8/17. • Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year end.	3	2	6
7	**Data Cleansing – failure to provide timely and accurate member data.** • Risk of financial loss and damage to reputation. • Incorrect employers contribution calculations Delays to triennial actuarial valuations process.	3	3	9	• Annual data cleansing carried out by pension administration to highlight gaps; • Administration Strategy in place; • Employing authorities are contacted for outstanding/accurate information; • Regular meeting with administration services re updates, when required. • A data cleansing plan is expected to be agreed with Business Operations. • Business Operation has been given authority to recruit 3 additional FTE for an initial period of 6 months to focus on data deficiencies.	3	2	6

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
Pensions Investment and Governance								
8	**LGPS Investment Pooling** ● Mandated into inappropriate investments ● Lower funding level ● Damaged reputation ● Increase in employer contribution ● Increase in investment risk taken to access higher returns ● There can be size restrictions on certain investments ● Funds can be too big to fulfil their target allocation, ● Difficulty in switching in and out of the large position and possible delays in execution of investment decisions.	3	3	9	● Engagement in ACCESS asset pool group ● Reporting to Pensions Committee and Board ● Engagement with third party experts (e.g. Legal and Tax) ● Creation of a detail project plan	3	2	6
9	**Required returns not met due to poor strategic allocation** ● Damaged reputation ● Increase in employer contribution ● Pay Pensions	4	2	8	● Investment Advisors ● Triennial review ● Performance monitoring ● Annual Investment Strategy Review ● Reporting to Pensions Committee and Board ● Compliance with the ISS ● Compliance with the Funding Strategy Statement	3	2	6
10	**Employers unable to pay increased contributions** ● Lower funding level ● Increase in employer contributions ● Employer forced to sell assets ● Employer forced into liquidation ● Increase in investment risk taken to access higher returns	2	3	6	● Valuation ● Regular communication with Employers ● Monthly monitoring of contribution payments ● Meetings with employers where there are concerns	2	3	6

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
11	**Cyber Security of member data - personal employment and financial data** ● ESCC may incur penalties ● Damaged reputation ● Legal issues ● Members of the pension scheme exposed to financial loss ● Members of the pension scheme exposed to identity theft ● Members of the pension scheme data lost or compromised	4	2	8	• ICT defence-in-depth approach • Utilising firewalls, • Email and content scanners • Using anti-malware. • ICT performs penetration and security tests on regular basis	3	2	6
12	**Cyber Security of third party suppliers** ● Damaged reputation ● Financial loss ● Inability to trade ● Lower funding level ● Increase in employer contribution ● Increase in investment risk taken to access higher returns	4	2	8	● Service level agreement with termination clause ● Regular Meetings ● Regular reports SAS 70/AAF0106 ● Investment Advisors ● Global custodian	3	2	6
13	**Significant rises in employer contributions due to increases in liabilities or fall in assets** • Scheme liabilities increase disproportionately as a result of increased longevity or falling bond yields. • Poor economic conditions, incorrect investment strategy, poor selection of investment managers. Poor / negative returns leading to potential increase in employer's costs.	4	2	8	• Use expert actuary who makes significant possible assumptions and recommends appropriate recovery period and strategy; • Quarterly monitoring of investment managers by Pension Committee ; • Diversified Strategic Asset Allocation;	3	2	6

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
14	**The decision to leave the European Union results in significant economic instability and slowdown, and as a consequence lower investment returns, resulting in:** • Financial loss, and/or failure to meet return expectations. Increased employer contribution costs.	4	2	8	• Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller. The long term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time.	3	2	6
15	**The decision to leave the European Union results in changes to the regulatory and legislative framework within which the Fund operates**	4	2	8	• The Government is likely to ensure that much of current EU regulation is enshrined in UK law. • Officers receive regular briefing material on regulatory changes and attend training seminars and conferences, and ensure any regulatory changes are implemented.	3	2	6
16	**2019 Triennial actuarial valuation –** • An increase in liabilities which is higher than the previous actuarial valuation estimate. • The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	3	3	9	• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. • The Committee receiving training on understanding liabilities • Hymans Robertson commission to produce an Asset Liabilities Model. • Life expectancy assumptions are reviewed at each valuation. • Reviewing of the each triennial valuation assumptions and challenge actuary as required. • Funding Strategy Statement and Investment Strategy Statement updated and approved, • Actuary attendance at Pension Fund	3	2	6

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
					Committee to cover triennial valuation issues and expectations • The Fund holding discussions with employers through the Pension Employers Forum.			
17	**Accounting - Failure to comply with CIPFA new pension fund accounting regulations.** • Risk of the accounts being qualified by the auditors.	3	2	6	• Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. • Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations. • Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. • Internal Audits are carried out on an annual basis. • External Audit review the Pension Fund's accounts annually	3	2	6

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
LGPS Pooling - ACCESS Pool								
18	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.	4	3	12	• Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios. • There may also be the opportunity to transfer securities in 'specie'. • A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.	3	2	6
19	**ACCESS Pool Governance – Resourcing** • Establishment phase resource - a substantial amount of officer resource will be required to support the project plan work-streams / tasks etc. • Increased demand on officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource.	4	2	8	• Interim ACCESS Support Unit function to provide support. • Gap analysis to be undertaken to identify officer resource requirements. • Work-streams to be allocated Officer sub-groups to co-ordinate work. • Increasing the frequency of OWG meetings - fortnightly joint OWG / Link Steering Group meetings and fortnightly Link Project calls.	3	2	6
20	**Access Support Unit Recruitment** • Failure to appoint appropriate staff to run the business as usual work for the Pool • Increased use of Fund Resources to cover the work required • Reputational damage	3	3	9	• Detail job description • Section 151 officers input • Joint Committee input • Use of Host Authorities recruitment specialists •	3	2	6

Report to: **Pension Board**

Date: **4 February 2019**

By: **Head of Pensions**

Title of report: **Work programme**

Purpose of report: **The updated report sets out the Pension Fund Forward plan for 2018-19. The Plan includes key objectives for the Fund, training strategy/plan for the Fund and Member training log.**

RECOMMENDATION

The Board is recommended to 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 recommend 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. Report Overview

2.1 This report contain an updated 2018/19 Forward Plan, which will assists members with the Fund Governance arrangement, so that the Council is able to perform its role as the administering authority in a structured way, and an updated training plan, with a summary of both external and internal training events that Members and Officers can undertake in 2018/19.

3. Pensions Regulator Training Toolkit

3.1 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.

4. Joint Pension Board and Committee Training Session

4.1 The topics to be covered are detailed within the Pension Board and Committee Forward/Training plan. Following the successful joint training session covering ‘*ACCESS Pool Governance/Sub-fund structure, ACCESS Pool – Operator, and Sustainable Investing/ESG’* on 23 January 2019, the next joint training session is scheduled to take place on 20 March 2019. The proposed topics for the session will be on *Pensions Accounting and Auditing Standards; Understanding the Accounts and Audit Regulations; and the Role of Internal and External Audit.*

5. Conclusion and reasons for recommendations

5.1 The Board is recommended to note the Pension Fund Board/Committee Forward Plan 2018/19.

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017

ola.owolabi@eastsussex.gov.uk

Appendix 1

EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2018-19

February 2019

Contents

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 73,000 individuals employed by 136 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 2018/19. 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.

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 Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Pensions Investment Manager.

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

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 were published and came into force on 1 November 2016. This requires the administering authority to have in place an Investment Strategy Statement (ISS), which replaces the current Statement of Investment Principles (SIP).

The ISS is a document that, under the new regulations, replaces and largely replicates, the previous SIP. Authorities are required to prepare and maintain an ISS which documents how the investment strategy for the Fund is determined and implemented. The ISS is required to cover a number of areas, specifically:

- The requirement to invest money across a wide range of investments.
- An assessment of the suitability of particular investments and investment types.
- The maximum percentage authorities deem should be allocated to different asset classes or types of investment, although limits on allocations to any asset class are not prescribed as is currently the case under the 2009 Regulations.
- The authority's attitude to risk, including the measurement and management of risk.
- The authority's approach to investment pooling.
- The authority's policy on social, environmental and corporate governance considerations.
- The authority's policy with regard to stewardship of assets, including the exercise of voting rights

The East Sussex Pension Committee has drawn up the Investment Strategy Statement (ISS) to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement. The Fund consulted its Actuary and Independent Financial Adviser in preparing this statement.

The ISS is subject to periodic review at least every three years and more frequently if there are any developments that impact significantly on the suitability of the ISS currently in place. Investment performance is monitored by the Committee on a quarterly basis and may be used to check whether actual results are in-line with those expected under the ISS.

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 COMMITTEE – FORWARD/BUSINESS PLAN

PENSION COMMITTEE FORWARD/BUSINESS PLAN					
Date / **Item**	**November 2018**	**February 2019**	**May 2019**	**July 2019**	**September 2019**
1	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	External Audit and Annual Report Approval	LGPS Pooling – ACCESS Pool Update
2	Annual Benefit Statement	External Audit Plan - East Sussex Pension Fund	Discretionary policy statement	Investment Strategy review day	Annual review of the Fund's ESG approach
3	East Sussex Pension Fund: Independent Advisor	ESPF 2018/19 Budget monitoring and 2019/20 Budget	External Assurance Reports from Third Parties		Review on the investment strategy and Manager benchmarking
4	Responsible Investment Policy	Annual Benefit Statement - update/ GMP Reconciliation update/Data Cleansing	Cessations and Admission policies		Annual Benefit Statement - update
5	FRC - UK Stewardship Code	Funding Strategy Statement			
6	GMP Reconciliation – update	GMP Reconciliation Update			
7		Investment Strategy Statement			

Recurring items

Item	
1	Pension Board Minutes
2	Quarterly Performance Report - Hymans Robertson
3	Fund Performance – Fund Manager Presentation
4	Officers' Report - Business Operations
5	Officers' Report - General Update
6	Forward Plan
7	Pension Employers- Update

2. PENSION BOARD – FORWARD/BUSINESS PLAN

PENSION BOARD FORWARD/BUSINESS PLAN				
Date / **Item**	**November 2018**	**4 February 2019**	**10 June 2019**	**9 September 2019**
1	Pension Committee Agenda	Pension Committee Agenda	Pension Committee Agenda	Pension Committee Agenda
2	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update
3	Annual Benefit Statement	External Audit Plan - East Sussex Pension Fund	Pension Fund 2018/19 Annual Report Polices of the administering Authority	Internal Audit Report - ACCESS Pool
4	Responsible Investment Policy	Funding Strategy Statement	Draft Internal Audit Pension Fund Strategy and Internal Audit Reports	Review on fee arrangements
5	Financial Reporting Council - UK Stewardship Code	East Sussex Pension Board – Terms of Reference	2019 Annual Benefit Statement Exercise – update	Annual Benefit Statement - update/ GMP Reconciliation update/Data Cleansing
6	GMP Reconciliation – update	East Sussex Pension Fund 2018/19 Budget monitoring and 2019/20 Budget report	Pension Fund Policies – Discretionary Policy Statement, Administration Strategy Statement, and Pension Fund Cessation Policy.	Pension Committee Agenda
7		GMP Reconciliation Update		

Recurring items

Item	
1	Officers' Report - Business Operations
2	Officers' Report - General Update
3	Forward Plan
4	Pension Fund – Risk Register

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 are 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.

Officer's 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 of 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
• 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	• 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 evens 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 pension's legislation. Therefore, this toolkit should be used to supplement the existing training plans.

Proposed Members Training Plan for 2018-2019

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 • Member's Role	✔						**1**	Completed
Members individual needs on specific areas arising during the year • Advisory Board e-learning	✔	✔			✔	✔ ✔	**1,3,4**	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas • Specific investment Topics • Services and providers • Procurement process for services provided externally • Performance measurement • Accounts and audit		✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔				**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**
regulations • Role of internal and external audit • Fund responsibilities/ policy • Pension Discretions • Safeguarding the Fund's Assets		✔ ✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔ ✔					
Pension Fund Forum • 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**	
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								

	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 Pension Framework • LGPS discretions & policies • Implications of the Hutton Review		✔	✔	✔	✔		**1,6**	
Pensions Legislation & Governance: • 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: • Accounts & Audit regulations and the legislative requirements			✔				**1,2**	
Financial Services procurement: • Current public procurement policy & procedures • UK & EU procurement				✔ ✔			**3,5,6**	

	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**
legislation								
Investment Performance & Risk Management: • 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: • Refresh the importance of setting investment strategy • Limits placed by regulation on investment activities in the LGPS • Understanding of the operations of the fixed income manager • Understanding of Alternative asset classes			✔	✔ ✔	✔		**4** **1** **4** **4,5,6**	

	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**
Pension Administration - • Shared service		✔	✔	✔			**2,6**	
Actuarial methods, standards and practices: • Considerations in relation to outsourcings and bulk transfers • Triennial Valuation refresher		✔ ✔					**1** **6**	
CHAIRMAN TRAINING								
• Fund Benchmarking • Stakeholder feedback • Appreciation of changes to scheme rules	✔ ✔				✔		2 4 1,5	
EXTERNAL SEMINARS AND CONFERENCES								
NAPF Local Govt Conference • Refresher training • Keeping abreast of current development					✔ ✔		**1,3,4,5**	
LGC Investment Conference					✔		**1,2,3,4,5,6**	

	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**
• Fund Manager events and networking					✔			

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 & 21st March 2018	
The administering authority	14 June 2016 & 21st March 2018	
The employers	14 June 2016 & 21st March 2018	
The Committee	14 June 2016 & 21st	

Member/Representative Name: ……..

Subject/Description of training	Date completed	Suggested Further Action?
	March 2018	
The LPB	14 June 2016 & 21st March 2018	
S151 officer	14 June 2016 & 21st March 2018	
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 & 21st March 2018	
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		**20 March 2019**
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	26 September 2017	
Managing Risks	26 September 2017	
Administration	26 September 2017	
Resolving Issues	26 September 2017	
Pensions Legislation		
The Legislative Framework for Pensions in the UK	26 January 2017	
LGPS Regulations and Statutory Guidance	26 January 2017	
LGPS Discretions	26 January 2017	
Other Legislation	26 January 2017	

Member/Representative Name: ……

Subject/Description of training	Date completed	Suggested Further Action?
Pensions Governance		
Understanding National and Local Governance Structure	21st March 2018	
Knowledge of Pension Fund Stakeholders	23 January 2019	
Knowledge of Pension Fund Stakeholder Consultation and Communication	23 January 2019	
Governance Policies	21st March 2018	
Pension Administration		
Understanding Best Practice	17 October 2018	
Interaction with HMRC	17 October 2018	
Additional Voluntary Contributions	3 November 2017	
The Role of the Scheme Employer		
Stewardship Report		
Pensions Accounting and Auditing Standards		
Understanding the Accounts and Audit Regulations		**20 March 2019**
The Role of Internal and External Audit		**20 March 2019**
Third Party Contracts		
Investment Performance and Risk Management		
Monitoring Assets and Assessing Long-Term Risk		
Myners Principles of Performance Management		
Awareness of Support Services		
Understanding Risk and Return of Fund Assets	18 July 2016	
Understanding the Financial Markets	3 November 2017	

Member/Representative Name: ……..

Subject/Description of training	Date completed	Suggested Further Action?
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	13 June 2017	
Additional Training		
LGPS discretions & policies	26 January 2017	
Safeguarding the Fund's Assets	26 January 2017	
Developing Investment Strategies Statement	26 January 2017	
Role of the Global Custodian – Northern Trust	26 January 2017	
Pensions legislative & Governance	26 October 2016	
Environmental, Social and Governance (ESG)	13 June 2017	
The role of the Board/Committee within the ACCESS LGPS Pool;	26 September 2017	
Updates from the Pension Fund Regulator.	26 September 2017	
ACCESS Pool Governance - Pension Committee/Board Roles	21 March 2018	
Pantheon Global Infrastructure	21 March 2018	
Responsible Investment under the LGPS Pooling Agenda.	21 March 2018	
Sustainable Investing/ESG	17 October 2018/23 January 2019	

Member/Representative Name: ……..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Merits and Dangers of Index Funds	17 October 2018	
ACCESS Pool Governance/Sub-fund structure	23 January 2019	
ACCESS Pool – Operator (Link)	23 January 2019	

AVAILABLE TRAINING AND CONFERENCES 2018 – 2019

Date	Conference/Event	Run By	Delegates/Cost
February 12	Better Futures (one day event)	Hymans Robertson - Kings Place, 90 York Way, London	Free
February 14	Investment Strategies for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
March 13	Local Authority Pension Fund Investment Issues	SPS Conferences - Le Meridien Piccadilly London	Free
April 10	Fiduciary Management & Investment Governance for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
April 17	Annual DC Pension Investment Developments & Current Issues	SPS Conferences - Le Meridien Piccadilly London	Free
May 9	ESG & Sustainable Investments for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
June 18	Infrastructure & Real Asset Investment Strategies for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
July 11	Investment Strategies & Cash Flow Management for Maturing Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
September 5	Credit & Private Debt Investing for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
September 12	Alternative & Innovative Strategies for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
October 10	27th Annual Property & Infrastructure Investment Strategies for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
November 7	Current Investment Issues for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
November 14	ESG & Topical Investment Issues for Local Authority Pension Investors	SPS Conferences - Le Meridien Piccadilly London	Free
December 5	Private Equity (& Debt) Investors' Annual Seminar	SPS Conferences - Le Meridien Piccadilly London	Free

Date	Conference/Event	Run By	Delegates/Cost
	Investment Summit	Local Government Chronicle (LGC)	TBC
	Annual Local Government Pension Investment Forum	Informal	TBC
	Local Authority Forum	Pension and Lifetime Savings Association (PLSA)	Free
	LAPFF Annual Conference	Local Authority Pension Fund Forum (LAPFF)	Free
	LAPFF AGM And Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
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	**17 October 2018**	**23 January 2019**	**xx April 2019**	**12 June 2019**	**25 September 2019**
Topics	• Pension Administration – Understanding Best Practice and • Interaction with HMRC. • Merits and Dangers of Index Funds • ESG	• ACCESS Pool Governance/Sub-fund structure • ACCESS Pool – Operator • Sustainable Investing/ESG	• Pensions Accounting and Auditing Standards • Understanding the Accounts and Audit Regulations • The Role of Internal and External Audit • PF Potential Conflict of Interest	• Investment Performance and Risk Management • Pension Fund Governance; • Environmental, Social and Governance (ESG).	• Updates from the Pension Fund Regulator. • Fund Assets - Carbon Footprint Measurement;

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank