



PENSION COMMITTEE

MONDAY, 21 SEPTEMBER 2020

9.00 AM CC2, COUNTY HALL, LEWES

++Please note that Members will join the meeting remotely++

MEMBERSHIP - Councillor Gerard Fox (Chair)
Councillors Nigel Enever, Andy Smith, David Tutt and Trevor Webb

A G E N D A

- 1 Minutes (*Pages 3 - 12*)
- 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 (*To Follow*)
- 6 Quarterly Investment Report (*Pages 13 - 48*)
- 7 Responsible Investment Policy (*Pages 49 - 96*)
 - Including response to the notice of motion from Lewes District Council's Cabinet
- 8 Good Governance Review 2nd tranche (*Pages 97 - 144*)
- 9 Response to the McCloud Consultation (*Pages 145 - 154*)
- 10 Pensions Administration Update (*Pages 155 - 198*)
- 11 2020/21 Pension Fund Business Plan and Budget (*Pages 199 - 232*)
- 12 Discretionary Policy for Death Payments (*Pages 233 - 240*)
- 13 Annual Training Plan and Training Strategy (*Pages 241 - 254*)
- 14 Pension Fund Risk Register (*Pages 255 - 270*)
- 15 Any other non-exempt items previously notified under agenda item 4
- 16 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).

- 17 Investment Working Group Briefing (*Pages 271 - 282*)
- 18 Pension Fund Breaches Log (*Pages 283 - 304*)
- 19 Pension Team update (*Pages 305 - 306*)
- 20 Employer Admissions and Cessations Report (*Pages 307 - 340*)
- 21 Outcome of Procurement for Pension Fund Advisors and Actuary (*Pages 341 - 368*)
- 22 Any other exempt items previously notified under agenda item 4

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11 September 2020

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NOTE: *As part of the County Council's drive to increase accessibility to its public meetings, this meeting will be broadcast live on its website and the record archived. The live broadcast is accessible at: www.eastsussex.gov.uk/yourcouncil/webcasts/default.htm*

Agenda Item 1

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall on 22 June 2020.

PRESENT Councillors Gerard Fox (Chair) Councillors Simon Elford,
Nigel Enever, David Tutt and Trevor Webb

ALSO PRESENT

Ray Martin, Chair of the Pension Board
Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Michelle King, Interim Head of Pensions
Russell Wood, Principal Pensions Officer
Nigel Chilcott, Audit Manager
Danny Simpson, Principal Auditor
Richard Warden, Fund Actuary
Robbie McInroy, Fund Actuary
Ian Colvin, Hymans Robertson
Ben Fox, Hymans Robertson
Paul Potter, Hymans Robertson
Paul Hewitt, Vigeo Eiris
Henry Brown, Vigeo Eiris
Brian Bailey, PIRC
Neil Sellstrom, PIRC
Tessa Younger, PIRC
William Bourne, Independent Adviser
Harvey Winder, Democratic Services Officer

1 MINUTES

1.1 The minute of the meeting held on 16th March 2020.

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence

3 DISCLOSURE OF INTERESTS

3.1 Cllr David Tutt declared a personal interest in item 18 (minute 17) as the Leader of Eastbourne Borough Council and did not take part in the discussion or resolution of that item.

4 URGENT ITEMS

4.1 There were no urgent items.

5 PENSION BOARD MINUTES

5.1 The Committee considered the draft minutes of the Pension Board meeting held on 8 June 2020.

5.2 The Committee RESOLVED to note the report.

6 INVESTMENT REPORT

6.1 The Committee considered a report providing an update on the investment activities undertaken by the East Sussex Pension Fund.

6.2 The Committee considered a number of arguments for and against the sale of equities held in fossil fuel companies.

- The share value of oil companies such as BP, Shell and Exxon had declined by at least half in the past few months, although they were now recovering. This could demonstrate that they are becoming volatile investments when they had historically been safe investments. As their share prices recover, therefore, investment managers could be advised to sell them to protect against future price falls.
- On the other hand, the decline in value of BP's shares could be explained by its decision to commit to 50-100% carbon reduction over 20 years, meaning the devaluing of its stock price is due to the market's recognition of the capital costs BP will incur fulfilling this commitment.
- Keeping an eye on the value of fossil fuel investments is undoubtedly important. However, stability of the Fund is also important given the current economic climate and the recovery of equities as an asset class in recent weeks. Furthermore, the Fund needs to ensure it has sufficient cash flow during the economic downturn to pay pensioners and oil and gas companies have traditionally been a good source of cash for the Fund through their dividends.
- The decision to disinvest in the short term is not consistent with the Fund's stated Investment Beliefs that include that long term investing provides opportunities for enhancing returns; and that influencing companies as a shareholder is more effective way of changing behaviour of companies, for example, shareholder pressure, including by Ruffer, one of ESPF's investment managers, on BP has had a major effect on BP's decision to aim to decarbonise.
- The work undertaken by the Environmental, Social and Governance (ESG) consultant, PIRC, appointed following the notice of motion by Full Council, is complete. It has published a number of recommendations for how the East Sussex Pension Fund (ESPF or the Fund) might further integrate ESG considerations, including those relating to its approach to fossil fuel exposure, into its investment strategy. The ESG working group has also undertaken a lot of work in recent months, including around the Fund's asset allocation. The next steps include, subject to agreement by the Committee, to develop the Fund's investment beliefs to better set out how it may become a more proactive responsible investor; respond to PIRC's recommendations; and to adjust the Fund's asset allocation, which are currently overweight in passive equities and so more exposed to fossil fuels than they could be.
- The exposure to fossil fuels is likely to decline as strategic asset allocation is reviewed and the allocation of the Fund's value in passive index equity funds or holdings is reduced in favour of either more active managers, or smart beta funds that are weighted against carbon intensive companies. Fossil fuel exposure is likely to halve from 4% to 2% once the asset allocation is complete, as it will favour investment in companies that are more carbon efficient or proactive in reducing their carbon footprint.
- Fossil fuel exposure is largely through passive equities which are invested in with UBS who were appointed as the ACCESS passive manager after a joint procurement. Instructing disinvestment from fossil fuels to managers would be complicated by the fact that the Fund has pooled its investments. The Committee can only advise the ACCESS operator, Link, on investment decisions and not instruct them to sell.

- The value of the carbon footprint tracker completed by Eiris is to enable the Fund to set targets for reducing its carbon footprint by identifying those companies that need to be targeted for engagement, either as they are high emitters or have a weak energy transition score. Some of the companies with poorer transition scores will be ones without significant stakeholder pressure, as they are not currently high emitters of carbon relative to others.

6.3 The following amendment to the recommendation was moved by Councillor Tutt and seconded:

- 1) *note the Action Log and Investment Workplan (appendix 1)*
- 2) *note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);*
- 3) *note the carbon footprint report by Vigeo Eiris (appendix 3)*
- 4) *to agree to instruct fund managers to sell fossil fuel investments as they begin to recover in value.*

The amendment was put to the vote and LOST by three votes to two.

6.4 The Committee RESOLVED to:

- 1) note the Action Log and Investment Workplan (appendix 1)
- 2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);
- 3) note the carbon footprint report by Vigeo Eiris (appendix 3)

7 REPORT ON THE FULL COUNCIL NOTICE OF MOTION ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

7.1 The Committee considered a report on the review of the Environmental, Social and Governance (ESG) arrangements of the East Sussex Pension Fund conducted by PIRC in response to the notice of motion passed by East Sussex County Council.

7.2 The Committee discussion included the following key issues:

- The Fund has undertaken a lot of work, via the ESG working group, to develop an understanding of ESG matters and how they can be included in the Fund's strategy, but it is recognised that more work needs to be done consulting with stakeholders on ESG matters. These include ACCESS, the Fund's investment managers, employers and members.
- The Fund will be issuing a responsible investment statement to all employers and scheme members over the summer. It may also bring reports for consideration to the ACCESS Joint Committee to speed up the development of a consensus view on ESG amongst the 11 member Funds.
- An ESG working group helps to ensure that there is time and space dedicated to considering ESG matters. However, delivering on ESG commitments takes significant time and resources, for example, ensuring investment managers have signed up to the new UK Stewardship Code, and monitoring the carbon footprint of companies both require considerable officer time. The Fund is expected to develop a larger team in the next few months that should have sufficient resources to carry out the work.

7.3 The Committee RESOLVED to note the report

8 GOOD GOVERNANCE REVIEW

8.1 The Committee considered a report providing an update on the Good Governance review, seeking endorsement of the Terms of reference of the Pension Committee, terms of reference of the Pension Board, and revised Council Scheme of Delegations; and agreement of the Communication Strategy and Breaches Policy and log.

8.2 The Committee RESOLVED to:

1) endorse the:

- Pension Committee Terms of Reference (appendix 2)
- Pension Board Terms of Reference (appendix 3)
- Revised Council Scheme of Delegations to incorporate Pension Fund management(appendix 4); and

2) agree the:

- Communication Strategy (appendix 5)
- Breaches Policy and log (appendix 6)

9 DRAFT EAST SUSSEX PENSION FUND INTERNAL AUDIT STRATEGY AND PLAN

9.1 The Committee considered a report seeking approval of the Internal Audit Strategy and Plan for Pensions for 2020/21.

9.2 The Committee RESOLVED to approve the East Sussex Local Government Pension Scheme Internal Audit Strategy and Plan 2020/21, attached as Appendix 1.

10 EAST SUSSEX PENSION FUND TRAINING STRATEGY

10.1 The Committee considered a report outlining the draft Training Strategy and planning for the East Sussex Pension Fund.

10.2 The Committee RESOLVED to:

- 1) Agree the draft Training Strategy as set out in appendix 1 of the report; and
- 2) Review and endorse the deliverables and timetables of the Training Plan.

11 PENSION ADMINISTRATION UPDATES

11.1 The Committee considered a report providing an update to the Pension Committee on matters relating to Pensions Administration activities.

11.2 The Committee RESOLVED to:

- 1) note the updates;
- 2) Note the progress of management in implementing the agreed actions arising from the two internal audit reports (appendix 5); and
- 3) Note the areas for which no actions have progressed (appendix 5).

12 PENSION FUND BUSINESS PLAN AND BUDGET 2020/21

12.1 The Committee considered a report providing updates on the 2020/21 business plan at Quarter 1 for the East Sussex Pension Fund.

12.2 The Committee RESOLVED to:

- 1) Note the updated business plan; and
- 2) Note the new workstream for ill health retirement planning.

13 EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2019/20 AND PSAA FEE SCALES 2020/21

13.1 The Committee considered a report on the East Sussex Pension Fund's External Audit Plan for 2019/20, together with the fees for 2020/21

13.2 The Committee RESOLVED to:

- 1) approve the External Audit Plan for the East Sussex Pension Fund for 2019/20
- 2) note the Public Sector Audit Appointments (PSAA) Fee Scales 2020/21 letter.

14 PENSION FUND RISK REGISTER

14.1 The Committee considered a report on the Fund's Risk Register.

14.2 The Committee RESOLVED to note the report

15 EXCLUSION OF THE PUBLIC AND PRESS

15.1 The Committee 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).

16 EAST SUSSEX PENSION FUND STRATEGIC ASSET ALLOCATION REFRESH

16.1 The Committee considered a report on the East Sussex Pension Fund Strategic Asset Allocation refresh.

16.2 A summary of the discussion is set out in an exempt minute.

16.3 The Committee RESOLVED to agree the recommendations as set out in the report.

17 COVID 19 POLICY ON DEFERRAL OF EMPLOYER CONTRIBUTIONS

17.1 The Committee considered a report on the COVID-19 Policy on the deferral of employer contributions.

17.2 A summary of the discussion is set out in an exempt minute.

17.3 The Committee RESOLVED to agree actions which are set out in an exempt minute.

18 PENSION FUND BREACHES LOG

18.1 The Committee considered a report on the Fund's breaches log.

18.2 The Committee RESOLVED to agree the recommendations as set out in the report.

19 PENSION ADMINISTRATION - SYSTEMS PROCUREMENT

19.1 The Committee considered a report on pension administration system procurement.

19.2 A summary of the discussion is set out in an exempt minute.

19.3 The Committee RESOLVED to note the report.

20 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

20.1 The Committee considered a report on employer admissions and cessations.

20.2 The Committee RESOLVED to agree the recommendations as set out in the report.

21 EAST SUSSEX PENSION FUND TEAM UPDATE

21.1 The Committee considered a report providing an update on the East Sussex Pension Fund Team.

21.2 The Committee RESOLVED to agree actions which are set out in an exempt minute.

The meeting ended at 2.30 pm.

Councillor Gerard Fox (Chair)

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Report to: **Pension Committee**

Date: **21 September 2020**

By: **Chief Financial Officer**

Title of report: **Quarterly Investment Report**

Purpose of report: **This report updates on the investment monitoring and strategic asset allocation activities undertaken by the East Sussex Pension Fund.**

RECOMMENDATION – The Pension Committee are recommended to:

- 1) note the Action Log and Investment Workplan (Appendix 1); and**
 - 2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2).**
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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 Pension Committee is required to maintain an Investment Strategy Statement (ISS) to govern the Funds' investments and receives a quarterly investment monitoring report, from its investment consultant, Hymans Robertson to monitor its investments.

1.2 The ACCESS Joint Committee has been established to facilitate the arrangements relating to the collective investment vehicles to allow the administering authorities to pool their respective investments and meets quarterly.

2. Action Log and Investment Workplan

2.1 The Fund's Investment Consultant has been asked to provide an Action Log and Investment Workplan which is the reference point for Investment Working Group chaired by Cllr Fox and which carries out with Officers all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered at the upcoming Committee meeting, or a comment provided explaining why the item is not to be covered at this time. This is included as Appendix 1.

2.2 Hymans Robertson has included actions agreed at the June 2020 Committee meeting. The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

2.3 The table below, Table 1, provides ratings from Hymans Robertson of their prospects for markets over a period of around three years. Hymans Robertson will be providing these views on a quarterly basis, although they are not intended as tactical calls.

Table 1 Market views by asset class

Asset Class	Current Quarter View	Previous Quarter View
Equities	Cautious	Cautious
Sterling Investment Grade Credit	Neutral	Cautious
Liquid Sub-Investment Grade Credit	Neutral to Cautious	Cautious to Negative
Private Lending	Neutral to Cautious	N/A
UK Property	N/A	N/A
Long Lease Property	N/A	N/A
Gilts	Neutral to Cautious	Neutral to Cautious
Index-Linked Gilts	Neutral to Cautious	Neutral

* Hymans suspended their ratings for property (and previously private lending) given the lack of transaction activity within these markets and hence lack of pricing information.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report is attached as Appendix 2. Since the last quarter, the valuation of the Fund increased from £3.488bn to £3.808bn (an increase of £0.32bn) which was driven mostly by the equity allocation. Other return seeking assets, with the exception of property, which also delivered positive performance, although their impact was less pronounced. The total return of the Fund was marginally below the benchmark by -0.2% over the quarter to 30 June 2020.

4. Fossil Fuel Exposure

4.1 The Fund's fossil fuel exposure at 30 June 2020 stood at £152.2m or 4% of assets under management, Table 2 below refers. The top five contributions come from the Fund's holding in the passive UK (13.1%), RAFI All World 3000 Equity (11.4%), M&G Corporate Bonds (8.8%), UBS North America (4.6%) and UBS Climate Aware (4.5%). This is a function of both the Fund's strategic allocation to these holdings and the higher fossil fuel exposure within these funds themselves.

Table 2 Fossil Fuel Exposure by Manager

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS - North America	4.6	8.5	4.7	0.0	Passive
UBS - Europe	5.1	7.3	5.3	-0.1	Passive
UBS - Japan	4.9	1.0	4.9	0.0	Passive
UBS - Pac ex Japan	9.5	1.9	9.9	-0.4	Passive
UBS - Fundamental Index	11.4	48.2	11.6	-0.2	Passive
UBS - UK Equity	13.1	32.3	13.2	-0.1	Passive
UBS - Climate Aware	4.5	8.7	5.6	-1.1	Passive
UBS - Global EM Equity	9.7	4.2	9.8	-0.1	Passive
Longview - Global Equity	0.0	0.0	6.9	-6.9	Active
Harbourvest - Private Equity*	3.9	4.2	6.9	-3.0	Active
Adams Street - Private Equity*	2.1	2.5	6.9	-4.9	Active
Newton - Absolute Return	1.1	4.8	-	-	Active
Ruffer - Absolute Return	1.4	6.3	-	-	Active
Schroders - Property	0.0	0.0	-	-	Active
M&G - Infrastructure	0.0	0.0	-	-	Active
Pantheon - Infrastructure	0.0	0.0	-	-	Active
M&G - Infrastructure	0.0	0.0	-	-	Active
M&G - Private Debt	0.0	0.0	-	-	Active
M&G - Alpha Opportunities	3.1	8.1	-	-	Active
M&G - Corporate Bonds	8.8	14.0	9.4	-0.7	Active
UBS - Over 5 Year IL Gilt Fund	0.0	0.0	0.0	0.0	Passive
Cash	0.0	0.0	0.0	0.0	Active
Total Fund	4.0	152.2	-	-	

4.2 Since the meeting of Committee in June 2020, there have been a number of changes to the Fund's pooled holdings in accordance with the Committee decision, which alter the Fund's Fossil Fuel exposure and is discussed in more detail in agenda item 17 in Part 2 of the agenda.

Equity Holdings by Manager	Current Benchmark	Change	Revised Benchmark
UBS - Passive Market Cap UK	7.0	-5.4	1.5
UBS North America	4.0	-0.6	3.5
UBS Europe ex UK	3.5	-1.5	2.0
UBS Japan	0.5	0.25	0.75
UBS Asia Pacific ex Japan	0.5	0.25	0.75

UBS Emerging Markets	1.0	0.5	1.5
Sub Total	16.5	-6.5	10.0
UBS - RAFI Fundamental Index	11.5	-11.5	0.0
UBS - Climate Aware	5.0	-5.0	0.0
Longview - Global Equity	7.0	3.0	10.0
Passive "smart- beta" ESG	0.0	10.0	10.0
Active ESG	0.0	10.0	10.0
Total	40.0	0.0	40.0

4.3 A revised calculation of the Fund's Fossil Fuel Exposure is expected to be available for review by the Committee in November.

5. Conclusion and reasons for recommendation

5.1 Investments are regularly monitored to ensure that the Fund's strategic asset allocation set out in the Fund's Investment Strategy Statement (ISS) is being complied with and to keep the Committee informed of any significant concerns with the investment managers, retained to implement the Fund's strategic asset allocation.

IAN GUTSELL
Chief Finance Officer

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1 Action Log and Investment Workplan

Introduction

This paper is addressed to the Officers and Pensions Committee (“the Committee”) of the East Sussex Pension Fund (“the Fund”). The intention is for this paper to bring together all investment issues relating to the Fund.

This first section will be prepared on a quarterly basis and act as a summary of current investment priorities and proposed work to be carried out. It provides the following:

- A list of actions agreed at Committee meetings; and
- An Investment Workplan detailing areas of work expected over the following 12 months.

It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing.

We look forward to discussing this paper with you at the September Committee meeting.

Prepared by:-

Paul Potter, Partner

Ben Fox, Investment Consultant

September 2020

For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Action Log

The action log is a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered at the upcoming Committee meeting, or a comment provided explaining why the item is not to be covered at this time.

Action	Owner	Current Position	Comments
Conduct fund selection exercise for active impact equity allocation	Working Group / Hymans Robertson		Desktop search took place in July and shortlist interviewed in August. Recommended funds circulated to Committee.
Conduct fund selection exercise for passive climate-tilted equity allocation	Working Group / Hymans Robertson		Desktop search took place in July and shortlist interviewed in August. Recommended funds circulated to Committee.
Conduct fund selection exercise for listed infrastructure allocation	Working Group / Hymans Robertson		Desktop search took place in July and shortlist interviewed in August. Recommended funds circulated to Committee.
Prepare recommendation for a 2% unlisted infrastructure allocation, including a recommendation on whether to fund from Newton or M&G credit	Working Group / Hymans Robertson		To be considered at Q4 Committee meeting alongside wider annual private markets review
Test the current arrangements for implementing agreed strategic changes for the Fund and also test the arrangements with ACCESS when up and running	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the quarterly report provided by Hymans and consider any potential changes	Pension Committee / Officers / Hymans		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the manager performance benchmarks and targets paper produced by Hymans in 2018	Pension Committee		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Engage with ACCESS partners to agree measures to mitigate concerns over pool governance	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser

Develop an investment risk register to link in to the main risk register	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser
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Investment Workplan

The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

Item	Comment	Action	Responsibility	Timescale
Strategy				
Private market commitments	<ul style="list-style-type: none"> Commit 2% Fund assets to an unlisted infrastructure fund The Committee has currently agreed to invest amounts equivalent to £235m into infrastructure and £60m into real estate debt 	<ul style="list-style-type: none"> Recommend funds for future commitments Meet capital call requests as they are made 	<ul style="list-style-type: none"> Hymans Robertson Officers 	Q4 20 Committee meeting Ongoing
Currency Hedging	<ul style="list-style-type: none"> Establish a policy on approach to currency hedging 	<ul style="list-style-type: none"> Discuss within the Investment Working Group and prepare a recommended policy 	<ul style="list-style-type: none"> Hyman Robertson in conjunction with Working Party 	Q4 20
Structure				
Rebalancing	<ul style="list-style-type: none"> Protection allocation in breach of upper limit Alternatives allocation in breach of lower limit Multi-asset and M&G Alpha Opps holdings in breach of limits 	<ul style="list-style-type: none"> No action proposed at this time Drawdowns into infrastructure and real-estate debt will increase alternatives allocation 	n/a	n/a

Equity Structure	<ul style="list-style-type: none"> Implement new equity structure 	<ul style="list-style-type: none"> Transition assets from UBS equities to newly appointed equity managers 	<ul style="list-style-type: none"> Transition manager likely to be appointed Officers to lead with support from Hymans 	Q4 20
Listed infrastructure	<ul style="list-style-type: none"> Invest in listed infrastructure fund 	<ul style="list-style-type: none"> Transition assets from UBS Index-Linked Gilts to the newly appointed listed infrastructure manager 	<ul style="list-style-type: none"> Officers to lead with support from Hymans 	Q4 20
Corporate Bond exposure	<ul style="list-style-type: none"> Uncertain outlook for credit investment in current environment 	<ul style="list-style-type: none"> Review current investments in conjunction with M&G, as part of the recommendation for funding the 2% unlisted infrastructure allocation 	<ul style="list-style-type: none"> Hymans Robertson in conjunction with Working Party 	Q4 20
Private equity programme	<ul style="list-style-type: none"> Periodic review of private equity strategy is recommended 	<ul style="list-style-type: none"> Carry out detailed review of objectives against current programme 	<ul style="list-style-type: none"> Hymans Robertson 	Q4 2020
ESG				
UK Stewardship Code	<ul style="list-style-type: none"> Consider the Fund becoming a signatory to the revised UK Stewardship Code 	<ul style="list-style-type: none"> Understand the requirements under the UK Stewardship Code with a view to the Fund signing up 	<ul style="list-style-type: none"> Officers to consider requirements 	Q3 2020
Transition Pathway Analysis	<ul style="list-style-type: none"> Understand the Fund's equity resilience to a transition to a low carbon economy 	<ul style="list-style-type: none"> Conduct the transition pathway analysis on the Fund's equity holdings 	<ul style="list-style-type: none"> Hymans Robertson / Officers to consider once new mandates in place 	Q1 2021

2 Market Outlook

Core Asset Class Views: Summary

Sentiment has improved dramatically in the second quarter as investors look through dismal expectations for Q2 data and focus on a near-term rebound that has outpaced the worst fears in recent weeks. Nevertheless, the outlook for corporate earnings and defaults remains uncertain and the potential for further waves of infection remains a risk.

Recent market moves have reduced the apparent cheapness of global equity and credit markets and they may be vulnerable to disappointment in respect of the scale and speed of the post-lockdown recovery. This leads us to retain a degree of caution and advocate holding more cash than usual.

For those reluctant to hold cash, non-directional strategies and strategies with a genuine absolute return focus may offer an attractive alternative to outright equity exposure in growth portfolios. In income portfolios, we continue to prefer investment-grade over speculative-grade credit, although private debt markets may offer opportunities to originate new deals with better terms in certain areas. Emerging market debt, particularly hard currency debt, potentially still offers some attractive relative value.

We continue to suspend our ratings for property due to the lack of transaction activity, and hence lack of pricing information.

Asset Class	Current Quarter View	Previous Quarter View
Equities	Cautious	Cautious
Sterling Investment Grade Credit	Neutral	Cautious
Liquid Sub-Investment Grade Credit	Neutral to Cautious	Cautious to Negative
Private Lending	Neutral to Cautious	N/A
UK Property	N/A	N/A
Long Lease Property	N/A	N/A
Gilts	Neutral to Cautious	Neutral to Cautious
Index-Linked Gilts	Neutral to Cautious	Neutral

Overall ratings: Negative, Cautious, Neutral, Attractive, Positive

The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual funds are managed. The property rating ignores purchase transaction costs, i.e. relevant for current holders of property.

The table below provides a high-level overview of our key observations for each asset class.

Asset Class	Comment
Equities	<ul style="list-style-type: none"> While near-term data has started to improve, much uncertainty remains over the longer-term recovery and, ultimately, the extent of the impact on corporate earnings. Recent market moves have reduced the apparent cheapness of global equity markets and current valuations may not adequately reflect the downside risks to the outlook. There remains a meaningful disparity by region – from a valuation perspective the US looks expensive, with the UK and Emerging Markets look cheaper relative to historic levels.
Sterling Investment Grade Credit	<ul style="list-style-type: none"> Global investment grade credit spreads have rebounded strongly and are nearing long-term median levels. Despite similar underlying assessments for both investment-grade and speculative-grade markets, we have a slightly more positive overall view for investment-grade, given the less sensitive nature of this market to the fundamental backdrop. The structural protection inherent in ABS and high stress resilience offers some additional protection relative to unsecured corporate markets.
Liquid Sub-Investment Grade Credit	<ul style="list-style-type: none"> Around two-thirds of the spread widening of the first quarter has been recouped (by end July) since the end of March, though spreads remain above long-term median levels. Default and downgrade expectations have improved; however the outlook still remains uncertain.
Private Lending	<ul style="list-style-type: none"> Transaction activity in private debt markets has resumed, though the fundamental backdrop has deteriorated since the beginning of 2019. The illiquidity premium we would typically expect has been compressed a little as spread widening in private credit markets lags that in the syndicated loan markets but there may be attractive opportunities to originate new deals in the coming months.
UK Property	<ul style="list-style-type: none"> UK commercial property capital values and rental growth are falling across the market as the impact of the pandemic is increasingly reflected in the data. A lack of transactions means the material uncertainty over the accuracy of valuations persists and is likely the data will further deteriorate over the coming months.
Long Lease Property	<ul style="list-style-type: none"> Given strength of tenants and contracts we would expect the typical sector mix of long lease portfolio to fare better than the core property market, albeit there may still be pockets of potential stress. However, valuations reflect the greater protection provided by term and tenant quality.
Infrastructure	<ul style="list-style-type: none"> We have seen some significant write-downs of some GDP-sensitive assets, but there is limited evidence of how it has affected broad valuations.

	<ul style="list-style-type: none"> • Dry powder remains at an all-time high.
Gilts	<ul style="list-style-type: none"> • Gilt yields remain near record lows amid ultra-accommodative monetary policy. • Downgrades to forecasts for UK growth and inflation improve fundamental support for gilt markets. • Yields are expected to remain subdued for some time as major central banks expand QE programs to provide liquidity to the global financial system, pushing the normalisation of interest rates beyond the horizon of our medium-term views.
Index-Linked Gilts	<ul style="list-style-type: none"> • Implied inflation is no longer cheap versus forecast and target inflation. • The ongoing consultation on the use of RPI as an inflation measure remains a risk for real yields.
Cash Strategies	<ul style="list-style-type: none"> • While interest rates may be as close to zero as they can get, when focused on risk adjusted returns, this feels like a sensible time to hold more cash than usual, that can be deployed into buying opportunities.

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East Sussex Pension Fund

Q2 2020 Investment Monitoring Report

Paul Potter, Partner

Ben Fox, Investment Consultant

Mark Tighe, Investment Analyst

Executive Summary

The table summarises the status of the key considerations for the Fund

	"RAG Status"	Comment	Action	Responsibility / Timescale
Strategic Allocation		Agreed at the June Committee meeting to increase the infrastructure allocation from 4% to 8% and amend the structure of the Fund's equity allocation	No action proposed	Meetings have taken place with managers and recommendations made for pooled funds to make an investment subscription to
Fund Performance		Fund return ahead of benchmark over all longer time periods shown	No action proposed	-
Manager Performance		Passive manager performance in line with benchmark All active managers ahead of benchmark since inception	No action proposed	-
Manager Changes		No significant changes over quarter	No action proposed	-
Asset Allocation		Protection allocation in breach of upper limit Alternatives allocation in breach of lower limit Absolute return and M&G absolute return credit allocations in breach of limits	No rebalancing recommended at this stage. Drawdowns into infrastructure and real-estate debt will increase alternatives allocation	Officers to respond to capital calls when made over coming years. DGFs expected to fund the capital calls

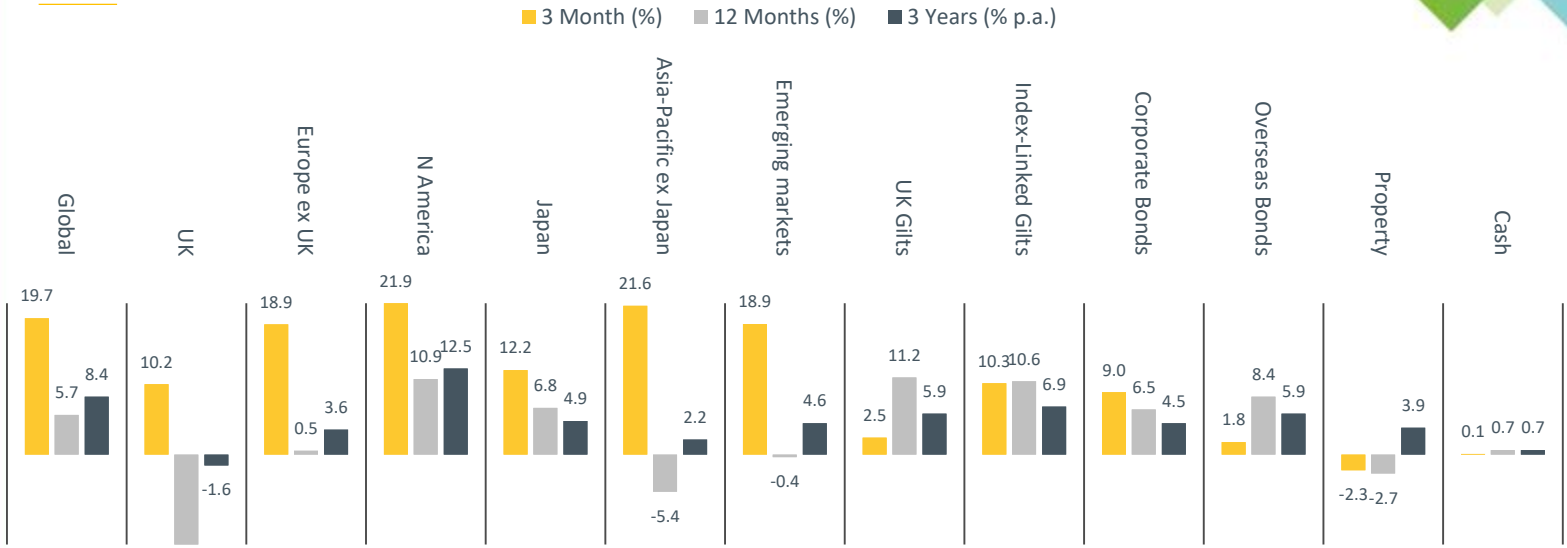
■ In line with expectations
 ■ Behind expectations, no action proposed
 ■ Behind expectations, action proposed

Q1 figures confirmed GDP had fallen across the world since the end of 2019. As many of the developed economies went into lockdown during March, falls in second-quarter GDP are likely to be even greater. Purchasing Managers' Indices for both services and manufacturing in the major western economies plunged to record lows in April but, after rebounding in May, saw record rises in June.

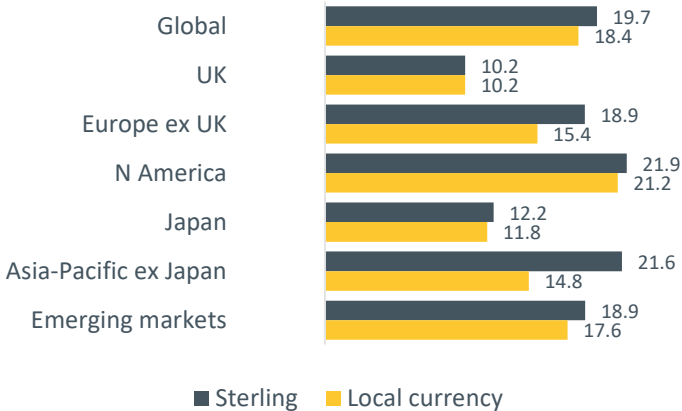
Forecasts for global GDP growth in 2020 as a whole have fallen significantly since the end of the first quarter. However, there has been some moderation in the pace of downgrades to global 2020 GDP data, with some country-level exceptions. UK CPI inflation fell from 1.5% in March to 0.5% in May. Lower energy prices made a big contribution to the fall but core inflation (excluding food and energy) has also fallen from 1.6% to 1.2%.

In April, the Fed significantly expanded the corporate credit purchase programmes it had announced in March to include, for the first time, speculative-grade debt. In June, the European Central Bank announced a further €600bn of QE and the Bank of England raised its QE programme from £645bn to £745bn. Sterling consolidated the rebound from its late-March depths in April, but subsequently weakened. In trade-weighted terms, it has fallen more than 2% since the end of March.

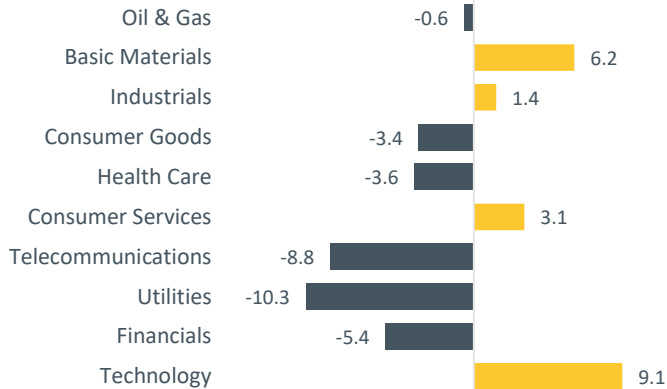
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

Total Fund Performance

- The Fund returned 9.7% over the quarter, which was driven mostly by the equity allocation
- Other return seeking assets, with the exception of property, also delivered positive performance, although their impact was less pronounced

Key Actions

- Infrastructure investments expected to draw down capital over the next 3-4 years
- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which started to draw down capital during Q2 2019. The Fund is now c.74% drawn.

Asset Allocation

- Allocation to alternatives underweight. Further drawdowns into infrastructure and real estate debt will address this over time.
- Protection overweight, following the Q1 market crash
- Absolute return allocation overweight and M&G absolute return credit underweight at underlying fund level.

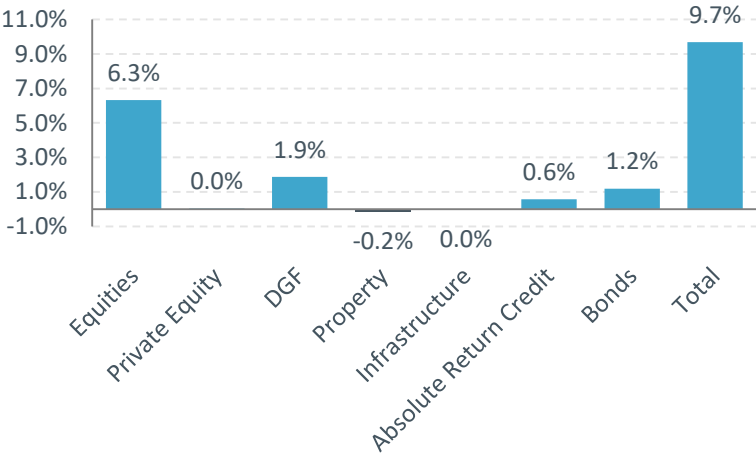
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%) p.a.	Last 5 years (%) p.a.
Total	9.7	1.2	4.6	7.6
Benchmark	10.0	0.8	4.3	6.9
Relative	-0.2	0.4	0.2	0.7

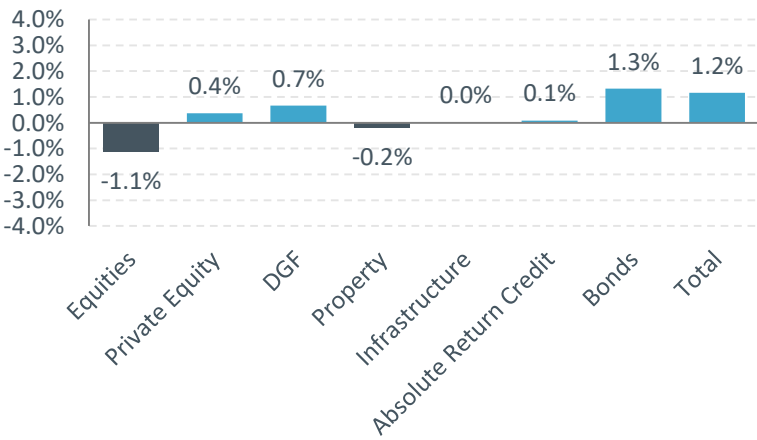
Asset Allocation

	Actual	Benchmark	Relative	Rebalancing Range
Equity	46.7%	45.5%	1.2%	41.0% - 50.0%
Alternatives	30.5%	35.5%	-5.0%	32.0% - 39.0%
Protection	22.2%	19.0%	3.2%	17.0% - 21.0%

3 Month Performance Attribution*



12 Month Performance Attribution*



*Note: Private equity performance is derived from valuations that are either 3 or 6 months lagged

Asset Allocation

Access Pool	Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative	Rebalancing Ratings
		Q1 2020	Q2 2020				
No*	UBS - Regional Equities	312.4	368.9	9.7%	8.0%	1.7%	36.0% - 44.0%
No*	UBS - Fundamental Index	363.2	424.7	11.2%	11.5%	-0.3%	
No*	UBS - UK Equity	220.9	247.0	6.5%	7.0%	-0.5%	
No*	UBS - Climate Aware	160.0	191.6	5.0%	5.0%	0.0%	
No*	UBS - Global EM Equity	36.2	42.9	1.1%	1.5%	-0.4%	
Yes	Longview - Global Equity	238.8	272.6	7.2%	7.0%	0.2%	3.5% - 7.5%
No**	Harbourvest - Private Equity	109.5	107.6	2.8%	2.8%	0.1%	
No**	Adams Street - Private Equity	135.6	121.9	3.2%	2.8%	0.5%	
Total Equity		1,576.7	1,777.3	46.7%	45.5%	1.2%	41.0% - 50.0%
Yes	Newton - Absolute Return	414.8	447.0	11.7%	10.5%	1.2%	9.5% - 11.5%
No	Schroders - Property	351.8	344.0	9.0%	10.0%	-1.0%	8.0% - 12.0%
No	UBS - Infrastructure	16.7	16.3	0.4%	1.0%	-0.6%	2.0% - 6.0%
No	Pantheon - Infrastructure	30.1	33.6	0.9%	2.0%	-1.1%	
No	M&G - Infrastructure	20.7	21.6	0.6%	1.0%	-0.4%	
No	M&G - Private Debt	38.8	36.5	1.0%	3.0%	-2.0%	1.0% - 5.0%
No	M&G - UK Financing Fund	0.0	0.0	0.0%	0.0%	0.0%	
No	M&G - Alpha Opportunities	239.1	261.7	6.9%	8.0%	-1.1%	
Total Alternatives		1,112.0	1,160.7	30.5%	35.5%	-5.0%	32.0% - 39.0%
Yes	Ruffer - Absolute Return	418.5	449.5	11.8%	10.5%	1.3%	9.5% - 11.5%
Yes	M&G - Corporate Bonds	144.3	160.5	4.2%	3.5%	0.7%	2.5% - 4.5%
No*	UBS - Over 5 Year IL Gilt Fund	212.3	236.8	6.2%	5.0%	1.2%	4.0% - 6.0%
Total Protection		775.1	846.8	22.2%	19.0%	3.2%	17.0% - 21.0%
No	Cash	23.9	22.9	0.6%	0.0%	0.6%	0.0% - 2.0%
Total Scheme		3,487.6	3,807.6	100.0%	100.0%		

*The UBS funds are provided to members of the ACCESS Pool but the funds themselves sit outside of the pool.

Source: Investment Managers and LINK

**Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements

Key actions agreed previously

- Changes to the Fund's equity portfolio expected to be made during the remainder of 2020, in line with agreed changes at the June Committee meeting
- Allocation to listed infrastructure expected to also be funded during the remainder of 2020
- Fund has committed £60m to the M&G Real Estate Debt VI Fund which is expected to fully draw down over the next 12-18 months
- Fund has committed c£235m to unlisted infrastructure, which is expected to draw down over the next 3-4 years.

Allocation comment

- Absolute return mandates in breach of upper limit, but expected to fund draw downs into infrastructure and private debt over time
- M&G Absolute Return Credit in breach of lower limit.
- UBS IL Gilts in breach of upper limit

Manager performance – net of fees

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Equity												
UBS - Regional Equities	20.1	20.1	-0.0	5.7	5.6	0.1				6.1	6.0	0.1
UBS - Fundamental Index	16.1	16.0	0.1	-6.8	-7.1	0.3				0.9	0.8	0.1
UBS - UK Equity	10.5	10.2	0.3	-12.8	-12.9	0.0				-4.6	-4.7	0.0
UBS - Climate Aware	19.7	19.8	-0.1	6.3	6.3	0.0				6.7	7.0	-0.2
UBS - Global EM Equity	18.7	18.8	-0.1	-0.9	-0.5	-0.4				-0.1	0.2	-0.2
Longview - Global Equity	14.2	19.8	-4.7	-4.6	6.3	-10.2	4.9	8.1	-2.9	12.4	10.7	1.5
Alternatives												
Newton - Absolute Return	8.1	0.7	7.3	1.5	3.1	-1.6	3.2	3.1	0.1	3.9	3.0	0.8
Schroders - Property	-1.6	-2.0	0.4	-3.8	-2.6	-1.2	3.1	3.4	-0.3	6.9	6.7	0.3
M&G - Absolute Return Credit	8.1	0.8	7.3	2.5	3.5	-1.1	2.4	3.6	-1.1	3.9	3.5	0.4
Protection												
Ruffer - Absolute Return	7.3	0.7	6.5	10.2	3.1	6.8	3.5	3.1	0.4	4.0	3.0	1.0
M&G - Corporate Bonds	11.3	10.0	1.2	12.9	9.9	2.7	7.2	5.9	1.2	8.1	8.1	0.0
UBS - Over 5 Year IL Gilt Fund	11.5	11.5	0.0	12.0	11.9	0.1				10.0	10.0	0.0
Total	9.7	10.0	-0.3	1.2	0.8	0.4	4.6	4.3	0.2			

We have estimated net returns based on each manager's expected fee levels. Total Fund performance was provided by WM until 31 March 2016, including private market returns. In Q2 2016, total Fund performance was calculated excluding private market investments. From Q3 2016 to Q3 2017 total Fund performance has been calculated using estimated valuations for private market investments. From Q4 2017 total Fund performance has been provided by Northern Trust. From Q4 2018, Northern Trust applied updated benchmarks across several of the Fund's managers, but this was not back-dated. For those managers now in ACCESS, longer-term performance has been estimated by chain linking returns before and after the transfer into the Pool. Returns since the transfer have been taken from Link.

Total Fund performance includes the contribution from the Fund's illiquid private mandates, which are derived from lagged valuations, whereas their benchmark is based on up-to-date indices. In the case of private equity in particular, this can cause meaningful short-term tracking error, as performance derived from lagged private equity values is compared to equity indices over the recent quarter.

- UBS performed broadly in line with their respective benchmarks. Longer-term performance is broadly in line
- Longview underperformed its MSCI World benchmark, primarily due to stock selection within the consumer discretionary and IT sectors.
- Newton and Ruffer outperformed their cash-plus benchmark as risk markets rebounded strongly from the COVID-19 driven falls seen in Q1 2020.

- This page includes manager/RI ratings and any relevant updates over the period.
- There were no manager rating changes over the quarter.
- We hope to be able to roll out manager RI ratings across other asset classes later this year.

Manager ratings

Mandate	Hymans Rating	RI
UBS - Passive Equities	Preferred	Good
Longview - Global Equity	Preferred	Adequate
Harbourvest - Private Equity	Preferred	-
Adams Street - Private Equity	Preferred	-
Newton - Absolute Return	Suitable	Good*
Ruffer - Absolute Return	Positive	-
Schroders - Property	Suitable	-
UBS - Infrastructure	Suitable	-
Pantheon - Infrastructure	Preferred	-
M&G - Infrastructure	Positive	-
M&G - Private Debt	Preferred	-
M&G - Absolute Return Credit	Preferred	-
M&G - Corporate Bonds	Preferred	-
UBS - Over 5 Year IL Gilt Fund	Preferred	-

*Based on our rating of Newton's equity funds

Longview business update

Over the quarter, Ramzi Rishani, Longview Co-Founder who retired in 2018, sold his remaining equity position in the business to Northill Capital. The remaining Partners now represent 10% of the businesses equity, down from c.15% when Ramzi left. In addition, Longview announced that Jamie Carter will join the business from Oldfield Partners in January 2021 as Chief Operating Officer.

Newton business update

In early Q3 2020, Newton announced that its CEO Hanneke Smits has been promoted to CEO of BNY Mellon Investment Management, Newton's parent organisation. This follows the decision by BNY Mellon Investment Management's current CEO Mitchell Harris to retire. Smits will begin in her new role on 1 October 2020 and Newton are currently searching for Smits' successor. We had a meeting with Smits following the news and are awaiting news of her successor.

A number of changes that were announced in the previous quarter came into effect with Ilga Haubelt assuming responsibility for the equity income team and Charles French assuming responsibility for the equity opportunities team.

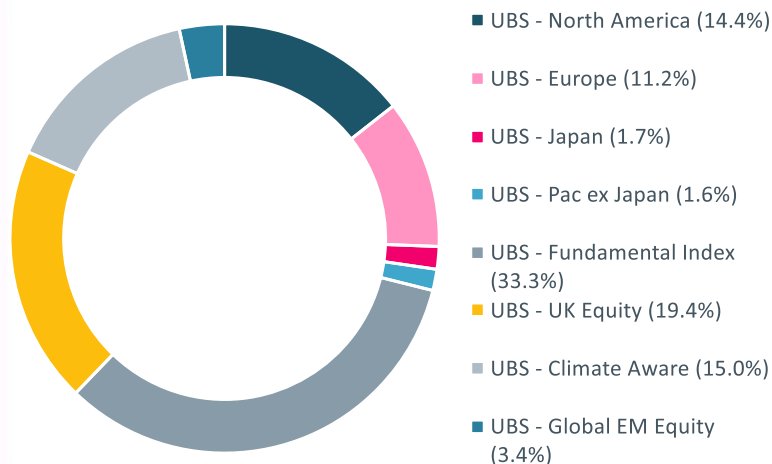
UBS Equities

- Benchmark: Various regional indices
- Target: Match benchmark over all time periods
- UBS have successfully tracked underlying benchmarks to date

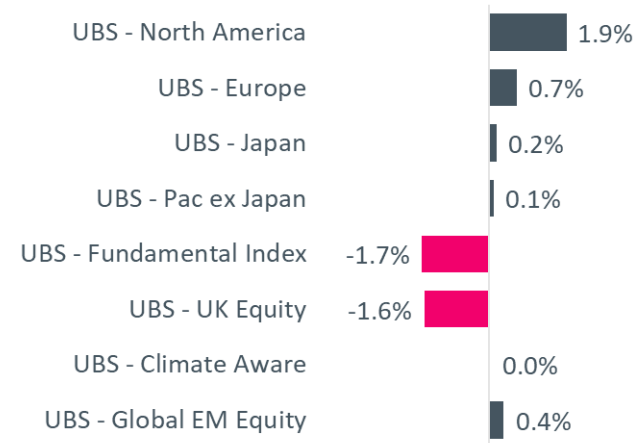
Fund performance vs benchmark

	Last 3 months (%)	B'mark	Relative	Last 12 months (%)	B'mark	Relative
UBS - North America	21.9	21.9	0.0	11.0	10.9	0.1
UBS - Europe	18.7	18.8	-0.1	0.6	0.6	0.0
UBS - Japan	12.2	12.2	0.0	6.8	6.7	0.1
UBS - Pac ex Japan	21.5	21.5	0.0	-5.4	-5.5	0.1
UBS - Fundamental Index	16.1	16.0	0.1	-6.8	-7.1	0.3
UBS - UK Equity	10.5	10.2	0.3	-12.8	-12.9	0.0
UBS - Climate Aware	19.7	19.8	-0.1	6.3	6.3	0.0
UBS - Global EM Equity	18.7	18.8	-0.1	-0.9	-0.5	-0.4

Fund Allocation



Fund Allocation Relative to Target



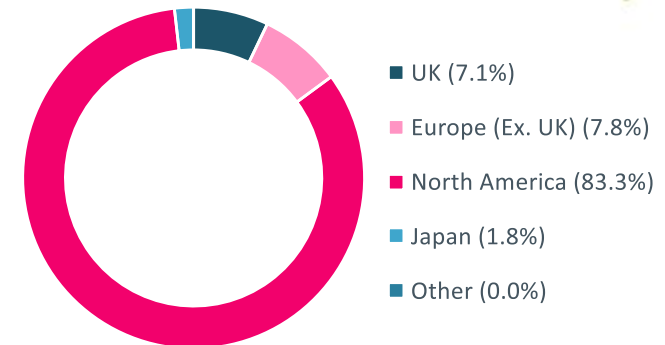
Longview Global Equities

- Benchmark: MSCI ACWI
- Target: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods
- Performance behind benchmark over all time periods considered
- Performance shown gross of fees
- This Fund transferred into the ACCESS Pool on 4 February 2019. Performance data until this date is taken from Longview and after this date from Link, the Access pool operator.

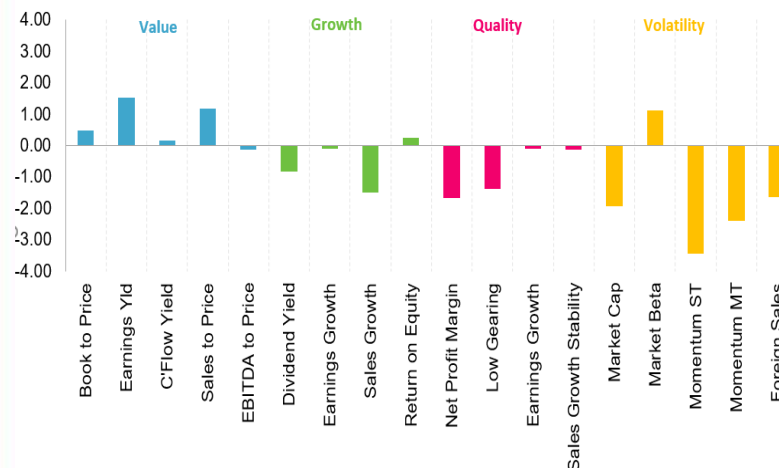
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%) p.a.	Last 5 years (%) p.a.
Longview - Global Equity	14.3	-3.9	5.5	10.8
Benchmark	19.8	6.3	8.1	11.8
Relative	-4.6	-9.6	-2.3	-0.9
Target (%)	20.5	9.3	11.1	14.8
Relative to Target (%)	-5.2	-12.1	-5.0	-3.5

Country Allocation



Pooled Fund Skyline (as at 30 June 2020)



Performance attribution – Top/Bottom 3 Sectors

	Average Weight			Outperformance Source		
	Fund (%)	Index (%)	Difference (%)	Selection (%)	Allocation (%)	Total (%)
Industrials	13.4	10.1	3.4	2.0	-0.0	2.0
Consumer Staples	9.4	8.7	0.7	0.7	-0.1	0.6
Utilities	0.0	3.5	-3.5	0.0	0.5	0.5
Financials	26.2	12.9	13.3	-0.0	-1.0	-1.0
Consumer Discret.	6.4	10.8	-4.4	-2.5	-0.4	-2.9
IT	12.8	20.0	-7.1	-2.4	-0.9	-3.3

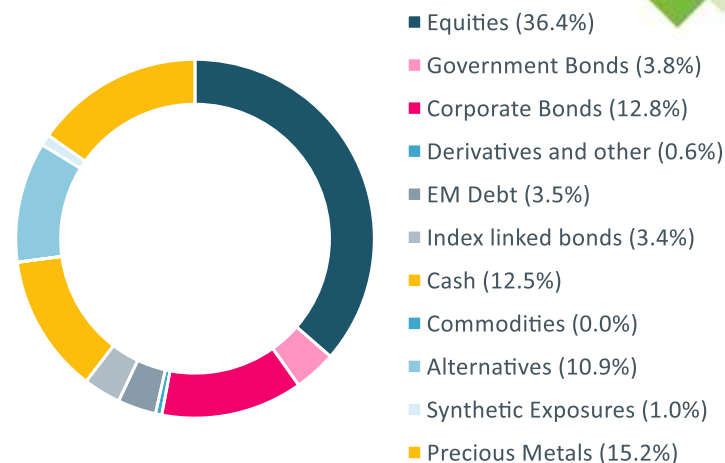
Newton Real Return Fund

- Benchmark: 3m LIBOR + 2.5% p.a.
- Target: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance ahead of target of the quarter but behind target over longer periods considered
- Performance shown gross of fees
- This Fund transferred into the ACCESS Pool during Q1 2020

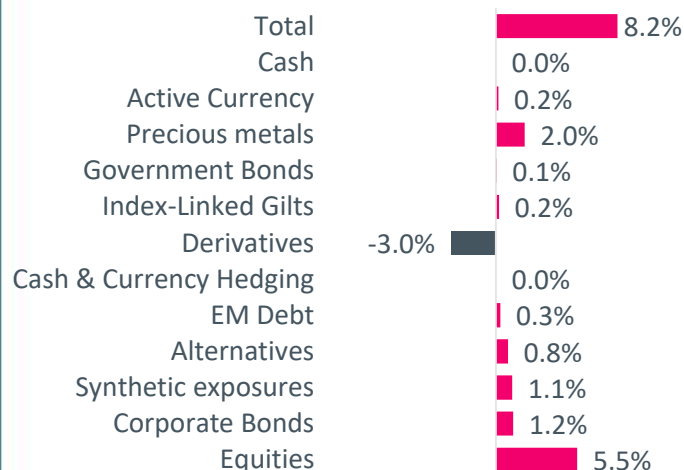
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Newton - Absolute Return	8.2	2.1	3.8	4.0
Benchmark	0.7	3.1	3.1	3.0
Relative	7.4	-1.0	0.7	1.0
Target (%)	1.1	4.6	4.6	4.5
Relative to Target (%)	7.0	-2.5	-0.8	-0.5

Asset Allocation



Performance Attribution



Performance Attribution Explanation

Positive performance over the quarter was driven by the fund's exposure to equity markets. Within equities, the fund's stock selection added further value.

Exposure to precious metals also contributed positively as the price of gold increased substantially over the quarter.

Derivative contracts designed to hedge against falls in equity and credit markets detracted from returns, as would be expected in a rising market.

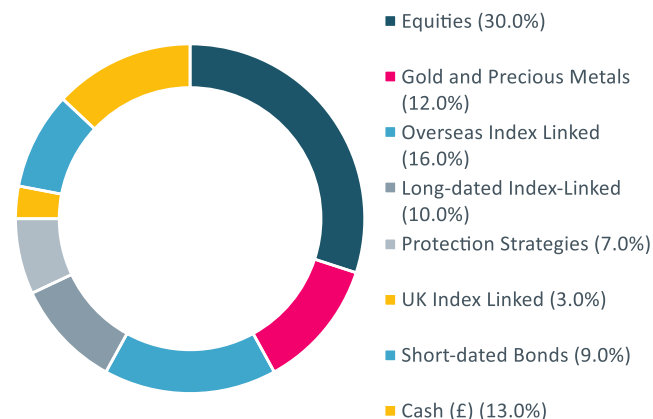
Ruffer Absolute Return Fund

- Benchmark: 3-month LIBOR + 2.5%
- Target: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance behind benchmark for all time periods considered other than 12 months
- Performance shown gross of fees
- This Fund transferred into the ACCESS Pool on 4 December 2019.

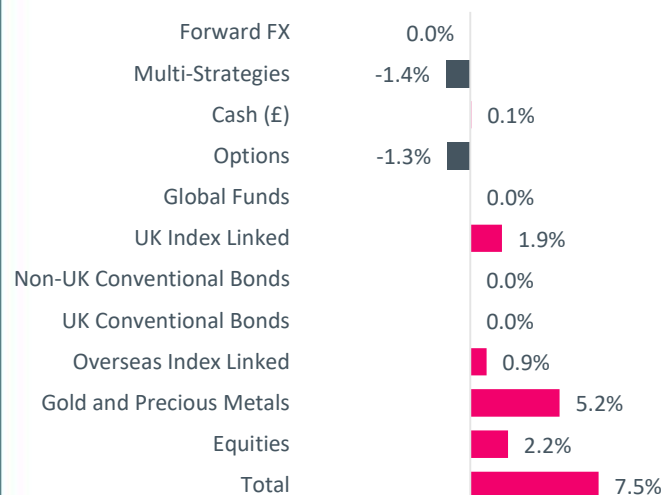
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%) p.a.	Last 5 years (%) p.a.
Ruffer - Absolute Return	7.5	11.0	4.3	3.4
Benchmark	0.7	3.1	3.1	3.0
Relative	6.7	7.6	1.1	0.4
Target (%)	1.1	4.6	4.6	4.5
Relative to Target (%)	6.3	6.1	-0.3	-1.1

Asset Allocation



Performance Attribution



Performance Attribution Explanation

Following an impressive first quarter of 2020, where Ruffer protected capital extremely well, Ruffer were also able to capture a good proportion of upside when markets rebounded in Q2 2020, returning 7.5%.

Similar to Newton, Ruffer's drivers of performance were exposure to equities and precious metals – primarily gold.

The detractors from performance were the fund's derivative contracts, which are designed to protect against equity volatility, and the fund's multi strategy credit protection funds. The multi strategy funds hedge against turmoil in credit markets.

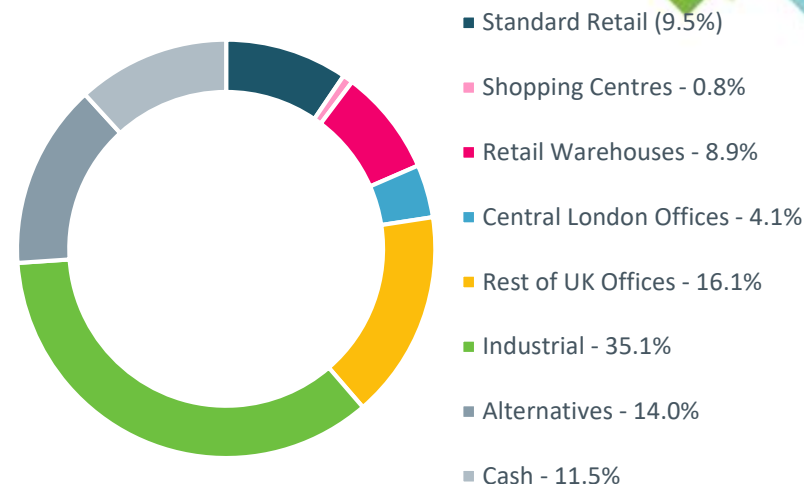
Schroders Property Fund

- Benchmark: IPD All Balanced Funds
- Target: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years
- Performance behind benchmark over all time periods considered
- Performance shown net of fees

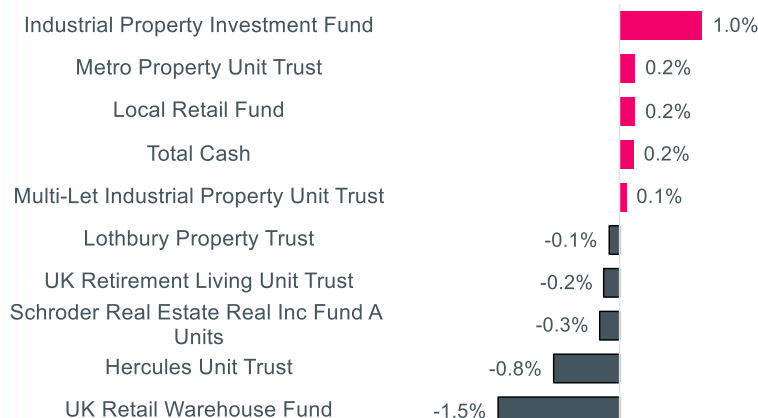
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%) p.a.	Last 5 years (%) p.a.
Schroders - Property	-1.6	-3.8	3.1	4.5
Benchmark	-2.0	-2.6	3.4	4.7
Relative	0.4	-1.2	-0.3	-0.2
Target (%)	-1.8	-1.9	4.1	4.9
Relative to Target (%)	0.2	-2.0	-1.0	-0.4

Sector Allocation



Top 5/Bottom 5 Contributors (12 months)



Performance attribution Explanation

The Schroders mandate outperformed its benchmark over the quarter, but is behind over longer periods. Transactions remain suppressed, though valuation clauses have been lifted on some properties. Rent collection remained weak over Q2, with rates collected ranging from 49% to 92% across Schroders' SRECaP investment platform.

The portfolio is aligned with Schroders' House View of being underweight relative to benchmark in retail and overweight to industrials and alternatives sectors. At quarter end there was c£25.8m (7.5%) of cash on account. The Fund has committed £8.4m to the UK Retirement Living Fund and £6.4m to the Social Supported Housing Fund. Uncommitted cash totals c£11.0 million (3.2% of portfolio value).

M&G Alpha Opportunities Fund

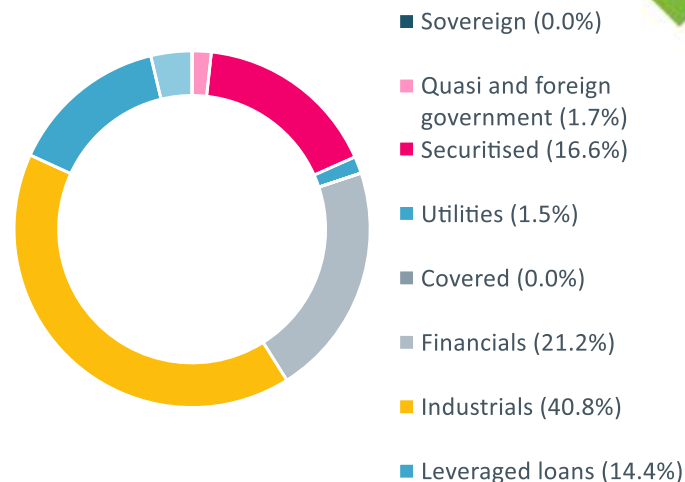
- Benchmark: 3 Month Libor + 3%
- Target: 3 Month Libor + 5% (gross)
- Performance shown gross of fees

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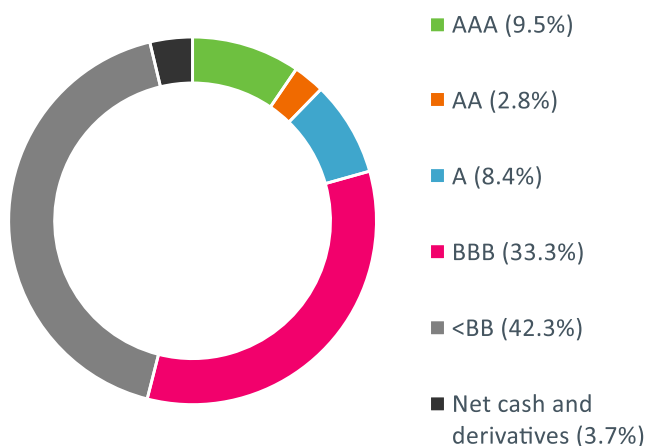
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%) p.a.	Last 5 years (%) p.a.
M&G - Absolute Return	8.2	2.8	2.8	3.6
Benchmark	0.8	3.5	3.6	3.5
Relative	7.4	-0.7	-0.7	0.1
Target (%)	5.0	5.5	5.6	5.5
Relative to Target (%)	3.0	-2.6	-2.6	-1.8

Sector Allocation



Credit Ratings



Performance attribution Explanation

At the start of the quarter, M&G looked to add risk into the portfolio across Dollar and Euro investment grade bonds. In May, purchases were focused on cyclical sectors. Profits were taken across several positions in June.

Industrial and financial corporates were the main driver of returns. Leveraged loans also meaningfully contributed.

M&G Corporate Bonds Fund

- Benchmark:
- 50% iBoxx Non-Gilts Over 15Y
- 50% iBoxx Non-Gilts

- Target: Outperform benchmark by 0.8% p.a. (gross)

- Performance shown gross of fees

- Performance ahead of benchmark and target over all time periods considered

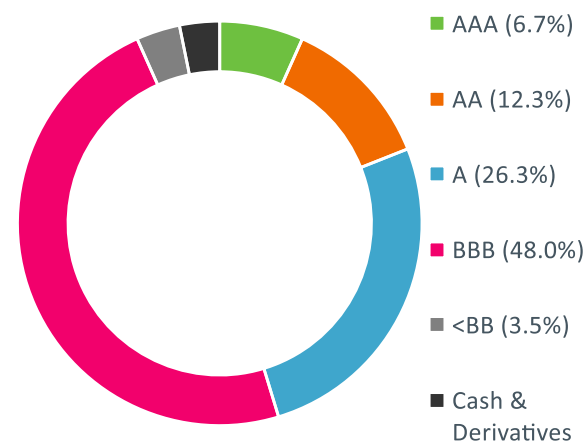
- M&G mandate has a marginally lower average credit quality than the benchmark

- This Fund transferred into the ACCESS Pool during Q1 2020

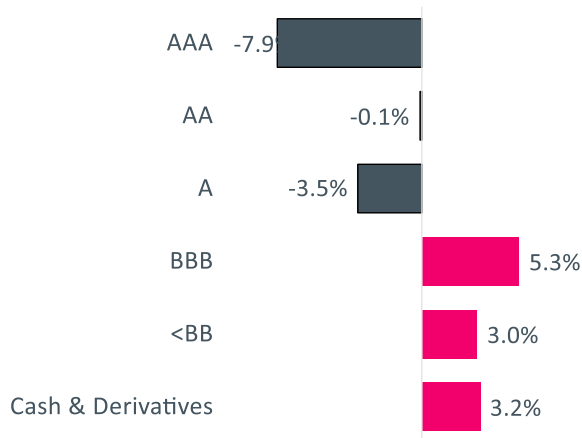
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
M&G - Corporate Bonds	11.4	13.2	7.5	8.7
Benchmark	10.0	9.9	5.9	7.2
Relative	1.3	3.1	1.6	1.4
Target (%)	10.2	10.7	6.7	7.4
Relative to Target (%)	1.1	2.3	0.8	1.2

Credit Ratings



Credit rating allocation relative to benchmark



Performance attribution relative to benchmark

Sector	Outperformance Source		
	Sector Selection (%)	Stock Selection (%)	Total (%)
Financial	0.4	0.2	0.7
Utility	-0.2	0.2	-0.1
Quasi & Foreign Government	-0.2	-0.0	-0.2
Industrial	0.6	0.3	0.9
Sovereign	-0.0	0.0	-0.0
Covered	0.0	0.0	0.0
Securitised	0.1	-0.1	0.0
Cash and other	n/a	n/a	-0.0

UBS Index-Linked Gilts Fund

- Benchmark: FTSE Index-Linked Gilts Over 5 Years
- Target: Match benchmark
- Performance broadly matched benchmark since inception
- Real yields fell over the quarter resulting in positive performance for index-linked assets.

Fund Performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
UBS - Over 5 Year IL Gilt Fund	11.5	12.0	10.0
Benchmark	11.5	11.9	10.0
Relative	0.0	0.1	-0.0

HarbourVest and Adams Street Private Equity

- Benchmark: MSCI ACWI+1.5%
- Target: MSCI ACWI+3.0%
- Note: Starting valuations are as at 31 March 20 for Adams Street and 31 Dec 19 for HarbourVest. Drawdowns and distributions reflect actual movements over the quarter. Ending valuations reflect the starting valuation adjusted for drawdowns and distributions, and updated for exchange rate movements, as several underlying funds are non-Sterling denominated

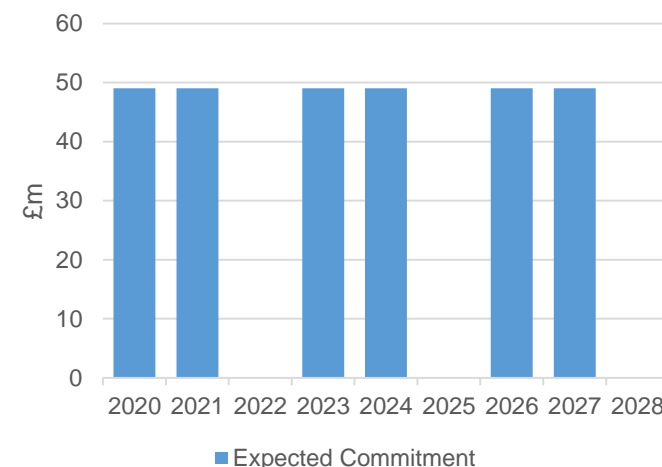
Market Value and cashflow over quarter

	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter	Market Value at end
DEFAULT ISSUER HARBOURVEST PTNS VII CAYMAN BUYOUT FD LP (EPF09)	0.4	-	0.0	0.3
HARBOURVEST INTL PEP V - CAYMAN PSHP FD	2.4	-	0.3	2.3
HARBOURVEST INTL PEP VI - CAYMAN PSHP FUND	17.5	-	-	16.9
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND I	12.3	-	0.9	11.6
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND II	19.6	0.3	-	19.6
HARBOURVEST PARTNERS IX CAYMAN CREDIT OPPORTUNITIES FUND	1.7	0.1	-	1.6
HARBOURVEST PARTNERS IX CAYMAN VENTURE FUND	9.7	-	0.3	9.8
HARBOURVEST PARTNERS IX-CAYMAN BUYOUT FUND	12.7	0.4	0.5	12.3
HARBOURVEST PARTNERS VII - CAYMAN MEZZANINE FUND	0.1	-	-	0.0
HARBOURVEST PARTNERS XI AIF LP	8.0	0.7	-	8.0
HARBOURVEST PTRS VII - CAYMAN VENTURE FUND	1.0	-	0.1	1.0
HARBOURVEST PTRS VIII - CAYMAN BUYOUT FUND	2.3	-	0.1	2.0
HARBOURVEST PTRS VIII - CAYMAN MEZZANINEAND DISTRESSED DEBT FD	0.2	-	-	0.1
HARBOURVEST PTRS VIII - CAYMAN VENTURE FUND	1.8	-	0.2	1.5
HIPEP IV SUPPLEMENTAL EUROPEAN COMPANIONFUND	0.1	-	-	1.0
HIPEP VII (AIF) PARTNERSHIP FUND LP	12.5	0.5	-	12.6
HIPEP VIII (AIF) PARTNERSHIP FUND LP	6.8	1.3	0.1	7.5

Market value and cashflows over quarter

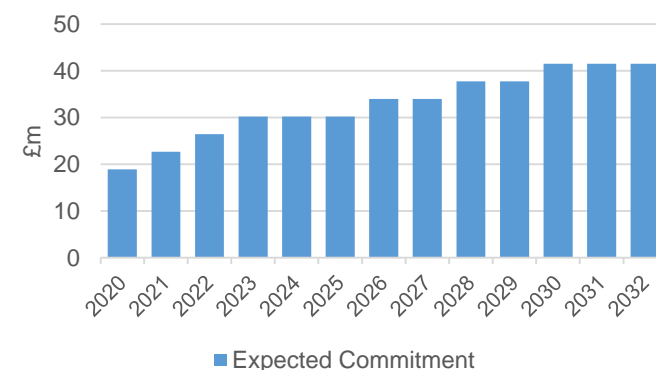
	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter	Market Value at end
ADAMS STREET DIRECT FUNDS	6.1	0.1	0.4	3.0
ADAMS STREET CO-INVESTMENT FUND II	1.7	0.0	0.1	1.4
ADAMS STREET GLOBAL FUNDS 2014 - 2019	48.2	4.5	0.0	48.2
ADAMS STREET PSHP FUNDS	30.5	0.0	2.0	23.6
ADAMS STREET FEEDER FUNDS	23.0	0.0	0.8	20.6
ADAMS STREET OFFSHORE COMPANY LIMITED FUNDS	26.1	0.0	2.4	23.4

Projected Future commitments to maintain target allocations*



*Provided by HarbourVest. 2020 commitments were suspended. Next private markets review expected Q4 20.

Projected Future commitments to maintain target allocation*



*Provided by Adams Street. 2020 commitments were suspended. Next private markets review expected Q4 20.

Infrastructure

- Benchmark: CPI+2.0%
- Target: CPI+3%
- UBS Fund I is now winding down and paying capital back to investors. UBS Fund III is yet to draw down capital.
- The Pantheon fund is currently in ramp-up mode and 32% drawn as at quarter end.
- The InfraCapital Brownfield III fund is currently in ramp-up mode and 54% drawn as at quarter end.
- The Fund committed to the InfraCapital Greenfield II fund in January 2020 and the fund is yet to draw down capital.

UBS Commitment and distributions

UBS	Fund I	Fund III
Total Commitment (\$m)	35.0	50.0
Commitment Drawn (\$m)	33.3	0.0
Distributions (\$m)	22.9	0.0
Outstanding Commitment (\$m)	1.7	50.0
Market Value (£m)	16.4	0.0

InfraCapital Commitment and distributions

InfraCapital	Brownfield III	Greenfield II
Total Commitment (£m)	42.0	20.0
Commitment Drawn (£m)	22.5	0.0
Distributions (£m)	0.3	0.0
Outstanding Commitment (£m)	19.5	20.0
Market Value (£m)	21.6	0.0

Pantheon Commitment and distributions

Pantheon	
Total Commitment (\$m)	117.0
Commitment Drawn (\$m)	37.8
Distributions (\$m)	2.4
Outstanding Commitment (\$m)	79.2
Market Value (£m)	31.3

Commitment and distributions

M&G

Total Commitment (£m)	60.0
Commitment Drawn (£m)	44.2
Distributions (recallable) (£m)	18.0
Outstanding Commitment (£m)	33.8
Market Value (£m)	25.6

- Benchmark: 3m LIBOR +4%
- Objective: 3m LIBOR +5%
- The M&G REDF VI Fund is currently in ramp-up mode and c74% drawn at quarter end.

Fossil Fuel Exposure

- The table shows the Fund's fossil fuel exposure at 30 June 2020
- The biggest contributions come from the Fund's holding in the passive UK and RAFI equity holdings
- This is a function of both the Fund's strategic allocation to these holdings and the higher fossil fuel exposure within these funds themselves.

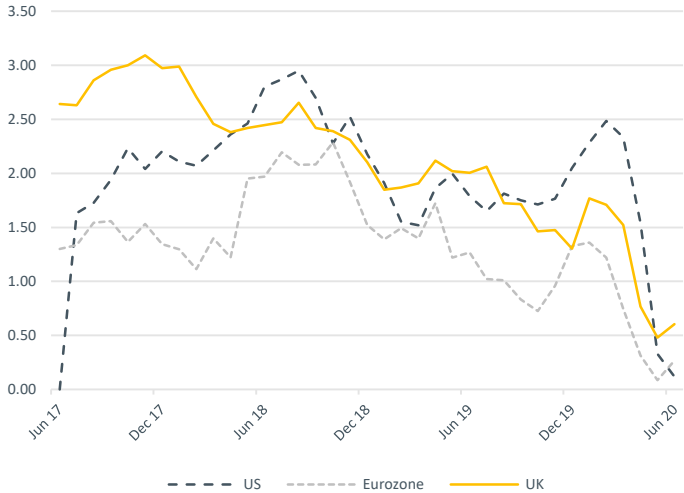
	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS - North America	4.6	8.5	4.7	0.0	Passive
UBS - Europe	5.1	7.3	5.3	-0.1	Passive
UBS - Japan	4.9	1.0	4.9	0.0	Passive
UBS - Pac ex Japan	9.5	1.9	9.9	-0.4	Passive
UBS - Fundamental Index	11.4	48.2	11.6	-0.2	Passive
UBS - UK Equity	13.1	32.3	13.2	-0.1	Passive
UBS - Climate Aware	4.5	8.7	5.6	-1.1	Passive
UBS - Global EM Equity	9.7	4.2	9.8	-0.1	Passive
Longview - Global Equity	0.0	0.0	6.9	-6.9	Active
Harbourvest - Private Equity*	3.9	4.2	6.9	-3.0	Active
Adams Street - Private Equity*	2.1	2.5	6.9	-4.9	Active
Newton - Absolute Return	1.1	4.8	-	-	Active
Ruffer - Absolute Return	1.4	6.3	-	-	Active
Schroders - Property	0.0	0.0	-	-	Active
M&G - Infrastructure	0.0	0.0	-	-	Active
Pantheon - Infrastructure	0.0	0.0	-	-	Active
M&G - Infrastructure	0.0	0.0	-	-	Active
M&G - Private Debt	0.0	0.0	-	-	Active
M&G - Alpha Opportunities	3.1	8.1	-	-	Active
M&G - Corporate Bonds	8.8	14.0	9.4	-0.7	Active
UBS - Over 5 Year IL Gilt Fund	0.0	0.0	0.0	0.0	Passive
Cash	0.0	0.0	0.0	0.0	Active
Total Fund	4.0	152.2	-	-	

Sovereign bond yields changed little in the US and Germany, but UK 10-year gilts have fallen a further 0.2%. Index-linked gilt yields have fallen further than conventional gilt yields, resulting in a slight rise in implied inflation. Reflecting the expansion of central bank support, global investment-grade spreads fell from 2.8% p.a. to 1.6% p.a. Global speculative-grade credit spreads fell from 9.2% p.a. to 6.4% p.a., further supported by the specific details of the Fed's purchases and a rise in oil prices from \$22 to \$41 per barrel.

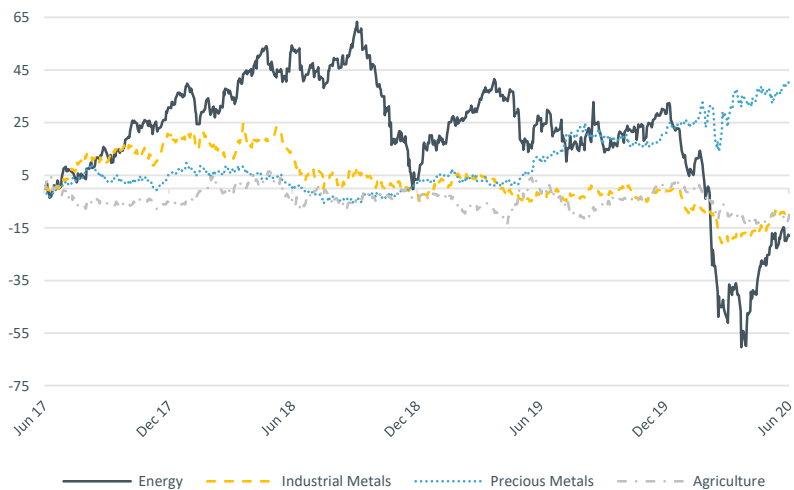
Global equity indices rose 18.4% in local currency terms. Sector composition helps to explain why the US (heavy in technology) leads the regional ranking tables for both this quarter and the year to date and why the UK (hardly any technology and heavy in financials) brings up the rear over both periods. After a poor first quarter, cyclical sectors have fared better in the second: basic materials, industrials and consumer services have outperformed the market; oil & gas has been broadly in line.

UK commercial property values continue to fall, although there is little or no transaction activity to guide valuations. As measured by the MSCI UK Monthly Property Index, capital values in May were almost 6% below end-2019 levels. Initial evidence suggests commercial tenants withheld rents at the June quarter collection day in England & Wales to a greater extent than in March.

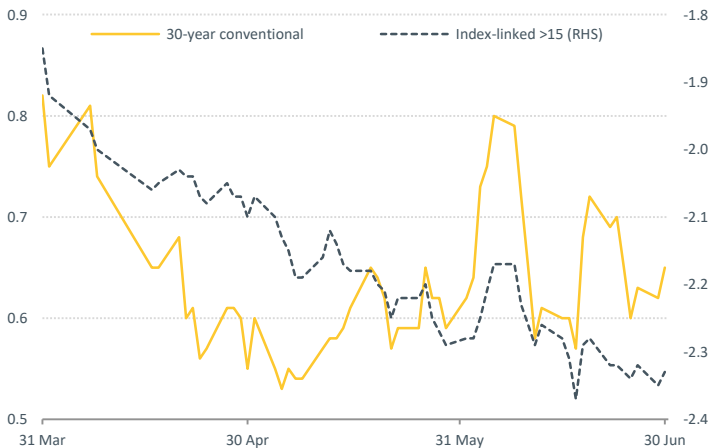
Annual CPI Inflation (% p.a.)



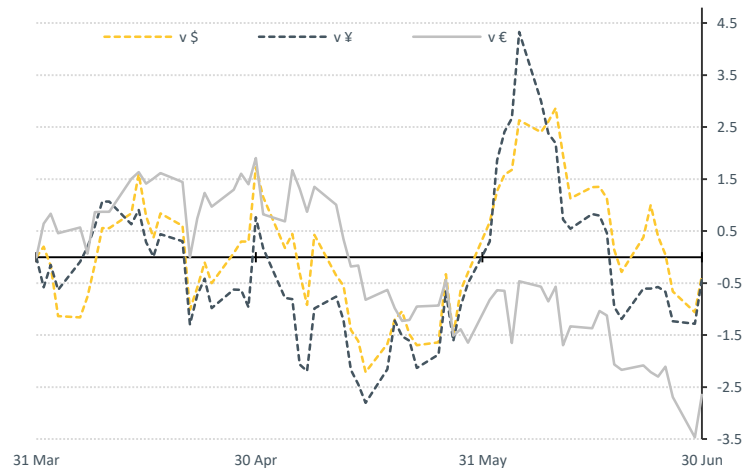
Commodity Prices (% change)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: Reuters

Manager Benchmarks & Targets

Mandate	Date Appointed	Benchmark Description	Performance Target (% p.a.)
UBS - North America	12/06/2018	FTSE All World North America Index	FTSE All World North America Index
UBS - Europe	12/06/2018	FTSE All World Developed Europe ex-UK Index	FTSE All World Developed Europe ex-UK Index
UBS - Japan	12/06/2018	FTSE All World Japan Index	FTSE All World Japan Index
UBS - Pac ex Japan	12/06/2018	FTSE All World Developed Asia Pacific ex-Japan Index	FTSE All World Developed Asia Pacific ex-Japan Index
UBS - Fundamental Index	07/02/2018	FTSE RAFI All-World 3000	FTSE RAFI All-World 3001
UBS - UK Equity	17/01/2018	FTSE All-Share Index	FTSE All-Share Index
UBS - Climate Aware	22/06/2018	FTSE Developed Index	FTSE Developed Index
UBS - Global EM Equity	21/02/2018	FTSE Emerging Index	FTSE Emerging Index
Longview - Global Equity	16/04/2013	MSCI ACWI	MSCI ACWI + 3% p.a. (gross)
Harbourvest - Private Equity	-	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Adams Street - Private Equity	-	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Newton - Absolute Return	06/05/2010	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Ruffer - Absolute Return	06/05/2010	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Schroders - Property	20/02/2010	IPD All Balanced Index	IPD All Balanced Index +0.75% p.a. (net)
UBS - Infrastructure	-	CPI + 2%	CPI + 3%
Pantheon - Infrastructure	-	CPI + 2%	CPI + 3%
M&G - Infrastructure	-	CPI + 2%	CPI + 3%
M&G - Private Debt	-	LIBOR + 4%	LIBOR + 5%
M&G - UK Financing Fund	-	-	-
M&G - Absolute Return Credit	01/01/2010	LIBOR + 3% p.a.	LIBOR + 5%
M&G - Corporate Bonds	01/01/2010	50% - iBoxx £ Non-Gilts Over 15 Year Index 50% - iBoxx £ Non-Gilts Index	Composite benchmark + 0.75% p.a. (net)
UBS - Over 5 Year IL Gilt Fund	14/02/2018	FTSE Gilt British Govt Index Linked Over 5 Year Index	FTSE Gilt British Govt Index Linked Over 5 Year Index

Manager Ratings

Mandate	Hymans Rating	RI
UBS - Passive Equities	Preferred	Good
Longview - Global Equity	Preferred	Adequate
Harbourvest - Private Equity	Preferred	-
Adams Street - Private Equity	Preferred	-
Newton - Absolute Return	Suitable	Good*
Ruffer - Absolute Return	Positive	-
Schroders - Property	Suitable	-
UBS - Infrastructure	Suitable	-
Pantheon - Infrastructure	Preferred	-
M&G - Infrastructure	Positive	-
M&G - Private Debt	Preferred	-
M&G - Absolute Return Credit	Preferred	-
M&G - Corporate Bonds	Preferred	-
UBS - Over 5 Year IL Gilt Fund	Preferred	-

*Based on our rating of Newton's equity funds

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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Report to: Pension Committee

Date: 21 September 2020

By: Chief Financial Officer

Title of report: Responsible Investment Policy

Purpose of report: This report sets out the Statement of Responsible Investment Principles for the East Sussex Pension Fund.

RECOMMENDATION – The Pension Committee is recommended to:

- 1) approve the Statement of Responsible Investment Principles (Appendix 1);**
 - 2) agree to amend the Investment Strategy Statement for changes outlined in Paragraph 2.3. which are as a consequence of agreeing the Statement of Responsible Investment Principles, and receive an updated Investment Strategy Statement at the November Committee; and**
 - 3) consider the letter from Lewes District Council outlining the Notice of Motion from Lewes District Council regarding fossil fuel investments contained in Appendix 4, and agree the draft response contained in Appendix 5.**
-

1. Background

1.1 The East Sussex Pension Fund (ESPF) Investment Strategy Statement is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (England) Regulations 2016. The Statement of Responsible Investment Principles although not required by statute complements and amends the ESPF's Investment Strategy Statement and explains the Fund's approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment and Stewardship perspective.

1.2 In the last report to the Pension Committee, Officers outlined the need for a Responsible Investment Policy, hereafter referred to as the Statement of Responsible Investment Principles and received approval from Lothian Pension Committee to use and adapt their Statement of Responsible Investment Principles. Officers have adapted this to contextualise the ESPF approach, attached at Appendix 1.

1.3 Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

1.4 The Statement of Responsible Investment Principles will be subject to review by the Committee at least annually. The ESPF's ESG Working Group reviews and scrutinises

Responsible Investment issues and specific climate-related risks and opportunities at least quarterly. An example of the Responsible Investment and Climate Risk monitoring report is provided in Appendix 2. Given the work already commenced with Vigeo Eiris and the workstreams arising in transitioning companies to more sustainable pathways, the Fund will develop regular reporting of ESG and climate risk metrics to inform decision making and help assess and monitor progress towards our responsible investment objectives.

2. Statement of Responsible Investment Principles Objective

2.1 The objective of ESPF's Statement of Responsible Investment Principles is:

- to reduce the likelihood that ESG issues and climate risk will negatively impact asset values and returns;
- and inform stakeholders on the action ESPF is taking to address and manage ESG and climate risk issues.

2.2 This statement will evolve and change in keeping with progress and best practice. Notably, the ESPF is a signatory to the United Nations Principles for Responsible Investment (PRI), an organisation which supports and enables asset owners and asset managers to work collaboratively towards Responsible Investment (RI) best practice; and the Institutional Investors Group for Climate Change (IIGCC) and Climate Action 100+. As a signatory, the ESPF is committed to contribute to the development of a more sustainable global financial system.

2.3 As a consequence of agreeing the Statement of Responsible Investment Principles, the Investment Strategy Statement (ISS) (Appendix 3) is no longer consistent with the Committee's current beliefs. The agreement of the Statement of Responsible Investment Principles therefore necessitates a corresponding amendment to the ISS to include the Statement of Responsible Investment Principles as a new Appendix and, exclude all sections, appendices and paragraphs within the ISS which are no longer relevant or aligned to the Statement of Responsible Investment Principles. The following areas of the ISS are recommended for exclusion, these are:

- Page 7., "How social, environmental, or corporate governance considerations are taken into consideration in the selection / non selection, retention and realisation of investments;
- Appendix on Investment Beliefs; and,
- Responsible Investment Policy.

2.4 Officers recommend that a revised ISS is returned to the November meeting of the Committee for review and agreement.

2.5 The Fund is also mindful of the government consultation issued in March 2020, "Aligning Your Pension Scheme with TCFD Recommendations" which ended on 2 July 2020, and which includes recommendations within that consultation for asset managers to carry out climate scenario analysis in relation to portfolios which they administer on the Fund's behalf. The consultation will be considered in full within the ESG Working Group with any recommendations to further develop the Statement of Responsible Investment Principles reported back to the committee in due course.

3 Notice of Motion Lewes District City Council Cabinet

3.1 A letter has been received by the Chair of the Pension Committee outlining a Notice of Motion by the members of Lewes District Council requesting that the East Sussex Pension Fund take a number of actions regarding investments in fossil fuels, which is attached in Appendix 4. The Committee is asked to agree the draft response to this letter, a copy of which has been included in Appendix 5 for the Committee's consideration.

4 Conclusion and reasons for recommendation

4.1 The ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change and understands that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund. Within this context, Good governance extends to governance at every stage of our investment process to influence sustainable, successful and suitable investments for members of the East Sussex Pension Fund.

IAN GUTSELL
Chief Finance Officer

Contact Officer:	Michelle King, Interim Head of Pensions
Tel. No.	01273 482017
Email:	Michelle.King@eastsussex.gov.uk

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Statement of Responsible Investment Principles

September 2020

1. Introduction

- At East Sussex Pension Fund (**ESPF**), we believe that Responsible Investment (RI) supports the purpose of the Local Government Pension Scheme (**LGPS**) – the provision of retirement income for individuals. We believe that it should reduce the risk associated with the invested assets that the Fund owns to pay pensions when they are due. Responsible investment is therefore a substantial factor driving returns alongside other investment considerations.
- This Statement of Responsible Investment Principles (**SRIP**) complements ESPF's Investment Strategy Statement (**ISS**), which is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (England) Regulations 2016. The SRIP explains our (ESPF's) approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment (**RI**) and Stewardship perspective.
- RI is an approach to investing that aims to incorporate environmental, social and governance (**ESG**) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.
- While acknowledging the potential benefits of incorporating ESG factors into the investment process, the Fund recognises that there are many different approaches, there is no universally agreed standard of ESG measurement or assessment, and some methodologies may enhance returns while others may not. There may also be inherent conflicts between the Ethical., and Social., factors forming the ESG frame.
- As a consequence, while acknowledging the opportunities for these factors to reduce risk and highlight opportunity, careful attention is required in manager or index selection to methodologies which incorporate both qualitative, quantitative and forward-looking approaches.
- RI is not the same as Ethical Investment (**EI**). EI is an investment approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations. ESPF should not be considered as either an "Ethical" or an "Unethical" investor, but as a responsible steward of capital. The management of ESG issues is a question of identifying and mitigating material financial risks, not a question of ethics.
- At ESPF, we are guided in our roles as quasi-trustees, executive officers and investment managers by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities is provided by the Scheme Advisory Board, which took legal advice on this matter (<https://lgpsab.scot/fiduciary-duty-guidance/>). It advises the English Government (the Responsible Authority for the Fund) and English LGPS Funds themselves on policy issues.
- The ESCC Pensions Committee (**the Committee**), comprising elected councillors, is responsible for fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.
- The East Sussex County Council (ESCC) is the administering authority for the Fund, but the Fund is neither owned nor controlled by ESCC. Pension fund assets, which are earmarked for pension payments over the life of the fund, are ringfenced from 'Council Money'. There are more than 130 employers and 78,000 members, whose pension payments will be funded by these and further employer and member contributions. The Fund's investment policy cannot be influenced by outside parties or by personal, political or moral beliefs. The Fund must seek to find a balance between its statutory and fiduciary obligations, and the views and interests of all of its member stakeholders.

2. Annual review

The SRIP will be subject to review by the Committee at least annually.

3. Objectives of ESPF's Statement of Responsible Investment Principles

The objectives of ESPF's RI policy are to:

- 1 reduce the likelihood that ESG issues and Climate Risk (**CR**) will negatively impact asset values and returns;
- 2 inform stakeholders on the action ESPF is taking to address and manage ESG and CR issues.

4. Responsible Investment Beliefs

The following beliefs in respect of RI underpin ESPF's RI principles and policies. ESPF believes that:

- 1 ESG issues and CR can present material financial risks to asset values and returns;
- 2 Implementation of effective RI policies can reduce risk and has potential to enhance returns;
- 3 Engagement with investment managers ("**IMs**") and investee companies can be effective in protecting and enhancing the long term value of investments;
- 4 Collaboration with other asset owners and IMs will help improve the effectiveness of engagement on ESG and CR issues;
- 5 Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies;
- 6 RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.

5. Responsible Investment Principles and ESPF Approach

ESPF is a signatory to the United Nations Principles for Responsible Investment (**PRI**), an organisation which supports and enables asset owners and asset managers to work collaboratively towards RI best practice. As a signatory, ESPF has committed to implement the six principles with the aspiration of contributing to the development of a more sustainable global financial system.

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

ESPF approach: The implementation of ESPF's investment strategy is delegated by the Pensions Committee to officers and external investment managers (IMs) to invest the Fund's assets.

How ESG factors are incorporated into investment analysis and decision-making processes varies according to the asset category and manager. All investments are externally managed; however, asset managers are required to have regard for the government's consultation on integrated risk management of climate change (1).

The Fund gains its exposure to equity markets by recourse to a combination of Active managers and Passive index funds. The holdings of Active Managers are by their nature transitory and subject to continual change through the manager's stock selection process. Managers of index funds replicate an index and so have in a longer run exposure to companies and sectors over which limited due diligence is performed. The choice of passive index is therefore an important deliberation. Where possible, the Fund seeks to acquire exposure to indices that are tilted in favour of companies that benefit from greener revenues, are less carbon intensive, and are better positioned than their peers to adapt to the Energy Transition. In some markets this option is not possible.

The ESPF have the following categories of asset managers:

Active Equity managers: As a part of the appointment process, we ensure that Managers demonstrate that they incorporate ESG filters into their investment analysis and asset acquisition processes. We monitor the managers' performance on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. Managers are encouraged to join PRI, IIGCC and Climate Action 100+ as signatories, where they are not already members.

Passive Index Funds with ESG tilts: Passive indices offer a low-cost complement to Active Managers. We select Passive indices based on the index's ability to reduce exposure to climate risks and to capture opportunities for investment in companies that are forward looking, generating green revenues, and better aligned to navigating the Energy Transition

Passive Index Funds without ESG tilts: we hold other forms of Passive investment to gain exposure to markets at lower cost such as Emerging Markets. These market cap indices are not adjusted to reflect ESG or responsible investment criteria.

Corporate Credit managers: during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. It is our ambition to appoint managers who devote greater focus in providing finance to companies or projects that are more compatible with the aims of the Paris Agreement.

Property managers: The capacity for Managers to incorporate ESG factors into the investment process alongside other key investment criteria will be required, monitored, and regularly reviewed. Managers will be encouraged to adopt PRI Transparency and GRESB reporting and to utilise CRREM assessment tools, as recommended by the IIGCC, in assessing their property portfolio alignment with the Energy Transition.

Real Asset management (infrastructure) managers: during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

ESPF approach:

Voting: The Fund's asset managers vote on resolutions at the Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) of the Fund's equity holdings.

Shareholder resolutions: The Fund's asset managers also file or co-file shareholder resolutions on important issues at the Fund's investee companies in the interests of agitating for better governance.

Stock lending: ESPF does not participate in direct stock lending but may invest in investment funds which use stock-lending.

Corporate engagement: The Fund's managers engage with our investee companies on material ESG issues. The Fund are members of the LAPFF, IIGCC, Climate Action 100+ and the UNPRI.

Government engagement: we engage with government through responding to government consultations.

Manager monitoring: we actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Investee companies: through our investment managers we encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD).

Investment Managers: we encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

Commitment to PRI: we are transparent about being a signatory to the PRI and about how we implement the Principles. The Committee monitors its carbon footprint and energy transition at portfolio level and asset manager level. The Committee also review asset manager voting and engagement on a quarterly basis. The quarterly reports are published on the Fund's website to demonstrate implementation of the Principles and to promote them.

Investment Managers: we endorse the Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach.

Partnership with PRI: we partner with PRI to promote the universal use of the principles, and work with PRI during any consultations to improve the effectiveness of the principles and further improve RI adherence across the industry.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

Collective Approach: we are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. A list of our collaborative partners and their roles are available on our website.

Principle 6

We will each report on our activities and progress towards implementing the Principles.

PRI Assessment: we provide extensive details of our investment activities annually to the PRI for its independent assessment of our approach to RI.

PRI Reports: we publish our PRI transparency report annually on our website and we publish our PRI assessment results on our website and in our annual report.

TCFD: we are committed to report annually in accordance with Taskforce for Climate-related Financial Disclosures (TCFD) recommendations.

UK Stewardship Code: we report annually in accordance with the UK Stewardship Code requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.

6. Integrating RI into Strategy Implementation

- At ESPF we are committed to acting as responsible investors and fully integrating our approach to ESG and CR into investment processes.
- The Fund's approach is to invest in companies that have a high and sustainable return on investment.
- The Fund does not exclude companies from its investible universe on the basis of their participation in certain industries. Rather the emphasis is on assessing the sustainability element of a company's returns.
- Fully integrating ESG into the Fund's investment process means that the Committee, the legal person making the investment decision and the 'risk taker' is in possession of all the facts, it can determine how ESG impacts the investment case, including valuation and is in a position to engage with the managers of the business representing the interests of asset owners. This approach ensures that there is no gap between the assessment of ESG and the investment decision. Both are embodied in one decision by the Pension Committee. Short-termism and viewing ESG as an overlay to other assessment criterion is a sub-optimal approach.

7. Engagement with investee companies

- The Fund scrutinises governance at every stage of our investment process and aims to influence governance through voting and engagement. This is an integral part of what makes a business sustainable, successful and a suitable investment target.
- We will engage with their investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, we retain the ability to divest, since the failure to engage destroys value in the longer term. The issue of engagement is a vital aspect of ownership.
- The Fund entrusts its assets to investment managers whose duty it is to represent the Fund's interest. Representing the Fund's interests as owners through engagement increases the Fund's knowledge and understanding of the company and leads to more accurate assessment of the firm's risks and opportunities and therefore the valuation assumption. Engagement through voting can effect corporate change and improve businesses to derive a broader social benefit.

8. Energy Transition

- The Fund recognises that a prolonged Energy Transition is under way. It also acknowledges that a number of energy incumbents through their size, capacity to mobilise capital and engineering expertise offer the potential to play a substantial role in that transition. It seeks to balance the economic reality that fossil fuels currently provide 80% of the world's primary energy and that energy demand will grow by up to 50% by 2050, with global commitments, as yet not fully backed by detailed policy, to decarbonise the energy system by the second half of the century. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets.
- The Fund is aware that there are a range of possible transition scenarios, evolving physical climate related risks and potential opportunities. There are also many uncertainties. This makes portfolio construction around such scenarios very challenging. Instead, ESPF seeks to broadly align its investment approach with the objectives of IIGCC and Climate Action 100+ initiatives.

9. Climate Change & Compliance with Taskforce for Climate-related Financial Disclosures (TCFD)

ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change¹. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;
- enhancing transparency of action and support through a more robust transparency framework.

ESPF understands that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund.

As such we make the following commitments to climate monitoring and action:

- To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios
- To continue our work with IIGCC and Climate Action 100+
- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy
- To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022 reporting cycle, supported by external managers and GPs
- Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.
- Financial returns from current and future investments will affect ESPF's ability to fund future pension payments, and so we have committed to implement processes that adhere to TCFD recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS, namely:

(i) Governance: The Pensions Committee monitors stewardship of the Fund's assets with the first report due in March 2021 and thereafter annually. This includes reporting on RI issues and specific climate-related risks and opportunities. The Pensions Committee and Pension Board are committed to undertake a comprehensive CPD programme through physical, online training and/or personal reading on RI issues and climate change-related risks and opportunities. The Pensions Committee:

- affirms the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends into its decision-making;
- delegates scrutiny and engagement with investment managers to Fund officers with advice from the Joint Investment Strategy Panel to ensure that they take ESG issues, including climate change and carbon risk, into account in their investment decision-making;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

¹ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

(ii) Strategy: We work individually and with our collaborative partners to drive for openness and transparency on climate related issues affecting our investments.

- ESPF will review annually all strategy mandates and managers against climate metrics (e.g. impact on portfolio, manager compliance, exposure to certain sectors)
- We will review the weakest mandates based on this analysis and determine what action will be taken
- We will consider options for scenario analysis in respect of the Fund's mandates

(iii) Risk Management: We subscribe to data services and analytical tools, including company and industry specific data, and scenario models, to help understand and manage the climate risk within the Fund. Ways in which this data will be used for risk management include:

- Assessment of all existing mandates against quantitative risk metrics such as Weighted Average Carbon Intensity "WACI" on a regular basis. We will work to develop risk metrics appropriate to each mandate
- For all new mandates we will consider climate-related risks and objectives explicitly
- Engagement with managers on specific issues and risks identified by the data

(iv) Monitoring, Metrics* and Targets: We use various monitoring tools with the aim of mitigating risk to Fund assets from trends towards net-zero carbon and more broadly from climate change. We will select at least one Green House Gas (GHG) emissions and one non-emissions metric against which to assess Fund assets on climate related risks and opportunities as proposed under TCFD. At least annually, we will set one target to manage climate related risk with respect to the chosen metrics and measure performance against this target at least quarterly. The ESG Working Group reviews and scrutinises RI issues and specific climate-related risks and opportunities at least quarterly. We will develop regular reporting of ESG and CR metrics to inform decision making and help assess and monitor progress towards our RI objectives. (In the appendix we provide an illustration of the metrics and reporting we aim to develop.)

***Carbon Analysis:** We note that carbon-equivalent foot printing produces simple metrics that can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, divestment is, of course, an option.

Footnotes:

The government consultation issued in March 2020, "Aligning Your Pension Scheme with TCFD Recommendations" which ended on 2 July 2020 includes recommendations within that consultation for asset managers to carry out climate scenario analysis in relation to portfolios which they administer on the Fund's behalf. Where the manager carries out scenario analysis, the Fund is recommended to ask for details of the scenarios as well as the output of the analysis in relation to the Fund's portfolio. Where portfolio-level analysis is not available, the Fund is recommended to ask for the results of any other analysis that the asset manager is using to identify and assess climate-related risks in relation to the portfolio, such as carbon footprint data. The Fund is also recommended to ask what the asset managers are doing differently as a result of the analysis, to mitigate the risks. Where no scenario analysis is taking place, particularly for easier-to-analyse asset classes such as equities and corporate bonds, the Fund is recommended to ask about asset managers' plans for adopting scenario analysis and encourage faster action if this is not ambitious enough.

Appendix: Example ESG & CR Metrics and reporting

All figures purely illustrative

East Sussex Pension Fund

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Q1 2020 Responsible Investment & Climate Risk Monitoring Report

Appendix 2

Asset Allocation

This section sets out the high level asset valuation and fund allocations.

This page includes;

- End quarter valuations.
- Asset allocation breakdowns.

Key Actions/
Developments

Any suggested developments/ actions should be highlighted here.

- E.g – Funds moved from M&G to ACCESS Sub-Fund during the quarter, this has resulted in East Sussex's aggregate ESG and Climate Risk Scores changing from X to Y.

Access Pool	Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative	Rebalancing Ratings
		Q4 2019	Q1 2020				
No*	UBS - Regional Equities	370.9	312.4	9.0%	8.0%	1.0%	36.0% - 44.0%
No*	UBS - Fundamental Index	470.7	363.2	10.4%	11.5%	-1.1%	
No*	UBS - UK Equity	295.5	220.9	6.3%	7.0%	-0.7%	
No*	UBS - Climate Aware	190.8	160.0	4.6%	5.0%	-0.4%	
No*	UBS - Global EM Equity	44.6	36.2	1.0%	1.5%	-0.5%	
Yes	Longview - Global Equity	307.8	238.8	6.8%	7.0%	-0.2%	3.5% - 7.5%
No	Harbourvest - Private Equity	102.3	109.5	3.1%	2.8%	0.4%	
No	Adams Street - Private Equity	115.9	135.6	3.9%	2.8%	1.1%	
Total Equity		1898.5	1576.7	45.2%	45.5%	-0.3%	41.0% - 50.0%
No	Newton - Absolute Return	455.3	414.8	11.9%	10.5%	1.4%	9.5% - 11.5%
No	Schroders - Property	364.2	351.8	10.1%	10.0%	0.1%	8.0% - 12.0%
No	UBS - Infrastructure	14.7	16.7	0.5%	1.0%	-0.5%	2.0% - 6.0%
No	Pantheon - Infrastructure	26.3	30.1	0.9%	2.0%	-1.1%	
No	M&G - Infrastructure	18.4	20.7	0.6%	1.0%	-0.4%	
No	M&G - Private Debt	31.3	38.8	1.1%	3.0%	-1.9%	1.0% - 5.0%
No	M&G - UK Financing Fund	0.7	0.0	0.0%	0.0%	0.0%	
No	M&G - Alpha Opportunities	262.7	239.1	6.9%	8.0%	-1.1%	7.0% - 9.0%
Total Alternatives		1173.8	1112.0	31.9%	35.5%	-3.6%	32.0% - 39.0%
Yes**	Ruffer - Absolute Return	445.4	418.5	12.0%	10.5%	1.5%	9.5% - 11.5%
No	M&G - Corporate Bonds	148.9	144.3	4.1%	3.5%	0.6%	2.5% - 4.5%
No*	UBS - Over 5 Year IL Gilt Fund	208.3	212.3	6.1%	5.0%	1.1%	4.0% - 6.0%
Total Protection		802.7	775.1	22.2%	19.0%	3.2%	17.0% - 21.0%
No	Cash	33.9	23.9	0.7%	0.0%	0.7%	0.0% - 2.0%
Total Scheme		3908.9	3487.6	100.0%	100.0%		

*The UBS funds are provided to members of the ACCESS Pool but the funds themselves sit outside of the pool.

Source: Investment Managers and LINK

**Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements

Manager A

ESG Analysis

This section is for ESG Analysis Insights.

Climate Risk Analysis

This section is for Climate Risk Analysis Insights.

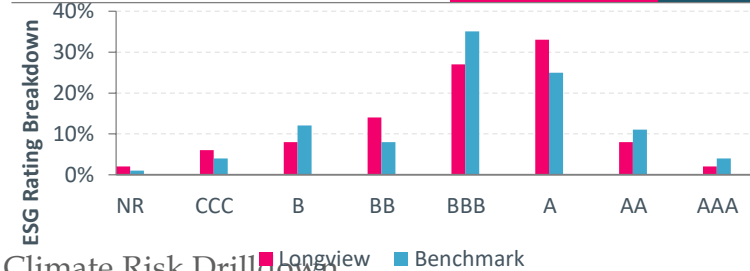
Engagement Priorities

This section outlines companies that should be flagged to the Investment Manager or Engagement Provider as engagement priorities.

e.g Volkswagen due to its portfolio weighting and its extremely high controversy Score

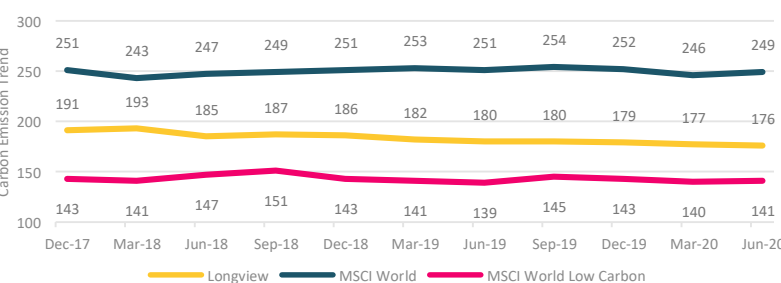
ESG Drilldown

	ESG Rating	Governance Score	Environmental Score	Social Score	Very Severe Controversy Exposure
Manager A	6.5	8.1	6.9	6.7	3.1%
MSCI World	5.9	7.5	6.2	5.9	2.5%
MSCI Low Carbon	6.4	7.7	7.4	6.8	1.8%



Climate Risk Drilldown

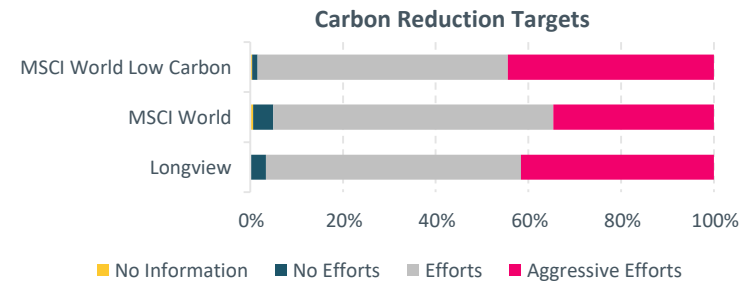
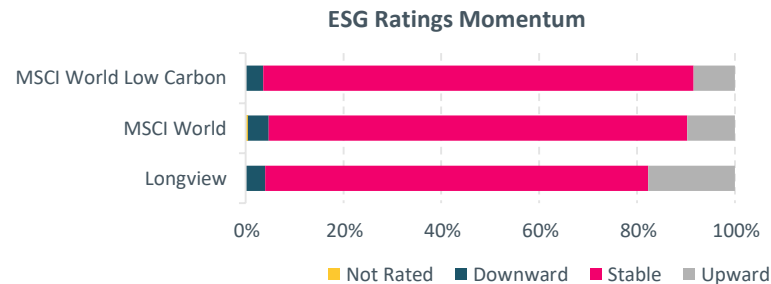
	Carbon Emissions	Fossil Fuel Reserves (Tons)	Low Carbon Mgt (% Below Average)	Est Revenue from Clean Technology	Carbon Risk
Manager A	176.2	192,456	12%	23.5%	Low
MSCI World	249.1	221,964	-	21.2%	Moderate
MSCI Low Carbon	141.3	87,654	14%	26.4%	Very Low



Engagement Priorities

	Portfolio Weight	ESG Score	Controversy Score	Carbon Risk	Low Carbon Management
BHP GROUP PLC	6.5%	B	3.0	High	4.1
ROYAL DUTCH SHELL PLC	5.9%	BB	3.0	High	5.6
Volkswagen AG	6.4%	AA	1.0	Moderate	6.4
RYANAIR HOLDINGS PUBLIC LIMITED COMPANY	3.9%	BBB	1.0	Moderate	5.4
WELLS FARGO & COMPANY	4.5%	A	3.0	Low	6.7

Figures purely illustrative



Understanding the ESG Metrics

Metric	Description/ Methodology
ESG Rating	To arrive at a final letter rating, the weighted averages of the Key Issue Scores are aggregated and companies' scores are normalized by their industries. After any overrides are factored in, each company's Final Industry-Adjusted Score corresponds to a rating between best (AAA – 10.0 to 8.6) and worst (CCC- 0.0 to 1.4).
ESG Quality	Measures the ability of underlying holdings to manage key medium to long-term risks and opportunities arising from environmental, social, and governance factors. It is based on ESG Ratings and would be benchmark against the sub-funds relevant benchmark. A score of 21% would indicated that 21% of the WPP's holdings have a higher ESG ratings than the benchmark average.
ESG Rating Upward Momentum	Represents the percentage of the sub-funds market value coming from holdings that have had an ESG Ratings upgrade since their previous ESG Rating assessment.
ESG Rating Downward Momentum	Represents the percentage of the sub-funds market value coming from holdings that have had an ESG Ratings downgrade since their previous ESG Rating assessment.
Controversy Exposure	Each company receives an overall score based on an assessment of performance across the three pillars (E, S, and G), with the score driven by the lowest scoring indicator. A 0-10 scale is adopted, 0 indicated that a company has been involved in one or more recent very severe controversies. The % of the sub-fund's holdings carry a score of 0 could then be calculated.
Governance Score	The Governance Score is an absolute assessment of a company's governance that utilizes a universally applied 0-10 scale. Each company starts with a "perfect 10" score and scoring deductions are applied based on the assessment of Key Metrics.
Environmental Score	The Environmental Pillar Score represents the weighted average of all Key Issues that fall under the Environment Pillar.
Social Score	The Social Pillar Score represents the weighted average of all Key Issues that fall under the Social Pillar.

Understanding the CR Metrics

Metric	Description/ Methodology
Carbon Emissions	Scope 1+2 Intensity (tons Co2/USD million sales). Expresses the carbon efficiency of the sub-fund and measures how much carbon emissions per dollar of sales are generated.
Carbon Reduction Targets	If a company has a carbon emissions reduction target, this data point indicates how aggressive that target is. The highest scores go to companies aggressively seeking to reduce emissions from a level that is already relatively low. Apart from companies with no target, the lowest scores go to those with high emissions levels that are seeking to make only minor reductions. For smaller companies, among which carbon reduction targets are relatively uncommon, a moderately high score is given for any type of carbon reduction target.
Low Carbon Management	This indicator measures how well a company manages risk and opportunities related to the Low Carbon Transition. It combines Management assessments for the following Key Issues: Carbon Emission for all companies, Product Carbon Footprint, Financing Environmental Impact, Opportunities in Clean Tech, Opportunities in Renewable Energy where available. Higher scores on management indicate greater capacity to manage risk. (Score: 0-10). This scores could be weighted based on a holding's weighting in the sub-fund and then benchmark against the average score within the relevant index.
Estimated Revenue from Clean Technology	Analyses companies involved in clean technology solutions based on their sales in the following categories: Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, and Sustainable Water. A holdings estimated revenue from Clean Tech is then weighted by the holding's sub-fund weighting.
Fossil Fuel Reserves (Tons)	Measure the sub-fund exposure to fossil fuel reserves per \$1m invested. Fossil Fuels Reserves include Thermal Coal (Tons), Gas (MMBOE- Million barrels of crude oil equivalent) and Oil (MMBOE).
Carbon Risk	Measures exposure to carbon intensive companies. It is calculated as the portfolio weighted average of issuer carbon intensity. Carbon Intensity is the ratio of annual scope 1 and 2 carbon emissions to annual revenue. Carbon Risk is categorized as Very Low (0 to <15), Low (15 to <70), Moderate (70 to <250), High (250 to <525), and Very High (>=525).

Manager Ratings

Mandate	Advisor Rating	RI
Mandate X	Preferred	Good
Mandate Y	Preferred	Adequate
Mandate Z	Preferred	-
	Preferred	-
	Suitable	Good*
	Positive	-
	Positive	-
	Suitable	-
	Preferred	-
	Positive	-
	Preferred	-
	Preferred	-
	Preferred	-
	Preferred	-

Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

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Investment Strategy Statement

March 2020

Introduction and background

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

The ISS has been prepared by the Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority. The ISS, which was approved by the Committee on 16 March 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

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

The suitability of particular investments and types of investments

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

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

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

The Fund carries out an asset liability modelling exercise in conjunction with each actuarial valuation. A number of different contribution and investment strategies are modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considers the chances of achieving their long term funding target and also considers the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

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

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

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

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

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

Investment of money in a wide variety of investments

Asset classes

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

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

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

Table 1: Fund allocation

Asset class	Target allocation %	Maximum invested* %	Role within the Strategy
Global Equity	33.0	44.0	Growth Assets
UK Equity	7.0		Growth Assets
Absolute Return	21.0	24.0**	Growth Assets
Private Equity	5.5	7.5	Growth Assets
Property	10.0	13.0	Income Assets
Infrastructure	4.0	6.0	Income Assets
Private Debt	3.0	5.0	Income Assets
Absolute Return Bonds	8.0	9.0	Income Assets
Index-Linked Gilts	5.0	6.0	Protection Assets
Fixed Interest Bonds	3.5	4.5	Protection Assets
Cash	0.0	2.0	Protection Assets
Total	100.0		

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

** Additional allowance of 1% to rebalancing figures whilst allocations to infrastructure and private debt take place.

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various

risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

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

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

When the Committee decide to invest in a new fund, a shortlist of options is recommended by the Investment Advisor and discussed by the Committee.

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

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth and income assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. **The investment section of the Risk Register is reviewed at least every six months by the Committee.**

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

Funding risks

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

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund, which is reviewed on at least an annual basis. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The results from the 2016 analysis highlighted that the Fund - utilising its current stabilisation parameters for contributions – has a good chance of being fully funded in future at the end of the projection period used without adopting an over prudent approach towards its investment strategy. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

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

The Committee reviews the demographic assumptions of the Fund every three years as part of its triennial valuation to mitigate the risk that any changes to longevity and other factors would have on the Fund.

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

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns. The Fund believes that climate change poses material risks to the Fund but that it also presents positive investment opportunities.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

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

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

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

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock Lending- The Fund will participate in any stock-lending arrangements in the future as part of the LGPS ACCESS pool. The Committee will ensure that robust controls are in place to protect the security of the Fund's assets before entering into any stock lending arrangements. The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool Operator).

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

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

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

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

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. The ACCESS Pool has launched several sub-funds in which the East Sussex Pension Fund now participates and there are further launches planned for later in 2020 which East Sussex plan to be involved with.

The Fund's investment mandates with Longview, Ruffer and Newton have been transferred into ACCESS to date.

An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. They key criteria for assessment of Pool solutions will be as follows:

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

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

Table 2 – Assets held outside the pool

Asset class	Manager	Target % of Fund assets	Benchmark	Reason for not investing via the ACCESS Pool
Private Equity	Harbourvest Partners / Adam Street Partners	5.5%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Infrastructure	M & G Infracapital / UBS Infrastructure / Pantheon	4.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Private Debt	M & G	3.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Operational cash	East Sussex County Council	0.0%	N/A	East Sussex Pension Fund needs to manage its cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2022.

Structure and governance of the ACCESS Pool

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

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

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership. ACCESS is working to a project plan in order to create the appropriate means to pool investments.

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

The "ACCESS Pool" is not a legal entity. However a Joint Committee (JC), comprising elected Pension Committee Chairmen from each Administering Authority and supported by the Officer Working Group has been established via an Inter Authority Agreement. Papers from previous and future ACCESS JC meetings papers can be found using the following link: <https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898>

ACCESS has taken advice on its sub-fund design and is implementing the consolidation of a significant portion of participating Authorities' liquid assets in the initial set of sub-funds. This sub-fund proposal will allow the Operator to make rapid progress in preparing and submitting an application for authorisation of the ACCESS ACS and a set of "pilot and pipeline" sub-funds.

Investments under Pool Governance (Passive) - The value of assets to be held within the Pool includes passively managed assets which will be held in Life Policies. The Life Policies themselves will necessarily remain an agreement between the participating Authority and the appointed external investment manager. This was acknowledged as an acceptable outcome by Government. All passive assets will therefore be held out-side the Authorised Contractual Scheme (ACS) and will not be managed or administered by the Pool Operator.

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

To clearly define the approach adopted by the Committee to these issues it has approved a Responsible Investment (RI) Policy which is included as Appendix C. Within this it is recognised that environmental social and corporate governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee considers the Fund's approach to responsible investment with four core principles:

- a. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
- b. We will seek **sustainable returns** from **well-governed assets**.
- c. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
- d. We will evaluate and manage **carbon exposure in order to mitigate risks to the Fund from climate change**.

More detail on the way in which these principles are incorporated into the Fund's investments is contained in Appendix C. The Committee takes RI matters very seriously and conducts a regular review of its policies in this area and its investment managers' approach to RI.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments.

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

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

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

Voting rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee will publish an annual report of voting activity as part of the Fund's annual report.

Stewardship

The Committee understands that stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website

<https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/>.

The Committee expects its investment managers to be signatories or comply with the Stewardship Code as published by the Financial Reporting Council. Asset manager signatories have been categorised in three tiers.

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

Investment Managers Stewardship Rating

Tier 1

- UBS Asset Management
- Newton Investment Management
- Ruffer LLP
- Schroder Investment Management Limited
- M & G Investment Management
- Longview Partners
- Northern Trust Global Investments

Tier 2

- None

Tier 3

- None

The Committee expects both the ACCESS Pool and any directly appointed fund managers to also comply with the Stewardship Code. In addition to the Fund's views on the Stewardship Code, the Fund believes in collective

engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

Appendices

Appendix A – Rebalancing Policy

Appendix B – Investment Beliefs

Appendix C – Responsible Investment Policy



Rebalancing Policy

Appendix A

Rebalancing Ranges

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

Asset class	Strategic target (%)	Range (%)
Global Equities	33.0	36.0 – 44.0
UK Equities	7.0	
Private Equity	5.5	3.5 – 7.5
Absolute Return	21.0	19.0 – 23.0
Total Growth	66.5	60.0 – 73.0
Property	10.0	8.0 – 12.0
Infrastructure	4.0	2.0 – 6.0
Private Debt	3.0	1.0 – 5.0
Total Income	17.0	15.0 – 19.0
Absolute Return Bonds	8.0	7.0 – 9.0
Fixed Interest Bonds	3.5	2.5 – 4.5
Index-Linked Gilts	5.0	4.0 – 6.0
Cash	0.0	0.0 – 2.0
Total Protection	16.5	15.0 – 18.0
Total	100.0	

Rebalancing for the Fund – General Rules

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

- **Rebalancing would apply only to equities, absolute return funds and bonds** - Due to the transaction costs and illiquidity associated with the other investments such as property, rebalancing for those asset classes will be considered on an annual/ad hoc basis;
- **Rebalancing would be monitored on a quarterly basis**
- **Each benchmark allocation would have a weighted tolerance range** – A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will occur;

Appendix A

- **Cash holdings to be used for rebalancing.** Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.
- **Rebalancing will occur at two levels; at the growth vs matching level, and at the mandate level –** The rebalancing process will determine if rebalancing is required between growth and matching assets, and separately if rebalancing is required between asset classes. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates (e.g. Longview and L&G global equities).
- **Rebalancing transactions will aim to rebalance allocations out with their tolerance ranges to the midpoint (at least) of the tolerance range –** The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 60% allocation and a 54%-66% tolerance range, the upper mid-point would be the halfway point between 60-66% (i.e. 63%). The lower mid-point would be the halfway point between 54% and 60% (i.e. 57%). Analysis suggests that this is the best way of balancing the impact of transaction costs against returns.

The allocations to private equity and infrastructure (and to a lesser extent property) will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore we do not anticipate any rebalancing being carried out in relation to the Fund's private equity or infrastructure investments.



Investment Beliefs

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March 2020

Fund specific investment beliefs

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

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

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

Evidence of Belief in Practice: The objectives of the Fund are considered every three years as part of the actuarial valuation process and the accompanying review of the long term investment strategy.

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

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

Evidence of Belief in Practice: The appropriateness of the strategic asset allocation is currently considered by the Committee on at least an annual basis. The intention is to also establish a Working Group tasked with conducting a more detailed review of investment strategy on a more frequent basis.

Belief: Funding and investment strategy are linked

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

Evidence of Belief in Practice: The Scheme Actuary and Investment Adviser are both invited to attend meetings where investment strategy and funding are discussed in detail. Regular asset liability modelling exercises incorporate long term projections for the nature of the Fund's liabilities alongside the expected returns and risks arising from the Fund's invested assets.

Belief: Long term investing provides opportunities for enhancing returns

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

Evidence of Belief in Practice: The Committee invests in illiquid asset classes comprising private equity, infrastructure, private debt and property. These investments are expected to benefit from an additional illiquidity return premium over time.

Belief: Equities are expected to generate superior long term returns

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

Evidence of Belief in Practice: Almost half of the Fund's assets are invested in either listed or unlisted equities (45.5% in aggregate).

Belief: Alternative asset class investments provide diversification

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

Evidence of Belief in Practice: The Fund invests in nine different asset classes, two of which are diversified growth and absolute return credit, which themselves provide exposure to a wider range of asset classes.

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

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

Evidence of Belief in Practice: The Fund has a target allocation of 3.5% to corporate bonds and 5% to index linked gilts. The Committee consider this to be an appropriate allocation for providing liquidity at times of stress, whilst taking into account the long-term nature of the Fund's investment strategy and the lower expected return these asset classes have relative to other asset classes.

Belief: Fees and costs matter

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

Evidence of Belief in Practice: The Fund employs a combination of active and passive management for its equity and bond assets. Of the Fund's equity allocation, a large proportion is currently invested passively. The Fund also participates in the ACCESS Pool which, in part, seeks to achieve lower annual management charges by benefitting from pooling assets into a more attractive proposition for fund managers.

Beliefs: Rebalancing can add value

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

Evidence of Belief in Practice: The Fund has a rebalancing policy and, when individual mandates or asset categories are in breach of a limit, this is discussed at Committee meetings with a view to agreeing upon the most appropriate course of action.

Belief: Active management can add value but is not guaranteed

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

Evidence of Belief in Practice: The Fund employs active managers to manage 62% of the Fund's assets. Performance of these managers is reviewed on quarterly basis. For many asset classes, there is no passive management option. However, active managers are employed for bond and equity mandates where a passive equivalent is available.

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

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

Evidence of Belief in Practice: The Fund employs a passive manager to manage 38% of the Fund's assets, across equity (33%) and index-linked gilts (5%).

Belief: Choice of benchmark index matters

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

Evidence of Belief in Practice: There is a benchmark regional equity allocation in place with the Fund's passive equity manager, which means that a broad allocation to different equity regions is maintained over time. The Fund also invests in a passive fund that replicates an index that is constructed based on a set of factor-based rules (RAFI) and a passive fund that replicates an index that is constructed in such a way as to benefit from a long-term transition to a low carbon economy (Climate Aware Fund).

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

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

Evidence of Belief in Practice: The Committee maintain a responsible investment policy included as an appendix in the ISS and an ESG statement published on the Fund's website.

Belief: Climate change presents a financial risk to the future investment returns from the Fund.

The Committee recognises that climate change issues can impact the Fund's returns and reputation. The impacts of climate change on the returns of the Fund in the future are unknown at this point but the Committee recognises that they need to allocate sufficient time and resource to monitor the possible risks and also identify any investment opportunities which may become available as a result. The committee is aware that not all companies and sectors are affected in the same way by climate change.

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Evidence of Belief in Practice: The Fund's fossil fuel exposure is monitored on a quarterly basis and discussed at Committee meetings. The Fund invests in the UBS Climate Aware Fund which aims to benefit (relative to a market-cap index) from a long-term transition to a low carbon economy.

Belief: Close engagement with - and challenge to - the investment managers will improve understanding of these risks.

The Committee believes that investors with long term time horizons are more exposed to certain risks and requires that its investment managers are aware of and consider these when making investments. It is acknowledged that investment managers carry out detailed research on the prospects for individual companies and industries and have access to company management. The Committee meets with investment managers at their regular meetings and has the opportunity to discuss relevant developments in detail. To challenge investments to ensure these are being followed and that all relevant risks have been considered.

Evidence of Belief in Practice: At least one of the Fund's managers is invited to present at quarterly Committee meetings and is questioned on approach to responsible investment. Voting and engagement information is collected on a quarterly basis and used to update the ESG statement.

Belief: Individual stock selection decisions will be delegated to active managers but the Fund will retain the right to sell holdings in exceptional circumstances.

The Committee believes that it is the role of its active managers to do the necessary due diligence on each individual stock selection they make. The Committee requires that its active managers provide on request the investment rationale for each investment that they have made. Where the Committee has determined through this engagement with the active manager that the risks posed by a stock outweighs the potential gain they will retain the right to instruct its active managers to sell those holdings. As a result, no restrictions are currently placed on the Fund's active investment managers.

Evidence of Belief in Practice: The Fund's active managers provide quarterly reporting that justifies the purchase, and sale, of a particular holding. Further explanation is also provided when managers present at Committee meetings.

Belief: The Fund will aim to collaborate with other investors where this is expected to have a positive impact

The Committee recognises that through active shareholder engagement it can get those companies it is invested in to improve their corporate behavior. Improvements made by these engagements lead to an increase in the long term value of the Fund's investments. The Committee believes that these can be maximized by collaborating with other like-minded investors to increase the pressure for change and encourages improvements to be made.

Evidence of Belief in Practice: The Fund is a member of the LAPFF (Local Authority Pension Fund Forum) which engages widely with companies representing the interest of over 70 LGPS funds. The Fund has also been instrumental in developing the approach of the ACCESS pool in using its influence in this area.

Belief: The nature of the underlying benchmark is an important consideration, most notably for passive mandates.

The Committee understands that the underlying benchmark they set their investment managers will drive the behaviour of the managers and the investment risks they will take. The Committee also recognises that for its passive mandates the manager will only buy the stocks within the benchmark they are tracking. The Committee is aware that to ensure it is investing in the way that meets the needs of the Fund it needs to ensure it provides suitable benchmarks for each investment mandate. Therefore, the

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choice of benchmark index by the Committee is very important, will continue to explore the potential for using low carbon indices.

Evidence of Belief in Practice: The Fund has a wide range of equity benchmarks that are replicated by UBS, including a 'fundamental indexation' index (RAFI) and a market-cap index with a discretionary climate change overlay (Climate Aware). The Committee has also recently reviewed the benchmarks and targets in place for the Fund's managers, and amended its reporting accordingly.

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Appendix C



Responsible Investment Policy

Appendix C

Responsible Investment Policy

Introduction and background

Regulation 7(2) (e) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to demonstrate that it considers any factors that are financially material to the performance of the Fund's investments, including social, environmental and corporate governance factors, depending on the time horizon over which their liabilities arise.

The East Sussex Pension Fund ("the Fund") is a long term responsible investor aiming to deliver a sustainable Pension Fund for all stakeholders. The Fund complies with and follows the principles of the UK Stewardship Code and working within the spirit of the United Nations Principles of Responsible Investment ("UNIPRI").

East Sussex County Council ("the Council") is the administering authority of the Fund and has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in its Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

What is our policy on Responsible Investment?

The Fund's core principles of responsible investment are:

- a. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
- b. We will seek **sustainable returns** from **well-governed assets**.
- c. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
- d. We will evaluate and manage **carbon exposure in order to mitigate risks to the Fund from climate change**.

Appendix C

What will we do to ensure that these core principles are met?

Core Principle	Associated Actions
We will apply long-term thinking to deliver long-term sustainable returns	<ul style="list-style-type: none"> The Fund's long-term investment objectives will be detailed in its Investment Strategy Statement. The Fund will set longer-term performance objectives for its investment managers. The Fund will seek to ensure that its long term interests are aligned with that of its investment managers on all issues including on RI considerations. Policies relating to RI will be considered at the Fund's annual investment strategy day as part of the Fund's long term investment planning process.
We will seek sustainable returns from well-governed assets	<ul style="list-style-type: none"> The Fund will apply a robust approach to stewardship, linked to the Fund's belief that engagement can positively and effectively influence behaviours. The Fund will engage with companies when we believe engagement will add value to the Fund or change corporate behaviour for the better. The Fund is committed to compliance with the UK Stewardship Code and working within the spirit of the United Nations Principles of Responsible Investment ("UNIPRI"). We will hold our investment managers to account to ensure compliance with this policy. The Fund is committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF), the ACCESS LGPS pool and other opportunities that arise from time to time. The Fund will exercise its voting rights in all markets where practicable.
We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.	<ul style="list-style-type: none"> The Fund will consider the potential financial impact of RI related issues on an ongoing basis (e.g. climate change or executive remuneration). The Fund will consider the potential financial impact of investment opportunities that arise from RI related factors (e.g. investment in renewable energies or housing infrastructure). The Fund will consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. Renewable energy and social impact investments.
We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change	<ul style="list-style-type: none"> The Fund has identified climate change as a potential long-term financial risk. The Fund will regularly review the tools and solutions available to assess and manage carbon exposure. The Fund will review its carbon foot print annually both at the Fund and investment manager level. The Fund will incorporate climate risk assessment as part of the annual investment strategy review (considering the Fund's investment strategy under a range of climate change scenarios, including a 2°C scenario). The Fund will review the Fund's passive equity benchmarks and consider increasing the use of indices tilted towards low carbon.

Appendix C

How will we monitor our performance on Responsible Investment?

The Fund will ultimately be transparent and accountable in terms of its performance on Responsible Investment. This will be achieved through the following approach:

- The Fund will publish its Investment Strategy Statement on its website in line with the scheme regulations.
- Decisions relating to the setting of investment policy will be explained.
- The Fund will publish its RI policy on its website. We will review it on an ongoing basis, including consulting the Local Pension Board, at least every three years in line with the fund ISS.
- The Fund will monitor closely its appointed investment managers whom the Fund rely on to implement its RI policy.
- The Fund (through the Pension Board) will undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers.
- The Fund will publish an annual summary of voting and engagement activity.
- The Fund will disclose the results of the Fund's equity carbon footprint.
- The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues in order to make informed decisions, including regular RI/UN Sustainable Development Goals training.
- The Fund will include RI as a standing item on Pensions Committee and the Pension Board agendas (with a view to reporting on manager performance in relation to RI investing and noting any hot topics / issues arising).
- The Fund will undertake a fundamental review of any specific RI issues considered by the Pension Committee to be of potentially material financial impact.
- The Fund actively considers RI capabilities and advice when selecting and monitoring its investment advisors.
- The Fund expects its investment advisors to proactively consider and integrate RI issues when providing investment advice to the Fund.
- The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.

Responsible Investment and ACCESS LGPS

The implementation of the Fund's investment strategy will be undertaken by the ACCESS Pool. These are eleven funds committed to collaboratively working together to meet the criteria for pooling and have signed an Inter Authority Agreement to underpin their partnership. It is expected that the Fund's ability to invest in a responsible way will be enhanced through the ACCESS LGPS Pool due to the inherent benefits of scale and innovation that will result from the collaboration.

Engagement versus Exclusion

East Sussex Pension Fund has never sought to implement a policy that explicitly excludes certain types of investments, companies or sectors except where they are barred by UK law. The Fund believes that its influence as a shareholder is better deployed by engaging with companies, in order to influence behaviour and enhance shareholder value. The Fund believes that this influence would be lost through a divestment or screening approach. Ultimately the Fund will always retain the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk. Under pooling it is likely that any such decision will need to be made in conjunction with other members of the ACCESS pool.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund appreciates that to gain the attention of companies in

Appendix C

addressing governance concerns; it needs to join with other investors sharing similar concerns. It does this primarily through:

- Membership of representative bodies including LAPFF;
- Membership of the Pensions and Lifetime Savings Association (PLSA);
- Giving support to shareholder resolutions where these reflect concerns which are shared and affect the Fund's interests;
- Joining wider lobbying activities when appropriate opportunities arise.

Exercise of Voting Rights

The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds, and delegate's responsibility for voting to its appointed investment managers who are required to vote wherever the Fund has a voting interest. Wherever practicable, votes must be cast in accordance with the voting guidelines for investment managers of ACCESS ACS (Authorised Contractual Scheme).

The ACCESS Pool appointed operator, Link Fund Solutions Limited ("LFS") recognises that as the Manager of the ACCESS ACS, it has a responsibility as a shareholder, and to its investors the ACCESS funds, to promote good corporate governance and management in the companies in the ACS, which the Fund invests and it requires investment managers appointed to manage the Fund to exercise the voting rights attached to investments held in the Fund unless market circumstances make it impossible to do so. The document sets out guidelines to which LFS expects investment managers to have regard in the exercise of voting rights on behalf of the Fund however LFS recognises that in certain cases there may be good reasons not to follow the guidelines set out in this document and in those circumstances LFS expects its investment managers to exercise their discretion having regard to the long-term interests of the shareholders in the Fund and the principles of good corporate governance. LFS requires investment managers to report on voting activity monthly.

Where investment managers do not adopt the positions set out in these guidelines, it is required that they should provide a robust explanation of the position adopted. LFS also expects that investment managers will be signatories to and comply with the Financial Reporting Council's Stewardship Code (the Code) and United Nations Principles of Responsible Investment (UNPRI). If they have not signed up to either the Code or UNPRI they should be prepared to explain the reasons.

The Fund is committed to the UK Stewardship Code and has developed a statement of compliance for assessment by the Financial Reporting Council.



Lewes District Council

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Cllr Gerard Fox
ESCC Pensions Committee
County Hall
Lewes

15 June 2020

Dear Cllr Fox,

Pension fund divestment from fossil fuel industries

I am writing following a meeting of the Lewes District Council Cabinet on 11 June 2020. At that meeting the Cabinet discussed the matter of Pension fund divestment from fossil fuel industries.

You will be aware that Lewes District Council asked the Pension Committee in early 2019 whether the ESCC Pension Fund could be divested from fossil fuels, both to accelerate the move to zero-carbon energy and to protect our employees' pensions from the losses that the sector is likely to face during the clean-energy transition.

The Committee's response at that time was that:

- simply disinvesting from a particular asset class or group of companies is likely to reduce the Fund's ability to secure the best realistic return over the long-term
- such an approach denies the opportunity for the Fund to influence companies' environmental, human rights and other policies by positive use of shareholder power, a role the Committee takes very seriously
- but that the Committee has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate on a case by case basis.

Since that request, both Lewes District Council and East Sussex County Council have declared climate emergencies. And, critically, the coronavirus crisis has both increased our employees' dependency on the pensions that they have accrued, and dramatically increased the risk of investment losses from the fossil fuel sector. We therefore believe that now is the right time for the Committee to exercise its right to apply environmental criteria to its investments.

However, we do also recognise the opportunity for the Fund to influence companies' environmental policies by positive use of shareholder power. Thus we would like the Committee to make use of its position as a shareholder to put pressure on fossil fuel companies to change their business models to align with the Councils' own climate-change commitments.

Therefore, Lewes District Council are formally requesting that the Pensions Committee:

- 1. Immediately freeze any new investment in the top 200 publicly traded fossil fuel companies**
- 2. Ask all fossil fuel companies in which the pension fund holds investments for a firm commitment to entirely decarbonise by 2030; and**
- 3. Commit itself, over the course of the next 4 years, to divest the East Sussex Pension Fund from any investments in companies that do not provide that commitment by March 2021.**

In making this request we note that:

- the Fund's responsible investment policy already says that: "Ultimately the Fund will always retain the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk."¹
- the East Sussex Pension Committee has accepted the "best practice guidance" of the Local Authority Pension Fund Forum that "The Fund's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement".²

As a result, we would not anticipate this request to encounter opposition from the Committee.

Please can you confirm that you will include consideration of the Council's requests above at your next meeting and provide a response thereafter.

Yours sincerely



Councillor Zoe Nicholson
Leader, Lewes District Council

¹ <https://www.eastsussex.gov.uk/media/12836/investment-strategy-statement-2019.pdf>

² <https://divesteadsussex.wordpress.com/questions-answers-at-esccs-full-council-meetings/>

Dear

Thank you for your letter of the 15 June 2020 addressed to the Pension Committee for the East Sussex Pension Fund. This response addresses the request of Lewes District Council in the following matters:

1. Immediately freeze any new investment in the top 200 publicly traded fossil fuel companies
2. Ask all fossil fuel companies in which the pension fund holds investments for a firm commitment to entirely decarbonise by 2030; and
3. Commit itself, over the course of the next 4 years, to divest the East Sussex Pension Fund from any investments in companies that do not provide that commitment by March 2021.

The ESPF understands that the Paris agreement and Climate Change pose both risks and opportunities to its pension portfolio. These risks are not confined to fossil fuel companies, but touch on every aspect of economic activity.

The Fund seeks to balance the fact that 80% of the World's primary energy currently comes from fossil fuels with the fact that an energy transition will unfold over the next 30-40 years. It must also reconcile its need for income to pay pensions with the fact that many of the more carbon intensive companies and sectors provide a significant proportion of the market's dividend income.

The Fund does not view blanket divestment from an entire sector, on which the global economy currently relies, as an effective or fiduciary approach. It does recognise though that uncertainties around the energy transition justify reduced exposure to these companies, while pressure is brought to bear on them to better align their long-run business models with the objectives of the Paris Agreement. The Fund believes that a combination of underweight exposure and collaborative active engagement, via its membership of Institutional Investors Group for Climate Change (IIGCC) /Climate Action 100+ (CA100+) and also by its Active Managers, is the most effective mechanism for reconciling current economic reality with the energy transition, while promoting change in oil and gas company strategy and behaviours.

IIGCC/CA100+ represents over 33 Trillion Euros in assets and over 250 investors from 16 countries and other stewardship providers. The Fund's Active Managers already participate in IIGCC. Such investor collaboration has made substantial demonstrable progress over the last 3 years in persuading major companies, including a number of oil and gas majors like BP, to more seriously address the energy transition. IIGCC/CA100+ provides a powerful mechanism for asset owners, through sector technology focus on decarbonisation pathways, proactive engagement with the largest global firms, involving direct dialogue with company managements, proxy voting, shareholder resolutions, and national policy engagement, to hold companies to account and to motivate better alignment with the energy transition.

The Fund does not own holdings in individual companies. In common with most LGPS Funds, It gains its exposure to Equity markets by recourse to a combination of holdings in passive index funds and active fund managers. MHCLG guidance encourages the use of index funds as an intrinsic part of investment strategy at an LGPS Fund pool level.

Index funds simply offer a cheap way of gaining exposure to the entire market as defined by the reference index. As the owner of an index fund, you are not consciously investing in any individual companies. You are passive around those choices as these are dictated by the composition of the index.

Up to 75% of the Fund's fossil fuel exposure has historically come via exposure to these passive index funds. Recognising that many of the current market indices are not well aligned with the aims of the Paris Agreement, the Fund has been investigating alternative approaches over the last 9 months.

Recent decisions by the Pension Committee, driven by work seeking to better align the Fund with sustainability, energy transition risks and opportunities, will see reduced exposure to passive index funds where much of the fossil fuel exposure resides, significant investment in an index approach better aligned to the Paris Agreement, new exposure to a number of active impact funds which seek to capitalise on sustainability and energy transition opportunities and a doubling of exposure over the next few years to infrastructure (including renewable) assets.

In conclusion, the Fund's current approach of investor collaboration has made substantial demonstrable progress in engaging major companies to more seriously address the energy transition. The motion requested is an impractical solution to the problem and would not deliver greater benefits than collaborative coalition.

East Sussex Pension Fund

Report to: Pension Committee

Date of meeting: 21 September 2020

By: Chief Operating Officer

Title: Good Governance Review

Purpose: To provide an update on the Good Governance review

RECOMMENDATIONS

The Pension Committee is recommended to agree the deliverables as set out in paragraph 2.1.

1 Background

1.1 At the meetings of the Pension Committee on 22 June 2020 and 25 November 2019, the Committee considered an item providing an update on the governance review.

1.2 The Pension Fund Team had previously commissioned a review from Aon in January 2019 which considered the evolution of the scheme and the interaction with the Fund's management. This review had been used to inform the Pension Fund Team restructure discussed later in this meeting.

2. Progress

2.1 Since the last meeting, the Good Governance working group had a follow up meeting on 28th August to consider the final draft review findings and to confirm the products of the Good Governance Review for presentation to the Pension Board and Pension Committee in September 2020, these include:

- Pension Fund Team structure and resourcing proposal (set out in Agenda item 19)
- Pension Administration Strategy (set out in appendix 1)
- Conflicts of interest policy and log (which will be presented at a later meeting)
- Pension administration Service Standard Agreement (Appendix B to the Administration Strategy)
- Responsibilities and relationship map for Scheme Employers (Appendix C to the Administration Strategy)

2.2 The review is identifying areas where principles need to be established and clarified in order to ensure all areas of the Pension Fund are managed. It is also identifying areas of best practice which will enable the Pension Fund to build on work and ways of working that are already established. In the Pension Administration report at item 10 Appendix 2 of this agenda there is a proposal for an overview of the proposed all-encompassing high-level insight of the administration service. This proposal will be reviewed with the Chair of the Pension Board and Pension Committee and a proposed final version in a presentational format will be brought to the next meeting of the Pension Committee.

3. Conclusion

3.1 The working group agreed that the recommendations from this phase of the Good Governance Review can be taken forward to Pension Committee for agreement. The Committee is recommended to agree the progress, deliverables and timetable of the Good Governance review.

KEVIN FOSTER
Chief Operating Officer

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East Sussex Pension Fund Pensions Administration Strategy 2020

Introduction

East Sussex County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) on behalf of the scheme employers participating in the LGPS through the East Sussex Pension Fund (the Fund). The LGPS is governed by statutory regulations.

This is the Pension Administration Strategy ("The Strategy") of the Fund in relation to the LGPS. The Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. The employers of the Fund are consulted when any substantial changes are proposed to this Strategy.

The aim of this Pension Administration Strategy is to set out the quality and performance standards expected of the Fund and its employers and to further ensure that both the Administering Authority and the scheme employers are fully aware of their responsibilities under the Scheme, and to outline the key performance standards they are expected to meet to ensure the delivery of a high-quality, timely and professional administration service.

As at 31 March 2020 the Fund comprised 128 scheme employers with approximately 76,792 scheme members in relation to the LGPS. At the last assessment the value of the Fund was over £3.6bn

Setting out the expectations of the Administering Authorities and Employing authorities will help to ensure that:

- Administration standards improve and are maintained at a high standard;
- Set out the quality and performance standards expected of the administering authority and its scheme employers in relation to each other; and,
- Promote good working relationships and improve efficiency between the administering authority and its scheme employers for the benefit of Fund members.

This document therefore sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high-quality pensions administration.

Delivery of a high standard of administration is not the responsibility of one person or organisation, but rather of a number of different parties, who between them are responsible for meeting the diverse needs of the membership. In recognition of these principles, this Strategy sets out:

- The roles and responsibilities of both the Fund and the scheme employers within the Fund;
- The level of service the Fund and scheme employers will provide to each other; and
- The performance measures used to evaluate the level of service.

This Strategy is an agreement between the Fund and its Scheme Employers and is effective from 1 January 2021.

Regulatory Provisions

The LGPS is a statutory scheme, principally governed by The Local Government Pension Scheme Regulations 2013 (the Regulations).

The Strategy has been created pursuant to Regulation 59 of the Local Government Pension Scheme Regulations 2013 and shall be reviewed at least every three years.

Our Aims and Objectives

The purpose of this Strategy is to set out the quality and performance standards expected of East Sussex County Council in its role of Administering Authority and Scheme Employer, as well as all other scheme employers within the East Sussex Pension Fund, and the Pension Administration Service.

The Fund has a number of specific administration objectives, these are to:

- provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders;
- administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money;
- ensure the Fund's Scheme Employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of their administration obligations;
- ensure the correct benefits are paid to, and the correct income collected from, the correct members at the correct time;
- maintain accurate records and ensure data is protected and has authorised use only; and,
- ensure the roles and responsibilities for all stakeholders are clearly set out and understood so that they work seamlessly together in the delivery of the Fund's administration.

Administration of the East Sussex Pension Fund

The East Sussex County Council as Administering Authority, has delegated responsibility for the management of the Pension Fund to the East Sussex Pension Committee, taking into consideration advice from the Pensions Board. The Pension Committee monitors the implementation of this Strategy on an annual basis.

This strategy will ensure that Employers have a common understanding of their obligations under the Local Government Pension Scheme and that administrative processes are designed to maximise efficiency and manage risk.

The success of the Fund largely depends on the strength of the relationship between the administering authority and the employers that participate in it. Employers have a range of responsibilities within the LGPS and have an obligation to ensure that these duties are effectively delivered. The Fund will provide free training for Employers to build up and maintain a level of professional expertise which will enable Employers to deliver information required by the Fund to efficiently manage the scheme. This will ensure employers have a sound understanding of:

- Employer discretion policies;
- The role of the appointed person and the Internal dispute resolution procedure;
- Their responsibilities for starters, leavers and changes to membership as set out in the Fund's administration strategy;
- Their responsibilities for collecting and remitting contributions (and, additional contributions);
- The reasons for leaving under the LGPS regulations;

- Providing information requested by the Fund at year end or as required; and,
- Their responsibilities with respect to outsourcing, staff transfers and reorganisations.

Communications

The Fund has a published Communication Strategy Statement in June 2020 which describes the way the Fund communicates with its scheme members, scheme employers and other stakeholders and interested parties. The latest version of the Communication Strategy Statement can be obtained from the Fund's website:- <https://www.eastsussex.gov.uk/yourcouncil/pensions/members/>.

The Fund aims to communicate to scheme employers on an ongoing basis in respect of developments relating to the LGPS including training opportunities as well as ensuring that employers are notified of changes to either professional practice, administration procedures, legislation, notifications from the Pension Regulator, and/or changes to pension scheme regulations as these arise. The Fund holds at least one Employer Forum annually in November, to provide opportunities for networking, meet and greet opportunities as well as to provide information on developments in progress which may affect all scheme employers and scheme members.

Performance Standards

The Administering Authority and Scheme employers have statutory obligations, functions and tasks in respect of the rights and entitlements of individual scheme members. These define a standard of performance and service delivery to individual scheme members, which constitute the agreed statutory minimum standards to which scheme employers must comply.

In instances where scheme employers use external service providers for functions relating to the administration of the LGPS, it is incumbent on all employers to ensure that their suppliers and service providers comply with applicable legislation and regulations which apply to the administration of the East Sussex LGPS.

Applicable legislation and regulations

Scheme employers must comply with overriding Local Government Pension Scheme Regulations, including:

- Pensions Act 2004 & 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003/GDRP legislation effective from 25 May 2018
- Finance Act 2013
- Health and Safety Legislation
- Any other legislation that may apply at the current time
- The Pension Regulator Codes of Practice

Roles and Responsibilities

Scheme Manager

The East Sussex County Council as Administering Authority, has delegated responsibility for the management of the Pension Fund to the East Sussex Pension Committee, to oversee the management of the Pension Fund. The Pension Board provides assistance to the Administering Authority in ensuring compliance with the regulations and in particular as this affects the administration of the Pension Fund and will therefore review the effectiveness of the Fund's Pension Administration Strategy on an annual basis. Details of roles and responsibilities of the Scheme Manager is set out in Appendix A.

Pension Administrator

The Pension Administration is delivered as an in-house service and the performance standards that scheme employers and scheme members should expect is outlined in the Service Standards Agreement at Appendix B. The Service Standards Agreement is focused on the key activities which scheme employers and scheme members are involved in and should not be viewed as a complete list of all activities. It includes the performance standards that the Administering Authority has agreed for itself as an internal pension administration service.

Scheme Employer Responsibilities

The roles and responsibilities of Scheme Employers are set out in Appendix C. The appendix defines the main responsibilities of Scheme Employers which in working in partnership with the Pension Administration Service ensures an efficient, accurate and high-quality pension service to scheme members.

Improving Performance

The Fund's Pension Administration Service provide the administrative support to ensure that the administration functions are delivered in compliance with the requirements of the law. If scheme employers do not provide the requested data correctly, in the correct format and within the timescales requested by the Administrator, the Fund cannot meet its legal obligations and may be liable to penalty fines imposed by the Pension Regulator.

This Strategy is therefore focussed on good partnership working between Administrator and the Fund's scheme employers. However, it is recognised there may be circumstances where employers are unable to meet the required standards. The Administering Authority will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

It is expected that it will be extremely rare for there to be ongoing problems but, where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue, we set out below the steps the Fund will take in dealing with the situation in the first instance:

- The Administering Authority will issue a formal written notice to the person nominated by the employer as their key point of contact, setting out the area(s) of poor performance.
- The Administering Authority will request a meeting with the employer to discuss the area(s) of poor performance, how they can be addressed, the timescales in which they will be addressed and how this improvement plan will be monitored.
- The Administering Authority will issue a formal written notice to the person nominated by the employer, setting out what was agreed at that meeting in relation to how the area(s) of poor performance will be addressed the timescales in which they will be addressed.
- A copy of this communication will be sent to:
 - The Head of Pensions at East Sussex County Council
 - The Director of Finance or other senior officer at the relevant employer.
- The Administering Authority will monitor whether the improvement plan is being adhered to and provide written updates at agreed periods to the person nominated by the employer, with copies being provided to the Head of Pensions and the Director of Finance (or alternative senior officer) at that employer.
- Where the improvement plan is not being delivered to the standards and/or timescales agreed, the matter will be escalated the Head of Pensions who will determine the next steps that should be taken. This may include (but is not limited to):
 - Meetings with more senior officers at the employer
 - Escalating to the Pension Committee and/or Pension Board, including as part of the Fund's Procedure for Recording and Reporting Breaches of the Law
 - Reporting to the Pensions Regulator or Scheme Advisory Board, as part of the Fund's Procedure for Recording and Reporting Breaches of the Law.

Circumstances where the Administering Authority may levy costs associated with the Employers poor performance

The Fund will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Strategy. The Fund will work with each employer to ensure that overall quality and timeliness is continually improved. The 2013 LGPS Regulations provide that an administering authority may recover from an employer, any additional costs including interest associated with the administration of the scheme, incurred as a result of the unsatisfactory level of performance of that employer.

Where an administering authority wishes to recover any such additional costs they must give written notice stating:

- The reasons in their opinion that the employer's level of performance contributed to the additional cost.
- The amount the Administering Authority has determined the employer should pay.
- The basis on which this amount was calculated.
- The provisions of the Strategy relevant to the decision to give notice.

The Administering Authority will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However, in instances where the performance of the employer results in:

- fines being levied against the Administering Authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater than the amount of that fine will be recharged to that employer.
- the improvement plan as outlined later in this statement is not being adhered to, the Pension Committee may determine that any other additional costs will be recharged. In these circumstances, the Pension Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pension Committee when this matter is being considered.

Employers may also be required to pay for additional work that is outside of business as usual, such as:

- Requesting the Fund undertake non-standard work
- Requesting work to be completed earlier than the normal service standards.

The employer's agreement to the charge will be obtained prior to the work being carried out. All additional costs relating to this Strategy are met directly by the Fund unless mentioned otherwise.

Fees for additional administration

The table below sets out the fees which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Charging is a last resort and the approach outlined in the section above will be followed before a fee is levied.

1. Multiple payments/LGPS31 forms received for a single employer, per month		£20.00 administration charge per additional payment
2. Change Notifications failure to notify the administrators of any change to a member's - working hours - leave of absence with permission (maternity, paternity, career break) or - leave of absence without permission (strike, absent without permission) - within 20 days of the change in circumstance	1st instance 2nd instance	Warning £50 fine per member
3. Year End Data - Failure to provide year end data by 30th April following the year end or the non-provision of year end information or the accuracy/quality of the year end data is poor requiring additional data cleansing		Late receipt - initial fee of £300 then a fee of £150 for every month the information remains outstanding Quality/format of data – fee of £150 should data provided not be in the correct format and/or the quality is poor
4. New Starter(s) Failure to notify the administrators of new starter(s) and the late or non-provision of starter form(s) – within 15 days of employee joining the scheme	1st instance 2nd instance	Warning £50 fine per member
5. Leaver(s) Failure to notify the administrators of any leaver(s) and the late or non-provision of leaver form(s) including an accurate assessment of final pay – within 15 days of employee leaving the scheme or employment	1st instance 2nd instance	Warning £50 fine per member

Warnings for non-compliance will operate on a rolling 12-month basis, for example, should a warning have been issued and 10 months later there is a 2nd instance, a fine will apply. However, if it is 13 months later, another warning will be issued.

If an issue has not been resolved within 10 working days of a warning being issued, a fine will apply and the Fund may take further action as appropriate regarding the failure to comply with the statutory requirements.

In addition to the above interest may be charged at 1% above base rate on any sum remaining unpaid for more than one month beyond the date on which it became due.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The Head of Pensions and other officers will work with the Pension Committee and the Pension Board in monitoring these and other key risks and consider how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Inadequate performance against service standards
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits, resulting in inaccurate costs
- Employer's failure to provide accurate and timely information resulting in incomplete and inaccurate records. This leads to incorrect valuation results and incorrect benefit payment.
- Failure to administer the scheme in line with regulations as listed under 'Regulatory Basis' in this Statement. This may relate to delays in enhancement to software or regulation guidance.
- Failure to maintain records adequately resulting in inaccurate data.
- Use of external printers/distributors resulting in possible data mismatch errors
- Unable to deliver an efficient service to pension members due to system unavailability or failure
- Failure to maintain employer contact database leading to information being sent to incorrect person

Consultation and review process

This Strategy was approved in September 2020 by the East Sussex Pension Committee. It is effective from 1 October 2020. It will be formally reviewed annually and updated at least every three years, if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing the original Strategy the Fund is consulting with its scheme employers, the scheme member and employer representatives on the East Sussex Pension Board and other persons considered appropriate. The employers of the Fund will also be consulted should any substantial changes be proposed to this Strategy following consultation.

The latest version of this Strategy will always be available on the ESCC website: <https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/> and the ESPF website: <http://www.eastsussexpensionfund.org/east-sussex-pension-fund/about-us/forms-andpublications/>

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Appendix A

Scheme Manager Responsibilities

Administering Authority responsibilities	Timeframes / Deadlines (where applicable)
Governance	
General responsibilities	
Review the Fund's pension administration strategy and consult with all scheme employers.	The Pensions Administration Strategy will be formally reviewed no less frequently than every three years. A review may take place at any time where in the view of the Administering Authority it is necessary to do so.
Review the Fund's funding strategy statement at each triennial valuation, following consultation with scheme employers and the Fund actuary.	Every three years in line with Fund valuation cycle.
Review the Fund's Communications Strategy	The Communications Strategy will be formally reviewed no less frequently than every three years. A review may take place at any time where in the view of the Administering Authority it is necessary to do so.
Review the Fund's governance compliance statement.	The Governance Policy Statement will be formally reviewed no less frequently than every three years. A review may take place at any time where in the view of the Administering Authority it is necessary to do so.
Publish the Fund's annual report and financial statement.	To be published annually.
Transfers	
Bulk transfers	
Share information as appropriate with the Employing Authority regarding the timescales, negotiations, and where material, the financial consequences, and where possible, reach agreement with the Employing Authority on the stance adopted on any negotiations with the receiving Fund.	The Administering Authority will in these cases engage with all parties as early as possible. The Fund will look treat each case on its own merits and consider in line with the principals detailed in the Fund's Funding Strategy Statement.
Ensure the provision of the Regulations are met, including the rights of the transferring members	N/A
Complaints, errors and breaches	
Complaints	

Administering Authority responsibilities	Timeframes / Deadlines (where applicable)
Appoint a nominated person to consider disputes under stage 1 of the IDRP process for disputes for any decisions/lack of decisions which need to be made by the administering authority.	Stage 1 complaints to be determined by the Administering Authority will be considered by the Head of Pensions.
Appoint a nominated person to consider disputes under stage 2 of the IDRP process.	Stage 2 complaints to be determined by the Administering Authority will be considered by the Solicitor and Monitoring Officer.
Consider and respond to disputes made under stage 1 and/or stage 2 of the IDRP within statutory timeframes as set out in the LGPS Regulations 2013.	Response to disputes under stage 1 and 2 of the IDRP will be provided within the statutory deadline of two months and monitored by the Head of Pensions.
Breaches	
Prepare and maintain a Policy showing how to identify, record and report breaches of the Law.	The Fund Breaches Policy will be formally reviewed no less frequently than every three years. A review may take place at any time where in the view of the Administering Authority it is necessary to do so.
Maintain a Breaches Log detailing all known breaches of the law, whether these are considered immaterial and hence only recordable or whether they are considered material and reported to the Pensions Regulator.	This will be maintained on an ongoing basis.
Present the Breaches Log to the Pension Committee and the Pension Board at each meeting	To be presented at each meeting of the Board and Committee.
Finance and accounting	
General responsibilities	
Consult with employing authorities on the outcomes of the triennial valuation.	To be carried out every three years in line with the Fund valuation timetable.
Carry out termination valuations on admitted bodies or employing authorities who cease their participation in the Fund.	To be carried out as and when required.
Accounting and financial reporting	

Administering Authority responsibilities	Timeframes / Deadlines (where applicable)
<p>Carry out accounting and financial reporting on behalf of the administering authority, including liaison with any third-parties, including:</p> <ul style="list-style-type: none"> o Management, preparation and presentation of the Fund's annual report and accounts. o Further accounting and cash-flow reporting throughout the scheme year. o Cashflow forecasting and reporting. o Liaising with internal and external auditors. o Quarterly management accounts. o Raising invoices on behalf of the Fund. o Recording and maintaining all accounting records in line with record retention policies. 	To be carried out as and when required.
Contributions	
<p>Notify employing authorities of their contribution requirements for three years effective from the April following each actuarial valuation.</p>	To be carried out every three years in line with the Fund valuation timetable.
<p>Notify new employing authorities of their contribution requirements.</p>	To be carried out as and when required.
Employer services	
General responsibilities	
<p>Provide support to employing authorities through a dedicated employer website, technical notes, employer bulletins and day to day contact.</p>	<p>Web content available to employers will be reviewed on no less than an annual basis. Employer newsletters will be issued in line with the Communications Strategy.</p>
<p>Provide training sessions on employing authorities' roles and responsibilities.</p>	To be delivered as and when required.
Employer monitoring	
<p>Monitoring of employers, including reporting of key metrics. This may include monitoring employers who have a very small number of active members remaining and may therefore cease participation or highlighting significant changes in membership numbers indicating a restructuring exercise or other event that requires the attention of the administering authority.</p>	Ongoing basis

Administering Authority responsibilities	Timeframes / Deadlines (where applicable)
Monitor the existence of indemnity bond cover for employers, including highlighting to the administering authority where bond cover is either outdated, soon to expire or needs to be reviewed in line with administering authority policies. This may involve further communication with the Fund actuary or other party to obtain updated levels of recommended bond cover where appropriate.	Bond's in place for admission body employers will be reviewed on an annual basis in line with the Fund's Funding Strategy Statement.
Maintain an updated record of further information relating to employers, for example, whether another employer has agreed to act as a guarantor for that employer, or any other information determined by the administering authority to be relevant.	Ongoing basis
New and ceasing employers	
Assist in the preparation and communication of admission agreements to new employers in the Fund, including liaising with the administering authority or Fund actuary, as required, to prepare the necessary documentation.	Potential new employers in the Fund should engage with the administering authority at the earliest opportunity to allow adequate time for an assessment of the employer contribution rate and bond (where necessary). Where this is a result of an outsourcing of employees under TUPE from an existing scheme employer, engagement with the Administering Authority should be sufficiently early to allow pensions information to be included in the tender documentation.
Obtain a signed agreement and/or keep these on record on behalf of the administering authority.	The Admission Agreement must be completed no later than one month after the date of admission.
Provide technical advice, guidance or support in relation to new or existing admission agreements and the operation of these with employers.	To be provided as and when required.
Assist in managing the cessation of an employer, including liaising with them in relation to any cessation debt due to the Fund.	Any deficit or surplus due at the point an employer exists the Fund will be communicated to the former scheme employer in line with the requirements of regulation 64 of The Local Government Pension Scheme Regulations 2013.
Administering authority support and training	
Policy development	
Draft, maintain and publish all the policies and strategies that govern the pension fund, liaising with Employing Authorities and the Administrator as required. <ul style="list-style-type: none"> ○ Communications strategy. ○ Administration strategy. 	Policies will be reviewed no less frequently than every three years. A review may take place at any time where in the view of the Administering Authority it is necessary to do so.

Administrator's responsibilities	Timeframes / Deadlines (where applicable)
Governance	
General responsibilities	
Formulate, publish and keep under review policies in relation to all areas where the administering authority may exercise a discretion within the scheme regulations.	The Administering Authority Discretionary Policy will be formally reviewed no less frequently than every three years. A review may take place at any time where in the view of the Administering Authority it is necessary to do so.
Review the IRMPs appointed and used by Employing Authorities meet legislative requirements to advise on ill health retirement applications	To be reviewed no less than every three years.
Additional contributions	
General information	
Agree that any requests to pay additional contributions satisfy the administering authorities' discretionary policy in respect of additional contributions (e.g. whether a member is required to undertake a medical before entering into an additional contributions contract and determining whether the request is impractical)	To be agreed with the scheme administrator.
Additional voluntary contributions (AVCs)	
Ensure a process is in place to periodically review AVC providers/fund options.	A review of the AVC provider to the Fund will take place no less than every 5 years.
Ensure that the member receives an annual statement, and that this statement meets statutory requirements.	Annual statements received from the AVC provider are redistributed to individual contributors on an annual basis.
Additional pension contributions (APCs)	
Agree that any requests to pay additional contributions satisfy the administering authorities' discretionary policy in respect of additional contributions (e.g. whether a member is required to undertake a medical before entering into an additional contributions contract and determining whether the request is impractical)	To be agreed with the scheme administrator.
Transfers	
Transfers-in	

Administrator's responsibilities	Timeframes / Deadlines (where applicable)
Ensure that the Administering Authority has in place an appropriate discretionary policy setting out their policy on whether they choose to extend the 12-month time limit for accepting transfers in, where the decision falls to them.	This is contained within the Discretionary Policy of the Administering Authority.
Transfers-out	
To determine necessary action on how to proceed with transfer cases that have been flagged as at risk of being a pension liberation case. This may include, but not be restricted to, indicating whether the transfer is to be paid or whether legal advice is sought.	Any transfer cases referred to the Administering Authority by the scheme administrator for suspected pension liberation scams will be thoroughly investigated and secondary assurance sought from the scheme member. This should include all transfers to Qualifying Recognised Overseas Pension Scheme's (QROP'S).
Retirements	
Other responsibilities	
Where a deferred member requesting early payment of their pension benefits and requesting that their Rule of 85 is to be applied and/or whether their reductions are to be waived, whose former employer no longer contributes within the East Sussex Pension Fund: <ul style="list-style-type: none"> Consider the application and confirm to the decision to the member. Notify the administrator whether the Ro85 is to apply/reductions are to be waived or not. 	Applications will be considered by the Section 151 Officer on behalf of the Administering Authority and confirmed to the scheme administrator.
Where a deferred member requesting early payment of their pension benefits due to ill health, whose former employer no longer contributes within the East Sussex Pension Fund: <ul style="list-style-type: none"> arrange for the member to be assessed by an IRMP, provide confirmation to the administrator that the employee meets all the conditions for ill-health retirement, as defined by the relevant LGPS regulations, and confirm the retirement date and a complete and correct ill-health certificate completed by the IRMP 	Applications will be considered by the Section 151 Officer on behalf of the Administering Authority and confirmed to the scheme administrator.
Where the member is in receipt of an ill health pension made under Tier 3, and the former employer has subsequently ceased to be a contributing employer within the ESPR, arrange for the member to be reassessed by an IRMP after 18 months and determine whether the pension should continue, or be subject to an uplift.	Arrangements for reassessment will be made by the Section 151 Officer on behalf of the Administering Authority.
Deaths	

Administrator's responsibilities	Timeframes / Deadlines (where applicable)
General responsibilities	
Review where necessary information provided by the administrator in relation to potential death grant lump sums and dependant pensions and provide written agreement for payments to be made, where necessary.	The determination of death grant beneficiaries will be in line with the Fund policy. The decision is delegated to the scheme administrator but for more complicated cases that will be referred to the Administering Authority for determination on a case by case basis.
Review the Administrator's policy annually in relation to the payment of death grant lump sums and ensure this is regularly reviewed and updated if necessary.	The policy on payment of death grant lump sums will be reviewed on an annual basis.
Communications	
Newsletters and periodic communications	
Liaise with Administrator to agree on newsletter (and other communication) content	This will be done and timetabled in line with the Communications Strategy of the Fund.
Member and employer surveys	
Liaise with Administrator to agree on content of surveys	This will be done and timetabled in line with the Communications Strategy of the Fund.
Member presentations and workshops	
Liaise with Administrator to agree on structure / content of presentations / workshops	This will be done and timetabled in line with the Communications Strategy of the Fund.
Administering authority support and training	
Policy development	
Draft, maintain and publish all the policies and strategies that govern the pension fund, liaising with Employing Authorities and the Administrator as required. <ul style="list-style-type: none"> Administering or employing authority discretionary policies. 	Policies will be reviewed no less frequently than every three years. A review may take place at any time where in the view of the Administering Authority it is necessary to do so.
Administration performance reports and CIPFA benchmarking	
CIPFA benchmarking	
Provide additional information to assist in the completion of the annual CIPFA benchmarking questionnaire, if required by the administrator.	Where required information will be provided within 10 working days of the request.

Service Standards Agreement for East Sussex Pension Administration

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Overview and purpose of this agreement

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all employers participating in the fund and all past and present members, including their dependants.

The purpose of this agreement is to outline the administrative functions and clearly define the service standards in relation to those functions. In meeting these standards, the Fund will ensure that it meets its statutory responsibilities and that members and employers receive a cost-effective and high-quality service.

This Service Standards Agreement also outlines the Fund to produce an administration performance report on a quarterly basis, which can be reviewed at ESPF Pension Committee and Pension Board meetings.

As well as demonstrating compliance with the legal timescales and key performance indicators (KPIs) outlined in this agreement, the administration performance report will provide a full overview of the administration function, including work completed and work in hand, complaints, communications, breaches of the law, data quality, and updates on projects and plans.

A detailed breakdown of the administration performance report is included in section 12 of this report.

General administration overview

The main services provided include maintenance of scheme members' records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund's actuary.

- **Pensions Administration**
- **Projects**
- **Technical & Compliance**
- **System Support**
- **Training & Development**
- **Help Desk**

Legal timescales

The table below contains a list of processes and the legal timescales in which they must be met. The Fund will monitor its performance against these timescales, which are subject to an achievement target and include the results in the quarterly administration performance report.

Process	Legal requirement
To process new member information – i.e. create a new pension record and provide basic scheme information to the member.	Within one month of the date of receiving jobholder information from the scheme employer, extended to two months where correct jobholder information has not been received.

Provide a Cash Equivalent Transfer Value (CETV) to the member, including for divorce purposes.	Within three months of the date that the request is made by the member. Or, in divorce cases, such shorter deadline as specified in a valid court order where reasonable.
Pay a CETV following a member's election to transfer.	Within six months of the guarantee date, or within six months of the member's request if CETV not guaranteed.
Notify HMRC when a transfer payment is made to a QROPS.	Within 60 days of the date the transfer payment is made.
Notify members who re-join the scheme and have previous LGPS benefits of their rights and options.	In sufficient time to allow the member to make an election within 12 months of re-joining.
Notify members of the transfer credits available in respect of a CETV or transfer payment from a previous pension arrangement (TV-in).	Within two months of the date of the member's request, unless already provided within the previous 12 months. This includes obtaining the transfer value from the previous provider and informing member of transfer options.
Provide information for divorce purposes which does not include a CETV.	Within one month of the date the request is made by the member, their spouse/partner, or the Court.
Implement a Pension Sharing Order.	Within four months of the effective date of the Order, or the date on which all the relevant information is received.
Inform members who leave the scheme before their normal pension age of their rights and options.	Within two months of the date of initial notification from the scheme employer, or the request from the member.
Notify the member of the amount of retirement benefits.	Within one month of the date of retirement, if retiring on or after normal pension age. Within two months of the date of retirement, if retiring before normal pension age.
Notify the dependant(s) of the amount of death benefits payable.	Within two months of the date of becoming aware of the member's death, or of the date of request for information from a third party.
Make payment of any death grant.	Within two years of the date of becoming aware of the member's death.

Provide annual benefit statements to all active, deferred, pension credit and deferred pensioner members.	By 31 st August of each year.
Provide pensions savings statements to all members who exceed the annual allowance.	By 6 October following the end of each tax year.
Notify members (or dependants) of the percentage of the standard lifetime allowance used up by a Benefit Crystallisation Event (BCE).	Within three months of the BCE date.
Submit the annual event report to HMRC.	By 31 January following the end of each tax year.
Submit quarterly accounting for tax returns to HMRC, including details of all: <ul style="list-style-type: none"> • Short service refund lump sum charges • Lifetime allowance charges • Special lump sum death benefit charges • Serious ill-health lump sum charges • Authorised surplus payments charges • Annual allowance charges • Overseas transfer charges 	By 15 May, 14 August, 15 November and 14 February each year.
Issue P60s to all pensioner members.	By 31 May following the end of each tax year.
Issue P14/P35 to HMRC.	By 19 May following the end of each tax year.
Submit full payment submission (FPS) to HMRC.	On or before each monthly pay date.
Pay tax owed to HMRC.	By the 22 nd of each month.
Notify members of material scheme changes.	Within three months of the date the change takes effect.
Respond to an IDRP Complaint.	Within two months of receiving the Stage One complaint or Stage Two appeal.

Administration performance standards

The table below contains a list of pensions administration processes, and the performance standard for each of them. The Fund Administration will monitor its performance against the targets stated and include the results in the quarterly administration performance report.

General member administration	Administration standards
New starter Create a new pension record and provide basic scheme information to new members.	Within 20 working days of receiving details of the new member from the scheme employer.
50/50 membership Update administration software (Altair) when commences or finishes.	Within 20 working days of receiving confirmation from the scheme employer.
Additional Pension Contributions or Additional Voluntary Contributions information Provide information to the member on paying or amending additional contributions.	Within 10 working days of receiving the request from the member.
Absence contributions Provide information to the member and/or scheme employer on paying additional contributions to cover absence.	Within 10 working days of receiving confirmation from the scheme employer that the member has returned from absence.
Payment of additional contributions in respect of absence, APC or AVC Action any request to pay additional contributions.	Within 10 working days of receiving the request to pay additional contributions from the member.
Estimate of benefits Provide the member, employer or other stakeholder with an estimate of benefits in respect of increasing or reducing benefits, possibly through additional contributions.	Within 15 working days of receiving the request from the member, employer or other stakeholder.
Annual Allowance and Lifetime Allowance Provide the member with individual calculations, including projections, of benefits and possible tax charges in relation to the Annual Allowance and Lifetime Allowance	Within 10 working days of receiving the request from the member (excluding the annual project cycle relating to issuing Pensions Savings Statements by 6 October).

General Enquiries If not about a specific task, a catch all other type task.	Within 10 working days of receiving the request from whomever.
Data Amendments Includes tasks like change of name, address or bank account.	Within 10 working days of receiving the request from the member or the scheme employer.
Leavers not entitled to immediate payment of benefits	Administration standards
Refund of contributions Calculate refund of contributions and issue letter including reference to possible CETV to the member.	Within 10 working days of receiving a completed leaver form.
Unclaimed refunds Contact the member to arrange for payment of an unclaimed refund to be made, in line with regulations which require this to happen after a specific time.	Within 10 working days of the date that is two months prior to the date that payment must be made.
Payment of refund of contributions Make payment of refund of contributions and send notification letter to the member.	Within 5 working days of receiving a complete and correct payment form from the member.
Deferred benefits Calculate deferred benefit entitlement and send notification letter and statements to the member.	Within 15 working days of receiving all the required complete and accurate information from the scheme employer.
Transfers and aggregation	Administration standards
Transfer-in – request for information Request details of the estimated transfer payable from the member's previous pension provider.	Within 5 working days of receiving the member's initial request to investigate a transfer-in.
Transfer-in – estimate Calculate the estimated additional benefits that the transfer value would award and send a letter and all option forms to the member.	Within 10 working days of receiving the transfer value from the member or their previous pension provider.
Transfer-in – request payment Request payment of the transfer value from the member's previous pension provider.	Within 5 working days of receiving all complete and correct forms from the member.

Transfer-in – actual Calculate the additional benefits that the transfer value has awarded and send a confirmation letter to the member.	Within 10 working days of receiving confirmation of payment from the member's previous pension provider.
Transfer-out – estimate Calculate a transfer value and send an information pack and all option forms to the member.	Within 15 working days of receiving a complete and correct CETV request form from the member
Transfer-out – actual Calculate and make payment of the CETV or interfund transfer and send confirmation to the member and the receiving scheme.	Within 25 working days of receiving all the required information, including complete and correct forms from the member and the receiving scheme.
Aggregation within ESPF (in fund transfer) - quotation Notify the member of their rights and options, or confirm automatic aggregation, if appropriate.	Within 15 working days of receiving a complete and correct starter form from the scheme employer.
Aggregation within ESPF - settlement Update member record in accordance with the election made.	Within 10 working days of receiving a member's election (to aggregate or not to aggregate), or at the expiration of the 12 period in which a member may elect other than for automatic aggregation.
Aggregation from another LGPS fund – request for information Request details of estimated transfer payable from the member's previous pension provider.	Within 5 days of receiving confirmation of previous LGPS service with another Fund.
Aggregation from another LGPS fund - estimate Notify the member of their rights and options, or confirm automatic aggregation, if appropriate.	Within 10 working days of receiving all the required information from the previous fund.
Aggregation from another LGPS fund – request payment Request payment of the transfer value from the member's previous pension provider	Within 5 working days of receiving all complete and correct forms from the member.
Aggregation from another LGPS fund – settlement Update member record in accordance with the election made.	Within 10 working days of receiving all complete and correct forms from the member (request payment and pend until)

	payment from previous Administering Authority.
Aggregation to another LGPS fund – quote Send all the required information to the member's new fund.	Within 15 working days of receiving the request for information from the new fund.
Aggregation to another LGPS fund – settlement Calculate and make payment of the transfer value and send confirmation to the member and the receiving scheme.	Within 25 working days of receiving all the required information, including complete and correct forms from the member and the appropriate Administering Authority.
Retirements	Administration standards
Active retirement (early, normal, late, incapacity or redundancy) – quote Calculate the value of the standard retirement benefits and send a letter, statements and all option forms to the member.	Within 7 working days of receiving both a complete and correct leaver form.

<p>Deferred retirement (from early, normal, late or ill health – quote Calculate the value of the standard retirement benefits and send a letter, statements and all option forms to the member.</p>	<p>Early – within 10 working days of a request from a member.</p> <p>Normal – Within 7 days of the date two months prior to prospective payable date.</p> <p>Ill Health – Within 7 working days of receiving both a complete and correct ill-health certificate and written agreement from the scheme employer.</p>
<p>Payment of lump sum and notification</p> <p>Calculate the final retirement benefits, make payment of any tax-free lump sum, and send notification to the member.</p>	<p>Within 5 working days of the later of the date of retirement or receiving all complete and correct retirement forms from the member.</p>
<p>Strain payment</p> <p>Issue an invoice for the strain payment to the scheme employer.</p>	<p>Within 30 working days of making payment of the lump sum or sending notification to the member.</p>
<p>Trivial commutation upon retirement or from pensioner status – Quote</p> <p>Calculate and inform the member of the trivial commutation sum together with the appropriate claim forms.</p>	<p>Within 10 working days of receiving a member request.</p>
<p>Trivial commutation upon retirement or from pensioner status – Settlement</p> <p>Calculate and make payment of the trivial commutation payment and send notification to the member.</p>	<p>Within 10 working days of receiving all the information required to make payment.</p>

Deaths	Administration standards
Death of an active, deferred or pensioner member – quote Send a letter of condolence and claim forms to the member's next of kin or personal representatives.	Within 2 working days of having been informed of the member's death by next of kin, scheme employer or personal representative.
Dependant's pension – settlement Calculate and process the benefits due to the member's dependant(s) and send notification.	Within 5 working days of receiving all required information and documents from the dependant(s).
Trivial commutation of dependent pension – Quote Calculate and inform the dependent of the trivial commutation sum together with the appropriate claim forms.	Within 10 working days of receiving a member request.
Trivial commutation of dependent pension – Settlement Calculate and make payment of the trivial commutation payment and send notification to the dependent.	Within 10 working days of receiving all the information required to make payment.
Balance of pension Make payment of the balance of pension due to the estate.	Within 7 working days of receiving all the information required to make payment.
Death grant – approval Submit recommendation for payment of death grant to Administering Authority for decision.	Within 5 working days of receiving all the information required to make recommendation.
Death grant – payment Make payment of the death grant to the <u>determined</u> beneficiary(s).	Within 5 working days of receiving all the information required to make payment.
Pension Sharing and Earmarking Orders	Administration standards
Schedule & Invoice for charges Provide the member and/or their solicitor or other representative with a schedule of charges that will apply and provide the required information including any invoice to the member for any charges that are due.	Within 5 working days of receiving a request for information from the member.

Provide PSO information - quote Calculate a transfer value and send an information pack and forms to the member and/or their solicitor.	Within 15 working days of receiving a complete and correct CETV request form from the member.
Pension debit and credit - settlement Calculate the final pension debit and credit amounts and send notification to the member and their former partner.	Within 25 working days of receiving a Pension Sharing or Earmarking Order and payment for implementation.

Breaches and complaints

The management of breaches are in full compliance with the ESPF Breaches Policy agreed on 22nd June 2020.

The Fund will maintain a record of all complaints received (verbally and in writing) and operate a local complaints resolution procedure that all staff will be aware of. All complaints received will be reported to ESPF and the number of complaints received will be included in the administration performance report.

The Fund will produce and communicate an IDRP procedure in accordance with LGPS regulations and will pass any stage 1 and stage 2 cases to the relevant nominated person as soon as possible. All IDRP cases received will be included in the administration performance report.

Process	Standard	Administration standards
Breaches	Logged within 1 working day	Reported to Head of Pension Fund within 2 working days of breach occurring.
Complaint	Logged within 2 working days	
Error & Omission	Logged within 2 working days	
IDRP cases	Logged within 1 working day	Reported to Head of Pension Fund within 1 working day of receipt of IDRP case

Communications

The table below shows a list of communications not covered by legal timescales that the administration team will produce and distribute and the timescales in which this will be done.

Communications with employers are under the guidance of the Communications Strategy agreed by the Pensions Committee on 22nd June 2020

Communication	Administration standards
Notify all pensioner and dependant members of the annual increase to their pension.	By 30th April following the end of each tax year.
Employer satisfaction survey Issue a satisfaction survey to all employers in the fund.	Issue annually by 30 th November and achieve an overall satisfaction score that is above 70.
Member satisfaction survey Issue a satisfaction survey to a sample of members in the fund.	Issue annually by 30 th and achieve an overall satisfaction score that is above 70.
Pensioner newsletter Produce and distribute a newsletter to all members in receipt of a pension.	Issue annually by 30 th April after the year end of 31 st March and accompanying the notification of annual pensions increase.
Member newsletter Produce and distribute a newsletter to all active and deferred members.	Issue annually by 31 st August for each year ending 31 st March.
Annual Benefits Statements	By 31 st August
Website	Reviewed on a monthly basis and requests for update provided to the Compliance & Local Improvement Partner.
Valuation or data extract(s) for Hymans	All interactions with the Fund actuary are subject to the governance of the actuarial SLA with the administrator.

Administration performance report

To demonstrate its performance against the service standards outlined in this agreement, the administration team will produce an administration performance report on a quarterly basis, which can be reviewed at Pension Board and Pension Committee meetings, as required.

As well as demonstrating compliance with the legal timescales and key performance indicators (KPIs) outlined in this agreement, the administration performance report will provide a full overview of the administration function, including work completed and work in hand, updates on projects, and future administration plans. The report will include a full comparison between the latest quarter and the previous one and a chart showing overall workloads over the previous 18 months.

A breakdown of the administration performance report is provided in the table below:

Part 1: Overview of workloads
<p>Total number of cases created during the period.</p> <p>Total number of cases completed during the period.</p> <p>Total number of cases outstanding at the end of the period.</p>
<p>Scheme membership numbers at the beginning and end of the period.</p> <ul style="list-style-type: none"> • Active members • Undecided leavers • Deferred members • Pensioners • Dependants
<p>Number of employers in the fund at the beginning and end of the period.</p> <p>Breakdown of the types of employers at the beginning and end of the period.</p>
Part 2: Caseload performance
<p>Name of each administration process and brief description.</p> <p>Administration target for each process.</p> <p>Legal timescale for each process, where appropriate.</p> <p>Number of cases created during the period.</p> <p>Number of cases completed during the period.</p> <p>Number and percentage of cases completed within the administration target and legal timescale categorised using RAG ratings.</p> <p>Average number of days taken to complete cases.</p> <p>Number of cases outstanding at the end of the period.</p>
Part 3: Qualitative standards
<p>Total number of benefit calculations issued to members during the period.</p> <p>Administration target for all benefit calculations issued to members.</p> <p>Number of benefit calculations issued to members that did contain an error.</p> <p>Percentage of benefit calculations issued to members that did not contain an error.</p>
<p>Number of pension payments made during the period</p> <p>Administration target for accurate pension payments</p> <p>Number and percentage of pension payments made during the period that were found to contain an error.</p>

Part 4: Breaches and complaints	
Number of breaches logged during the period. Number of breaches reported to TPR during the period.	
Number of member complaints received during the period. Number of IDRP cases logged during the period. Number of IDRP cases upheld/partially upheld during the period.	
Part 5: Communications	
ABSs for active members Legal timescale for issuing active ABSs. Date that active ABSs were issued. Number and percentage of active members who received an ABS.	ABSs for deferred members Legal timescale for issuing deferred ABSs. Date that deferred ABSs were issued. Number and percentage of deferred members who received an ABS.
Employer satisfaction survey Date that survey was issued. Target satisfaction rating. Actual satisfaction rating.	Member satisfaction survey Date that survey was issued. Target satisfaction rating. Actual satisfaction rating.
Pensioner newsletter Date that newsletter was issued.	Member newsletter Date that member newsletter was issued.
Employer meeting Date that meeting was held.	Pension fund annual meeting Date that meeting was held.
Part 6: Data quality	
Common data Last reported common data score. Target common data score. Scheme-specific data Last reported scheme-specific data score. Target scheme-specific data score. Data improvement plan Summary of any actions taken to improve data quality	

Part 7: Scrutiny and audit	
Internal audit Audit report target. Audit report results. Date of audit report.	External audit Audit report target. Audit report results. Date of audit report.
TPR annual return Target for providing data for the TPR annual return. Date of completion. Performance against the target.	
Part 8: CIPFA benchmarking	
Name of each relevant CIPFA benchmark and brief description. Administration target for each benchmark. Performance against each benchmark. Date of benchmarking.	
Part 9: Project reports	
A list of ongoing and new administration projects and plans. Targets for completing these projects. Performance against the project targets. Dates projects were completed, if appropriate.	

Appendix C

Scheme Employer Responsibilities

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Governance	
General responsibilities	
Designate a named individual as Pensions Liaison Officer, to be the main point of contact for the administrator or administering authority.	Within 30 days of becoming a scheme employer within the East Sussex Local Government Pension Fund or 30 days from date of request by the Scheme Administrator or Administering Authority.
Complete authorised signatory forms to provide the administrator and administering authority with contact information for officers authorised to perform key administrative roles.	Within 30 days of becoming a scheme employer within the East Sussex Local Government Pension Fund or 30 days from date of request by the Scheme Administrator or Administering Authority.
Appoint an independent registered medical practitioner (IRMP) qualified in Occupational health medicine to consider all ill-health retirement applications and agree the appointment with the administering authority.	Within 90 days of becoming a scheme employer within the East Sussex Local Government Pension Fund or 90 days from date of request by the Scheme Administrator or Administering Authority.
Formulate, publish and keep under review policies in relation to all areas where the employer may exercise discretion within the scheme regulations.	Within 90 days of becoming a scheme employer within the East Sussex Local Government Pension Fund or 90 days from date of request by the Scheme Administrator or Administering Authority.
New employers and TUPE transfers	
Notify the administering authority of any contracting out of services that will involve a TUPE transfer of employees to another organisation before the TUPE transfer takes place.	Employers should inform the Administering Authority as soon as possible within the tender process, enabling pension information to form part of the tender documentation.
Provide the administering authority with contact details for lead decision-making and operational officers where a prospective new employer or admitted body may request to join the Fund as a result of re-organisation or TUPE transfer.	Employers should inform the Administering Authority as soon as possible within the tender process, enabling pension information to form part of the tender documentation.
Work with the administering authority to establish an admission agreement.	Potential Admission Body Employer's, together with the letting employer should work closely with the Administering Authority, to ensure that Admission Agreements are completed no later than one month following the contracting out of the service.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Notify the administering authority where the employer ceases to admit new members or is considering ceasing participation in the Fund.	This should be done at the earliest opportunity, allowing the Administering Authority to liaise with the Fund actuary in order to achieve a well-managed employer exit from the Fund.
General member administration	
New starters	
Enrol all eligible new employees into the scheme in accordance with the relevant LGPS regulations.	From the first available pay period.
Determine and deduct the appropriate rate of employee contributions, based on the current contribution rate banding table.	Immediately upon commencing Scheme membership, in line with employer's policy and as a minimum in each April thereafter.
Notify the administrator of all new starters.	Provide the Pension Section with details of all new entrants to the LGPS, by the 10th of the month following entry.
Provide all eligible new employees with details about the scheme in the form of a copy of the key facts leaflet and/or directing them to the Fund's website.	To be provided to the employee within six weeks of the date on which the employee became a scheme member.
Auto-enrolment	
Enrol and re-enrol all eligible employees into the scheme in accordance with the auto-enrolment requirements of the Pensions Act 2008 and the relevant LGPS regulations.	This should be done for each pay period ensuring all non-members without a valid exclusion from auto-enrolment are enrolled or re-enrolled into the LGPS.
Replicate the same process as above in New Starters section for those employees enrolled or re-enrolled into the scheme	N/A
50/50 membership	
When an election to move into or out of the 50/50 section is received from an employee, adjust the contribution rate accordingly and confirm to the member that this has been actioned.	Within one month of the date of change following receipt of a valid election to either move from the Main Section to 50/50 Section of the Scheme, or to move from the 50/50 Section to Main Section of the Scheme. This may be in the form of a pay advice notice.
Where an employee either goes onto nil pay due to sickness or injury or passes the automatic re-enrolment date, move the employee back into the main section of the scheme.	This should be done from the date of the relevant event detailed, and communicated to the employee within one month of the change.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Notify the administrator of all employees that move into and out of the 50/50 section via spreadsheet or online portal, at least monthly.	This should form part of the monthly submission to the Administering Authority.
Additional contributions	
General information	
Distribute general information on the options available for paying additional contributions to employees, if requested to do so by the administrator or administering authority, both electronically and in paper format.	This should be distributed within one month of having received the instruction and documentation from the Scheme Administrator or Administering Authority.
Make the appropriate deduction of additional contributions on receipt of an election from a member, and confirm this has been actioned to both the member and Administrator	The deduction should take effect from the first available pay period (or date specified if later). The member and Scheme Administrator should then be informed within one month of the change.
Additional pension contributions (APCs)	
Ensure and arrange for the correct deduction of APCs from pensionable pay throughout the length of the contract.	The deduction should take effect from the first available pay period (or date specified if later) and continue at the prescribed rate until the termination date or date active membership of the Scheme ceases if earlier.
Make payment of the APCs to the administering authority within the timescales agreed.	Scheme employers must pay over contributions to the Fund by the 19th of the month following the deduction.
Provide a monthly breakdown of all APCs to the administrator/administering authority for reconciliation against payments received.	Submission of a LGPS31 should be made to the Fund prior to the payment and no later than 18 th of the month following the deduction.
Other additional contribution contracts	
Ensure and arrange for the correct deduction of additional contributions from the member's pensionable pay.	The deduction should take effect from the first available pay period (or date specified if later) and continue at the prescribed rate until the termination date or date active membership of the Scheme ceases if earlier.
Ensure deductions of additional contributions commence and cease from the appropriate dates.	The deduction should take effect from the first available pay period (or date specified if later) and continue at the prescribed rate until the termination date or date active membership of the Scheme ceases if earlier.
Make payment of all additional contributions (excluding AVC's) to the administering authority within the timescales agreed.	Scheme employers must pay over contributions to the Fund by the 19th of the month following the deduction.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Provide a monthly breakdown of all other additional contributions to the administrator/administering authority for reconciliation against payments received.	Submission of a LGPS31 should be made to the Fund prior to the payment and no later than 18 th of the month following the deduction.
Absence contributions <ul style="list-style-type: none"> ▪ The requirements below apply to all absences, including, but not limited to: <ul style="list-style-type: none"> ○ Child-related leave (e.g. maternity, paternity, adoption, parental leave); ○ Authorised unpaid leave (e.g. unpaid child-related leave); ○ Reserve forces leave; ○ Industrial action; ○ Jury service. 	
Notify employees of the options available to pay additional contributions to cover benefits that have been reduced or lost due to periods of absence.	Member elections to purchase lost pension during a period of authorised unpaid leave must be made within 30 days of returning to employment (or a longer period as permitted by the employer). Employers must therefore provide details of the options available to employees, allowing sufficient time for an employee election to be made.
When an election to pay additional contributions to cover a period of absence has been received, arrange for the correct amounts to be deducted from the employee's pensionable pay.	Deduct the relevant contributions due within the first available pay period following receipt of a valid member election.
Make payment of all absence-related additional contributions to the administering authority within the timescales agreed.	Scheme employers must pay over contributions to the Fund by the 19th of the month following the deduction.
Provide a monthly breakdown of all absence-related additional contributions to the administrator/administering authority for reconciliation against payments received.	Submission of a LGPS31 should be made to the Fund prior to the payment and no later than 18 th of the month following the deduction.
Award of additional pension	
Ensure the appropriate additional pension decisions are communicated promptly to Administrator by one of the employing authority's authorised signatories.	Notification should be provided to the administrator within 5 working days of the resolution to award additional pension having been made.
Ensure the appropriate additional costs invoiced in relation to any award of additional pension are paid to the administering authority within the agreed timescale.	Payment of the invoice should be made within the stated terms.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Leavers not entitled to immediate payment of benefits	
General responsibilities	
<p>Notify the administrator of all employees who leave the scheme before retirement, by providing a complete and correct pensions leaver form, signed by one of the employing authority's authorised signatories. This must include the member's personal details, date of leaving, reason for leaving, and pay details as outlined below.</p> <ul style="list-style-type: none"> ▪ Provide details of the contributions made by the employee and employer during the final scheme year and the previous scheme year, including any additional contributions. ▪ Provide details of the member's pensionable pay, as defined by the LGPS Regulations 2013, for the scheme year up to the date of leaving and for the previous scheme year. ▪ Where required, provide details of the member's final pay as defined by the LGPS (Benefits, Membership and Contributions) Regulations 2007. ▪ Where the member is entitled under the LGPS regulations to use a final pay that relates to a previous year, provide the previous two year's final pay figures or the best of the last 10 years' final pay figure, as required. ▪ Where required, provide details of the hours the member worked up until the date of leaving and, if required by the administrator, details of historical hours changes for the member. 	<p>To be provided within one calendar month of the date of leaving, in a format approved by the Administering Authority.</p>
Refunds of contributions	
<p>Refund contributions through the payroll to any employee who opts out of the scheme with less than three months membership.</p>	<p>Within the first available pay period following receipt of a valid opt out. Provide the Scheme Administrator with details of all opt outs and a copy of the completed 'Opt out form' by the end of the calendar month following the last contribution deducted.</p>
<p>Provide additional information to assist in the accurate calculation of refunds of contributions, if required by the administrator.</p>	<p>To be provided within 10 working days from receipt of the request from the administrator.</p>
Deferred benefits	
<p>Provide additional information to assist in the accurate calculation of deferred benefits, if required by the administrator.</p>	<p>To be provided within 10 working days from receipt of the request from the administrator.</p>

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Transfers	
Ensure an appropriate discretionary policy is in place setting out policy on whether they choose to extend the 12 month time limit for accepting transfers in.	This should form part of the discretionary policies made within 90 days of becoming a scheme employer within the East Sussex Local Government Pension Fund or 90 days from date of request by the Administering Authority.
Bulk transfers	
Work with the Administering Authority and the Fund Actuary in their negotiations to facilitate agreement on the terms for transfer.	By way of providing any additional information within 10 working days of receipt of the request.
Retirements	
General responsibilities	
<p>Notify the administrator of all employees who leave the scheme at a point where they are entitled to receive payment of their retirement benefits, whether voluntarily or because of a decision by the employing authority, by providing a complete and correct pensions leaver form, signed by one of the employing authority's authorised signatories. This must include the member's personal details, date of leaving, reason for leaving, and pay details as outlined below.</p> <ul style="list-style-type: none"> ▪ Provide details of the contributions made by the employee and employer during the final scheme year and the previous scheme year, including any additional contributions. ▪ Provide details of the member's pensionable pay, as defined by the LGPS Regulations 2013, for the scheme year up to the date of leaving and for the previous scheme year. ▪ Where required, provide details of the member's final pay as defined by the LGPS (Benefits, Membership and Contributions) Regulations 2007. ▪ Where required, provide details of the hours the member worked up until the date of leaving and, if required by the administrator, details of historical hours changes for the member. ▪ Provide confirmation that the employing authority has received details of the potential retirement costs and wishes to proceed with the retirement. ▪ Provide confirmation to the member about the employing authority's decision, with appropriate justification if required. ▪ Understand, and pay where applicable, the associated costs to the Administering Authority that apply if a decision is made to retire a member on the grounds of redundancy, business efficiency or ill health. 	Notify the administrator when a member is due to retire as soon as final earnings are known, typically 20 days prior to date of retirement and no later than 2 weeks after the date of leaving by the submission of a Leaver Notification.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Other responsibilities	
Where the reason for leaving is voluntary early retirement, provide confirmation of whether the Rule of 85 is to be applied, whether any reductions to protected benefits are to be waived, whether any reductions to unprotected benefits are to be waived, and the amount of the reductions that are to be waived (if any).	Confirmation should accompany the Leaver Notification if not previously submitted.
Where the reason for leaving is flexible retirement, provide confirmation of whether any reductions to protected benefits are to be waived, whether any reductions to unprotected benefits are to be waived, and the amount of the reductions that are to be waived (if any). Where the reason for leaving is redundancy or efficiency retirement, provide a copy of the employee's notice letter.	Confirmation should accompany the Leaver Notification if not previously submitted.
Where the reason for leaving is ill-health retirement, arrange for the member to be assessed by an IRMP that has been certified by the Administering authority, provide confirmation that the employee meets all the conditions for ill-health retirement, as defined by the relevant LGPS regulations, provide confirmation of which tier of benefits is to be awarded, and enclose a copy of the notice letter and a complete and correct ill-health certificate completed by the IRMP.	Confirmation should accompany the Leaver Notification if not previously submitted.
Where the member is in receipt of an ill health pension made under Tier 3, arrange for the member to be reassessed by an IRMP after 18 months and determine whether the pension should continue, or be subject to an uplift.	Scheme employers should notify the administrator of the outcome of a Tier 3 Ill Health Review as within 5 working days of the determination.
Deaths	
General responsibilities	
<p>Notify the administrator of all employees who die while an active member of the scheme, by providing a complete and correct pensions leaver form, signed by one of the Employing Authority's authorised signatories. This must include the member's personal details, date of leaving, reason for leaving, and pay details as outlined below.</p> <ul style="list-style-type: none"> Provide details of the contributions made by the employee and employer during the final scheme year and the previous scheme year, including any additional contributions. Provide details of the member's pensionable pay, as defined by the LGPS Regulations 2013, for the scheme year up to the date of leaving and for the previous scheme year. Provide details of the member's Assumed Pensionable Pay (APP), as defined by the LGPS Regulations 2013 as at the date of death. 	Notify the administrator as soon as possible of the death and provide a Leaver Notification within 5 working days of the death.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
<ul style="list-style-type: none"> Where required, provide details of the member's final pay as defined by the LGPS (Benefits, Membership and Contributions) Regulations 2007. Where required, provide details of the hours the member worked up until the date of death and, if required by the administrator, details of historical hours changes for the member. Provide additional information to assist in the accurate calculation of death benefits, if required by the administrator. 	
Pension sharing and earmarking orders	
General responsibilities	
<p>Provide the administrator with information as requested to enable them to carry out the order. This may include, but is not restricted to:</p> <ul style="list-style-type: none"> Providing details of the member's pensionable pay, as defined by the LGPS Regulations 2013, for the scheme year up to the date of leaving and for the previous scheme year. Where required, provide details of the member's final pay as defined by the LGPS (Benefits, Membership and Contributions) Regulations 2007. 	Details should be provided to the administrator within 10 working days of the request.
Complaints, errors and breaches	
Complaints	
Appoint a nominated person to consider disputes under stage 1 of the IDRP process and provide up to date contact details to the administering authority and administrator.	Within 90 days of becoming a scheme employer within the East Sussex Local Government Pension Fund or 90 days from date of request by the Administering Authority.
Notify the administering authority of the receipt of any complaint under the IDRP process.	Within 5 working days of receipt of the complaint.
Consider and respond to disputes made under stage 1 of the IDRP within statutory timeframes as set out in the LGPS Regulations 2013.	Where the complaint is in relation to an act or omission of the scheme employer, the appointed person to consider disputes under stage 1 of the IDRP process by the employer, should respond within the statutory deadline of 2 months beginning with the date on which the IDRP application was received.
Notify the administering authority when a stage 1 decision has been issued.	A copy of the response should be provided to both the complainant and the Administering Authority within the 2-month period.
Fully cooperate with all stages of any complaint investigation, including the provision of data, information or technical assistance to any relevant party (including external	By way of providing any additional information requested within 10 working days of receipt of the request.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
parties such as the Pensions Ombudsman) as required, to ensure the efficient resolution of any complaint.	
Breaches	
Be aware of the Fund's Breaches Policy and Reporting Procedures, and of each party's responsibilities in relation to this.	The East Sussex Pension Fund Breaches Policy was agreed by the Pensions Committee at its meeting on 22 June 2020. Employers should take time to familiarise themselves with this policy.
Liaise and cooperate appropriately with any investigation into any potential breaches, including with the Administering Authority and the Administrator, and provide such information as is requested.	By way of providing any additional information requested within 10 working days of receipt of the request.
Data quality and record keeping	
Data quality	
Ensure that robust controls are in place for collecting good quality data and, where a data improvement plan has been implemented, liaise with the Administrator and the Administering Authority as appropriate to meet key milestones and to ensure and demonstrate progress against that plan.	N/A
Ensure that pension related information is archived in such a way as to ensure it is accessible for as long as it may be needed.	N/A
Ensure the year end return, (1 April to 31 March) is provided to the administrator in the prescribed format, a template of which will be issued in advance of the year end.	The return must be submitted no later than 30 th April following the end of the preceding scheme year. A late or incorrect return will directly affect your employees, as until the year end data has been reconciled, an annual benefit statement may not be issued.
Provide a response to any queries raised in relation to the year end return.	Provided to the administrator / Administering Authority within 10 working days of receipt of the request.
Communications	
General responsibilities	
Distribute any information provided by the administering authority or administrator to members or potential members (e.g. scheme guides and newsletters).	All material provided to scheme employers should be distributed to the relevant employees with 15 working days of receipt.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Annual benefit statements	
Ensure that the administrator is provided with requisite information to enable them to produce an ABS	Any additional data required by the administrator for the purpose of issuing an Annual Benefit Statement, should be provided within 10 working days of receipt of request.
Pensioner payroll services	
Reviews of pension payments	
Where the member is in receipt of an ill health pension made under Tier 3, arrange for the member to be reassessed by an IRMP after 18 months and determine whether the pension should continue, or be subject to an uplift.	Scheme employers should notify the administrator of the outcome of a Tier 3 Ill Health Review as within 5 working days of the determination.
Overpayments and underpayments	
To notify the administrator as soon as practically possible after identifying any irregularity that could contribute to the member being over or underpaid (e.g. an audit review of completed leaver forms may identify an incorrect pay value stated and issued to the administrator in respect of a pensioner)	Scheme employers should notify the administrator within 5 working days of having discovered the irregularity.
Finance and accounting	
General responsibilities	
Make payment of additional fund strain costs in relation to early payment of benefits from flexible retirements, redundancy or efficiency retirements, or early retirements with employer consent, upon receipt of an invoice from the administrator or administering authority.	Payment of the invoice should be made within the stated terms.
Make payment of recharge amounts in respect of compensatory added years, where appropriate.	Payments to be made on a monthly basis and detailed on the LGPS31 Form submitted to the Administering Authority.
Make payments in respect of accounting work carried out on behalf of the employing authority by the Fund actuary or the administering authority's accounting team, upon receipt of an invoice from the administrator or administering authority.	Payment of the invoice should be made within the stated terms.
Make payments in respect of any other work carried out by the administrator, administering authority or Fund actuary on behalf of the employing authority, upon receipt of an invoice from the administrator or administering authority.	Payment of the invoice should be made within the stated terms.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Contributions	
Ensure the correct employee contribution rate is determined each scheme year in line with the appropriate contribution banding table.	An assessment should be made by all scheme employers every April to ensure all employee contribution deductions are made in line with the revised employee contribution bandings issued.
Ensure the correct deduction of contributions from employees' pensionable pay, including any period of child-related leave, trade dispute, or other absence.	N/A
Apply changes to employer contribution rates as instructed by the administering authority at the date specified by the Fund actuary.	Apply from the first available pay period (retrospectively if required) or the date specified by the actuary if later, following receipt of an instruction from the Administering Authority.
Ensure employer and employee contributions are paid across in a timely manner and in the agreed format.	<p>Scheme employers must pay over contributions to the Fund by the 19th of the month following the deduction. Submission of a LGPS31 should also be made to the Fund prior to the payment and no later than 18th of the month following the deduction.</p> <p>Failure to pay contributions or submit the LGPS31 by the prescribed deadline may result in additional charges being levied against the employer. Where considered to be of material significance the Fund will consider a referral to The Pensions Regulator in line with their Code of Practice 14.</p>
Employer services	
General responsibilities	
Distribute all supporting material supplied by the administrator or administering authority to relevant staff and ensure attendance at employer training sessions.	All material provided to scheme employers should be distributed to the relevant employees with 15 working days of receipt.
Pensions taxation	
Annual allowance	
Ensure that the administrator is provided with any information required to enable them to calculate the Pension Input Amount and to produce a Pension Savings Statement within statutory timescales.	By way of providing any additional information requested within 10 working days of receipt of the request from the administrator or Administering Authority.

Employing authority's responsibilities	Timeframes / Deadlines (where applicable)
Administration performance reports and CIPFA benchmarking	
CIPFA benchmarking	
Provide additional information to assist in the completion of the annual CIPFA benchmarking questionnaire, if required by the administrator or the administering authority.	Within 10 working days of receipt of the request from the administrator or Administering Authority.
Administration quality standards	
General responsibilities	
Provide additional information to assist in the accurate calculation and payment of all benefits, if required by the administrator.	Within 10 working days of receipt of the request from the administrator or Administering Authority.

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Report to: Pension Committee

Date of meeting: 21 September 2020

By: Chief Financial Officer

Title: Consultation on changes to the transitional arrangements to the 2015 schemes: McCloud

Purpose: Draft response to the Consultation on transitional arrangements

RECOMMENDATIONS: The Pension Committee is recommended to:

- 1) comment and review the draft response to the Consultation on the proposals for transitional arrangements.**
 - 2) note and comment on the proposal to commence the McCloud Working Group.**
-

1. Background

1.1 In 2014 the Government began to introduce extensive reforms to public service pension schemes. As part of those reforms, Local Government Pension Scheme members within 10 years of their normal retirement age on 1st April 2012 received protection against amendments to the scheme regulations, this was known as the underpin. This transitional protection was provided following negotiations with member representatives and was intended to protect and give certainty to people who were close to retirement. In December 2018 the Court of Appeal found that the reforms made in public service pension schemes unlawfully discriminated against younger members of the judicial and firefighters' pension schemes, as transitional protection was only offered to older scheme members. The Courts required that this unlawful discrimination be remedied by the government.

1.2 The government opened its consultation in July 2020 and outlined proposals which apply to all members who were in service on or before 31 March 2012 and on or after 1 April 2014, including those with a qualifying break in service of less than 5 years, across all affected public service schemes. This eligibility applies irrespective of whether the member has submitted a legal claim or not, or whether they are currently an active, deferred or pensioner member. The consultation explains the proposed method for removing the discrimination between scheme members. Under the proposal eligible members will automatically have their benefits assessed against the underpin for the period 1 April 2014 to 31 March 2022 and will not be required to make an election. The consultation also sets out proposals for moving all active members into the reformed scheme after this period.

1.3 The draft response to the consultation has been passed to the Pension Board ahead of the Pension Committee for information and comment.

2. Supporting Information

2.1 The consultation period runs from 16 July 2020 to the 11 October 2020 and can be accessed at this link <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes> .

3. Conclusion and reasons for recommendations

3.1 The Committee is recommended to consider and comment on the draft response to the consultation as set out in Appendix 1 to this report, and the proposal to establish a McCloud Working Group.

IAN GUTSELL

Chief Financial Officer

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Local Government Pension Scheme (England & Wales) – Consultation on changes to the transitional arrangements to the 2015 schemes: McCloud

No	Question	Response
1	Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?	It would seem some one of a moot point to argue with the proposal to remove discrimination identified by The Court of Appeal, despite a legal challenge not having been made specifically in relation to Local Government Pension Scheme (LGPS) benefits. This is now a self-evident requirement on Public Sector pension schemes. Frustratingly, this issue was identified in the Independent ‘Public Service Pensions Commission: Final Report’ dated 10 March 2011, which stated <i>“Age discrimination legislation also means that it is not possible in practice to provide protection from change for members who are already above a certain age.”</i>
2	Do you agree that the underpin period should end in March 2022?	For reasons detailed within the consultation, whilst I would agree that a revised underpin need not apply to service post 31 March 2022, the date on which the underpin comparison can be made should be permitted to be on or after 1 st April 2022, but limited to no later than either normal pension age in the 2008 scheme, or the date of leaving active membership, whichever comes first. Not to do so would result in a revised underpin being disproportionately advantageous to older scheme members and potentially exposing to Scheme to further legal challenge.
3	Do you agree that the revised regulations should apply retrospectively to 1 st April 2014?	Yes – no to do so would not sufficiently address the inequalities that exist between older and younger scheme members. Clearly, doing so comes at a cost both in administration and the cost of the benefits themselves. The administrative burden of revisiting settled cases (i.e. those who have already left active membership) is a complicated matter, and a significant task for each Administering Authority.
4	Do the draft regulations implement the revised underpin which we describe in this paper?	The regulations detailed appear to deliver the policy intent. As in previous Consultations my understanding is that a full analysis of these revisions will be carried out by the Local Government Pensions Committee and identify in detail any areas that may require further consideration or where the policy intent is not delivered.
5	Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?	See response to question 4.

6	Do you have other comments on technical matters related to the draft regulations?	The amending regulations as drafted appear clear and easy to follow and understand.
7	Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?	Yes – were the adoption of a policy requiring immediate entitlement to a pension to be applied, it would again be disadvantageous to younger scheme members.
8	Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?	My only concern is in relation to members who may have left with insufficient service for an entitlement to a deferred benefit but who remain in continuous active membership of LGPS by virtue of taking up a post with another Administering Authority. Although, not specifically addressed, I would assume that the underpin could be applied when ultimately leaving the scheme, this may also impact of the inter-fund payment made to the new LGPS Fund.
9	Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?	Yes – the administrative complications resulting from not doing so would be significant. It is important for administrators and scheme members alike that the solution adopted in addressing the issues raised by McCloud and Sargeant are not only effective but as simple and straightforward as is practicable, added complexity generates added confusion and added cost. The confirmation that the Scheme Advisory Board would be involved in producing centralised member communications on this matter is very welcome.
10	Do you agree with our proposal that certain active and deferred members should have an additional 12-month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?	The offer of a further opportunity to aggregate would seemingly address the issue. However, although referred to as rare in the Consultation document the exclusion of pensioner members, however uncommon may generate confusion where such cases arise, and therefore it would be better to ensure the provision is comprehensive for all membership types.
11	Do you consider that the proposals outlined in paragraphs 50 to 52 would have ‘significant adverse effects’ in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?	Those affected by the existing underpin arrangements are relatively few in number and I think the proposed mitigation for affected members, in allowing a further period in which benefits may be aggregated, should be adequate in ensuring there are not ‘significant adverse effects in relation to the pension payable to or in respect of members of the scheme’, subject to my previous comments surrounding pensioner members and member communications (Question 9 and 10).
12	Do you have any comments on the proposed amendments described in paragraphs 56 to 59?	The measures described appear to be consistent in ensuring a greater level of equality in application of an underpin, when made available to younger scheme members (Breaks in service of less than 5 years), an improved application of policy intent (Early/late retirement factors) and greater clarity of circumstances in which the policy

		is applicable (Death in service & Survivor Benefits). As such, all would be a welcome addition.
13	Do you agree with the two-stage underpin process proposed?	The two-stage process described appears necessary in order for accurate communications to be available to scheme members post 'underpin date' but prior to the 'underpin crystallisation date' for example in annual benefit statements. Equally, the further check at the 'underpin crystallisation date' allows for differing early/late retirement factors to be applied. Resulting in benefits paid, truly reflecting the more beneficial benefits under either the 2008 or 2014 scheme. A single stage process would either not provide for communications pre 'underpin crystallisation date' to indicate that the underpin may apply or would not allow for early/late retirement factors to be accounted for within the process.
14	Do you have any comments regarding the proposed approaches outlined above?	<p>The most significant concern relating to the implementation, is the significant workload created by the backdating of regulations. This will apply to (but is not limited to) leavers without taking immediate payment, re-joiners, retirements, deaths, transfers and redundancies. This will be a significant amount of work for all administering authorities.</p> <p>With regard to Public Sector Transfer Club transfers both in and out of LGPS Funds, the concept of member choice, whilst on the face of it empowers members to make decisions in relation to their benefits, it may not always be something members are comfortable with. This may increase the anxiety of some members in considering whether they require independent financial advice, while at the same time creating an even greater requirement on administering authorities to ensure comprehensive member communications.</p>
15	Do you consider there to be any notable omissions in our proposals on the changes to the underpin?	Nothing to add.
16	Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?	<p>Yes – providing that pensions administration software providers can adapt systems to easily include this information. It should be provided to members at the earliest opportunity, allowing them to fully understand the underpin and its impacts.</p> <p>However, given the two-stage process detailed in the consultation, it must be made clear to members that the benefits subject to the underpin are subject to change either at the point of the 'underpin date' and/or 'underpin crystallisation date'. This again emphasises the requirement for very clear member communications explaining the two-stage underpin process.</p>

17	Do you have any comments regarding how the underpin should be presented on annual benefit statements?	The statement should show the value of benefits for the relevant period in both the 2008 and 2014 scheme, and where the 2008 scheme benefits are greater, the potential addition to the pension that would be made. This should aid an understanding of the process by scheme members.
18	Do you have any comments on the potential issue identified in paragraph 110?	This is a complicated issue for consideration, the administrative burden is vastly diminished by only accounting for the underpin at the 'underpin crystallisation date'. However, the prospect of an individual having significantly lower 2014 scheme benefits, than would have been provided in the 2008 scheme for the period April 2014 to March 2022 is significantly greater by the widening scope of the underpin. Although, this will likely affect a small proportion of scheme members, where this issue does arise, the impacts could be significant. Arguably, members affected could be frustrated, given that the potential entitlement to the underpin may have been routinely communicated for a significant period by way of their Annual Benefit Statements.
19	Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?	On the face of it, these measures do appear to address the age discrimination identified in the McCloud and Sargeant cases adequately and go far enough to minimise the risk of further legal challenge. My concerns rest more in relation to the administrative burden for implementation, which will be significant both in terms of resources and time.
20	Do you agree with our equalities impact assessment?	<p>I am in agreement that it is objectively justifiable for members joining after 1 April 2012 to be outside the scope for the revised underpin, for the reasons given, that they are either moving from the 2008 to the 2014 scheme in full knowledge that this was always going to be the case, or that they have only ever been members of the 2014 scheme and have not transitioned from one scheme to another.</p> <p>Issues relating to age and how this impacts on the revised underpin do appear to have been adequately addressed, and although older and younger members appear less likely to benefit from the revised underpin, leaving those aged between 41-55 the most likely to benefit, this would be an expected outcome, due to the other factors identified.</p> <p>The impacts in relation to gender, do appear to slightly favour male members, but this is again the function of other factors (higher pay growth and lower withdrawal rates) and not as a result of inherent discrimination.</p>

21	Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?	Nothing to add.
22	Are there other comments or observations on equalities impacts you would wish to make?	Nothing to add.
23	What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?	It is in my view of great importance that member communications and also, but to a lesser extent employer communications, where possible are centrally produced in conjunction with MHCLG, the Scheme Advisory Board and the Local Government Association, for a more consistent message and to try and minimise the duplication of effort amongst the 87 administering authorities in England and Wales. Reassurance needs to be given to members that the underpin will be applied fairly and accurately, that it is automatic not applied for, and that it will likely apply in only a relatively small number of cases. The key focus for employers is surrounding the provision of data, to enable the relevant calculations to be performed.
24	Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?	<p>As has already been mentioned the administrative burden this places on Administering Authorities is significant.</p> <p>From a member perspective, the key challenge will be to manage expectations, in relation to both identifying those in scope and managing the process of reviewing cases. The reopening of a 12-month window for aggregation will also require clear and concise communications to ensure members make an informed choice.</p> <p>From an employer perspective the principle challenge is to ensure access and availability to the historic data required (working hours, service breaks etc) for the period April 2014 to March 2022. Until recently, communications with employers were on the basis that this information was not routinely required, but for a handful of cases where the existing underpin applies. Issues may arise where employers have ceased, or payroll providers have been changed.</p> <p>Finally, a significant concern from an administration perspective is that of dealing retrospectively with breaches in Annual and Lifetime Allowance for members who have already crystallised their pension benefits. These cases can be complicated under the current environment and the addition of the revised underpin will only add to the complexity. A key issue being that members may have taken specific actions to mitigate potential tax charges, that may now prove to have been insufficient when</p>

		benefits are reassessed. Consideration should be given to what assistance can be afforded to scheme members in this position.
25	What principles should be adopted in determining how to prioritise cases?	In relation to the prioritisation of cases, in my view those to whom the revised underpin would apply retrospectively and who are in receipt of their pension benefits, transferred benefits from the Scheme or death benefits calculated should be the first cases to be looked at. Given that in these cases, there may be arrears and interest due. This may be an area where administering authorities could benefit from prescriptive central guidance to aid a uniform and consistent approach.
26	Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?	This exercise due to its nature was always going to be a complicated process. However, in order to minimise the additions administrative burden, it will create, there should be early and meaningful engagement with pensions administration software providers, enabling preliminary work to be carried out in anticipation of the likely outcomes following the consultation. Whilst not prejudging the outcome, this work should commence prior to the conclusion of the Consultation, allowing providers as much time as possible for the preparatory work. As already mentioned, clear central guidance for both administering authorities and scheme employers would also aid in minimising the administrative burden. The risk of simplification may be to exclude a number of member groups.
27	What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?	As already mentioned, central guidance for members and employers alike would be extremely beneficial. Targeted employer communications detailing precisely the information required from them to the appropriate Administering Authority. This can of course be supplemented by locally produced communications, but a consistent centralised approach will aid all parties, particularly employers within multiple funds. A key area that would benefit from central guidance would be details of an approach to take in circumstances where administering authorities are unable to obtain the requisite information from scheme employers.
28	On what matters should there be a consistent approach to implementation of the changes proposed?	In common with the response to question 25, clear guidance should be given on the prioritisation of cases for all administering authorities to follow to ensure that all work to similar schedules. A centralised data template for use by employers and administering authorities may also be useful.
29	Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?	LGPS Fund actuaries are agreed that the impact of the revised underpin will be relatively small at Fund level but do make clear that there may be significant variance from one employer to another within Funds, largely dependent on the maturity and

		<p>size of the workforce. It may therefore be another area in which centralised communications can be produced to inform the relevant employers of the possibility for a further valuation assessment and a revision made to their employer contribution rates.</p> <p>Resources required for the management and implementation of these measures will be a significant cost to administering authorities It will be important that these additional costs are identified, reported and approved by Committee's individually so the cost of these measures is transparent.</p>
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Report to: Pension Committee

Date of meeting: 21 September 2020

By: Chief Finance Officer

Title: Pension Administration - updates

Purpose: To provide an update to the Pension Committee on matters relating to Pensions Administration activities.

RECOMMENDATION

The Pension Committee is recommended to:

- 1) Note the updates;
 - 2) Note the progress of management in implementing the agreed actions arising from the internal audit report (Appendix 5);
 - 3) Note the proposed Pension Administration structure following transition from share service arrangements (Appendix 4).
-

1. Background

- 1.1 The Pensions Administration Team (PAT) based within Orbis Business Services carries out the operational, day-to-day tasks on behalf of the members and employers of the ESPF and for the Administering Authority. They also lead on topical administration activities, projects and improvements that may have an impact on members of the LGPS.

2. Key Performance Indicators

- 2.1 The Performance Report, for the period February to July 2020 can be found at **Appendix 1**. As identified by Internal Audit, work is ongoing to review the accuracy and relevance of the data presented.
- 2.2 Under the Good Governance review a lot of work has gone into developing documents covering the Service Level Agreement and Roles & Responsibilities with Orbis as the scheme administrator. The subsequent decision to move the Pension Administration Team back to East Sussex has meant a further review will be necessary. Whilst not finalised **Appendix 2** gives an overview of the proposed all-encompassing high-level insight of the administration service. Whilst incomplete, it is a proposal as a transition towards a more transparent or collaborative overview drawing attention to the key activities that have happened.
- 2.3 The Orbis Pensions Helpdesk was introduced in November 2019 and their performance is shown in **Appendix 3**. The results have been poor since lockdown and appropriately challenged.

3. Pension Administration Transfer and Staffing Update

- 3.1 A number of changes have happened since the last Board meeting:
12/06/2020 Simon Bathurst (Senior Administrator) left

29/06/2020 Paul Punter joined as Head of Pensions Administration
 03/08/2020 Mubu Mubukwanu joined as a Trainee Pensions Administrator
 07/08/2020 Aaron Martin (Administrator) left

- 3.2 All administration staff are continuing to work from home and none have tested positive for COVID-19. Staff remain in good spirits and have been issued with second monitors, plus keyboard and mouse where required, as it is not anticipated that staff will be coming back to Lewes County Hall before November 2020 at the earliest.
- 3.3 A Transition Board has been set up to oversee the PAT transfer to East Sussex. A proposed structure is set out on Appendix 4. It will take some time to get to this position as existing staff need to be TUPE transferred from Surrey to East Sussex. The remaining roles will then need to be assessed as to how the requirements are best met. The estimated cost of the proposed structure is £725,000.

4. Annual Benefits Statements as at 1 April 2020

- 4.1 All identified eligible deferred member statements (29,727) have been prepared and uploaded on 24 July 2020.
- 4.2 As at 21 August 2020, 20,614 active statements have been run including all Councillors.
- 4.3 There remains data outstanding which is stopping production of ABS for some members:

Scope	Position as at 30/7/20	Position as at 18/8/20
Employers who did not provided their annual return data	48 (5 Ers)	12 (3 Ers)
Employers completed return but queries raised thereon and not resolved	554 (23 Ers)	189 (? Ers)
Brighton & Hove	1,019	400
East Sussex Colleges Group	192	200
Casual workers	n/a	130
Total	1,813	931

- 4.4 An updated position as at 31 August 2020, also presented to the Pension Board, given at **Appendix 8**, shows a significant improvement in the error rate. For active members, excluding casual workers and the two employers who have not provided end of year information, 99.6% of statements were issued.

5. Internal Audit

- 5.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council has a statutory responsibility to administer and manage the Fund in accordance with the rules of the Local Government Pension Scheme (LGPS) which are set out in the following regulations:
- The Local Government Pension Scheme Regulations 2013;
 - The Local Government Pension Scheme Transitional Provisions, Savings and Amendment Regulations 2014; and
 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 5.2 The review of management's progress in implementing the agreed actions arising from internal audit reports by the Pension Committee and Pension Board is an integral part of

the oversight process and is critical to improving the internal control environment for the pension fund in line with the revised Internal Audit Strategy for Pensions.

- 5.3 **Appendix 5** updates the Pension Board on the progress of implementing the Management Actions agreed for the Pension Administration Audit on Compliance with Regulatory Controls.

6 Projects update

6.1 Data Improvement Project

At the end of the contract the remaining project was handed back to the PAT. A Hymans closure report dated 31 July 2020 is attached at **Appendix 6**. Data was uploaded to the secure website 18 August 2020. The ongoing progress will continue to be tracked by the Working Party. A Phase 2 DIP is expected to be considered in January 2021. Further information on the address tracing project is given in **Appendix 9**.

6.2 McCloud Judgement

LGA consultation is underway (see the draft response to the consultation elsewhere on the agenda) – the Government lost the case over age discrimination therefore there will need to be change and about a quarter of the LGPS membership are likely to be in scope. Hymans have been commissioned to prepare a briefing paper:

- Think about who should project manage and who should be on the project working party;
- Who all the stakeholders are to communicate to;
- Who is responding to the consultation paper;
- Identify members impacted to get an idea of the scale of the problem – running reports and doing data analysis;
- Determine what data will be needed to be adjusted and how will it be stored on Altair;
- Is it a standalone project or should it be considered as part of a wider Data Improvement Programme.

6.3 GMP Reconciliation, Rectification and Equalisation

Orbis commissioned JLT (Mercers) to undertake the reconciliation and rectification work. The project has been held up by HMRC provision of final data (received late July 2020). The latest reconciliation update available from Mercer is their report dated May 2020 (**Appendix 7**). The HM Treasury have told LGA that Equalisation does not apply to the Public Sector, but that view is now being questioned and expected to change. The outcome of this debate will impact on the next steps the project takes.

6.4 Pension Administration software tender

The tender closing date was 14 August 2020, the evaluation of which is now underway.

6.5 Overseas pensioners biannual mortality exercise

This year we are issuing to ALL overseas pensioners not just the incapacity and over age 70 members. Letters have been updated and issued on 25 August 2020.

6.6 Annual Allowance statements

Work will commence in September once the ABS are finalised and staff training sessions have been run. For ESPF there are circa 120 staff impacted for whom statements will need to be issued by 6 October 2020

6.7 i-Connect

The implementation plan was disrupted by Covid-19 and the pensions administration software review. The module is ready with Heywoods and the SAP file is being tested by East Sussex (as the main employer) and expected to be completed by the end of September 2020.

6.8 Pension increases as at 1 April 2020

The annual pension increase for April 2020 was completed by Heywood's on 27th April. As reported at the last Pensions Board the work was largely successful in processing, however uncovered a number of non-critical errors and warnings which are the result of historical failings and local decisions on what was deemed an error and were therefore not reviewed in previous years pension increase runs. A meeting with Heywood's has been held to fully understand the errors and warnings, which will then allow for the pension service to identify which cases need to be reviewed as a priority. It should be noted that the errors or warnings do not necessarily indicate an error or an issue with the individual's record or the amount of pension or compensation they are being paid. These could just be instances where upon checking the record, it is all correct. There are about 2,500 incidences.

7 Conclusion and Recommendations

7.1 The Pension Board is recommended to note the updates and the progress of management in implementing the agreed actions arising from the internal audit report (Appendix 5). The Board is also recommended to note the proposed Pension Administration structure following transition from share service arrangements (Appendix 4).

IAN GUTSELL
Chief Finance Officer

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Appendix 1

East Sussex Pensions Administration - Key Performance Indicators 2020/21

	Activity	Measure	Impact	Target	Jul-20		Jun-20		May-20		Apr-20		Mar-20		Feb-20	
	Scheme members	Pensioners, Active & Deferred			77706		77429		75196		76851		76885		76762	
	New starters set up				409		358		128		162		283		413	
					Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	95%	35	100%	16	100%	33	100%	43	100%	21	100%	26	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	95%	6	100%	12	100%	6	100%	4	100%	8	100%	7	100%
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	95%	74	92%	68	98%	46	98%	48	96%	94	99%	70	100%
2b	Payment of lump sum made	within 5 days	H	95%	103	97%	82	97%	88	99%	121	97%	89	100%	75	99%
3	Calculation of spouses benefits	within 5 days	M	90%	12	100%	16	100%	12	100%	16	100%	11	100%	20	100%
4a	Transfers In - Quote (Values)	within 10 days	L	90%	12	92%	12	100%	19	95%	6	84%	21	100%	21	100%
4b	Transfers In - Payments	within 10 days	L	90%	16	88%	12	100%	9	100%	20	95%	28	97%	39	100%
5a	Transfers Out - Quote	within 25 days	L	90%	20	95%	16	100%	10	100%	18	100%	30	100%	33	97%
5b	Transfers Out - Payments	within 25 days	L	90%	11	100%	7	86%	6	100%	11	100%	12	100%	24	96%
6a	Employer estimates provided	within 7 days	M	95%	45	49%	25	72%	7	72%	11	91%	34	92%	24	100%
6b	Employee projections provided	within 10 days	L	95%	18	84%	12	100%	5	100%	5	100%	22	91%	25	100%
7	Refunds	within 10 days	L	95%	31	100%	38	98%	16	100%	12	100%	26	100%	39	100%
8	Deferred benefit notifications	within 25 days	L	95%	160	100%	78	99%	102	100%	139	100%	202	100%	239	100%
TOTAL TASKS COMPLETED					543		394		359		454		598		642	
9	Complaints received- Admin							1			1			0		0
	Complaints received- Regulatory															
10	Employer survey satisfaction	Overall satisfaction (V Satisfied/satisfied)		90%												
11	scheme member satisfaction rating (from 1 Click email feedback)															
12	Retiring Member survey satisfaction	Overall satisfaction (Excellent/good)		90%												
13	Compliments received													0		1

OVERDUE CASES RED-AMBER					Jul-20		June		MAY		APR		MAR		FEB	
1b	Award dependent benefits (Death Grants)															
2a	Retirement notification acknowledged, recorded and documentation sent				6 Overdue - Average 2 days				1 task overdue by 16 days							
2b	Payment of lump sum made				9 Overdue - 1 by 348 days				1 task overdue by 17 days						1 CASE OVERDUE 10 DAYS	
3	Calculation of spouses benefits															
4a	Transfers In - Quote (Values)								1 task overdue by 1 day		1 case overdue 47 days					
4b	Transfers In - Payments				3 Overdue - Average 9 days											
5a	Transfers Out - Quote														1 CASE OVERDUE	
5b	Transfers Out - Payments						1 Task, 5 Days overdue								1 CASE OVERDUE	
6a	Employer estimates provided				28 Overdue - Average 8 days		7 Tasks, 4 Days overdue average		2 tasks overdue by 2 days on average				3 TASKS OVERDUE. AVERAGE OF 1 DAY			
6b	Employee projections provided				5 Overdue - 1 by 73 days								2 TASKS OVERDUE. AVERAGE OF 2 DAYS			
8	Deferred benefit (DBSYE)														1 CASE OVERDUE	

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Appendix 2 - Quarterly Statistics

Please note the following figures have been extracted from a report which was run at the end of the quarter.

ESPF service levels (1 July to 30 September 2020)		Completed work				Work carried forward Not started (outstanding) pending (reply due)					
Activity	SLA (days)	Total	Within SLA	Outside SLA	Rounded SLA %	Within SLA	1-5 days outside of SLA	6-10 days outside	11 + days outside of SLA	Pending Within SLA	Pending Outside SLA
50/50 membership (reduce conts)	5			0	100%		0	0	0		
AVC (info or payment)	10			0	100%		0	0	0		
Absence contributions (unpaid conts top up)	5			0	100%		0	0	0		
Bulk Communications Exercise (pen increases)	30			0	100%		0	0	0		
Cash Management & Investments	?			0	100%		0	0	0		
Complaints/E&O/Breaches - acknowledgment	2			0	100%		0	0	0		
Deaths – settlements (inc lump sum)	5			0	100%		0	0	0		
Deaths - quotes & enquiries	3			0	100%		0	0	0		
Death – over & underpayments	7			0	100%		0	0	0		
Divorce – initial charges & invoice	7			0	100%		0	0	0		
Divorce – quotation (1 st 3 week fee?)	15			0	100%		0	0	0		
Divorce – settlem't (fees, recalc TV, debit/credit)	25			0	100%		0	0	0		
General Enquiries	10			0	100%		0	0	0		
Leavers – refunds quotation	10			0	100%		0	0	0		
Leavers – refund settlement	5			0	100%		0	0	0		
Leavers – deferred	15			0	100%		0	0	0		
Member Data Updates (eow, address etc)	10			0	100%		0	0	0		
New starters set up	20			0	100%		0	0	0		
Payment of Invoices	?			0	100%		0	0	0		
Pension Increase enquiries	?			0	100%		0	0	0		
Pension Payroll enquiries	?			0	100%		0	0	0		
Retirement – settlements (inc lump sum)	5			0	100%		0	0	0		
Active Retirement E/N/L Triv III or redund quotes & enquiries	5			0	100%		0	0	0		
Deferred Retirement – E/N, Triv or III quotes & enquiries	7			0	100%		0	0	0		
Flexible Retirement – estimate III or redundancy	10			0	100%		0	0	0		

TV-In - quotes & enquiries	10			0	100%		0	0	0		
TV-In - settlements	10			0	100%		0	0	0		
TV-in – aggregation with ESPF (quote & settle)	10			0	100%		0	0	0		
TV-in – LG to LG (quote & settle)	10			0	100%		0	0	0		
TV Out – quotes & enquiries	15			0	100%		0	0	0		
TV Out – settlements	15			0	100%		0	0	0		
TV Out – LG to LG (quote)	15			0	100%		0	0	0		
TV Out – LG to LG (settlement)	25			0	100%		0	0	0		
Total				0	100%		0	0	0		

Appendix 3

Helpdesk performance

Introduced the call centre for ESPF in November 2019 (not taken on managing the corporate email box). Currently about 2FTE allocated to ESPF (team is 13 plus Beth). Table are average for all six funds.

Period	Offered (Calls received)	Handled (Calls answered)	Abandoned (Caller hung up)	Abandoned %	SLA % (75% of calls within 20 seconds)	Queue %	Abandoned Time
01/10/19 to 31/12/19	7,551	7,057	494	6.54%	Oct 24% Nov 37% Dec 42%	Oct 28% Nov 42% Dec 39%	Oct 4.50 Nov 3.31 Dec 2.12
01/01/20 to 31/03/20	8,415*	7,896	519	6.17%	Jan 40% Feb 57% Mar 56%	Jan 59% Feb 43% Mar 45%	Jan 4.32 Feb 22.38 Mar 3.27
01/04/20 to 30/06/20	3,953*	3,381	572	14.5%	Apr 52% May 40% Jun 9%	Apr 42% May 55% Jun 88%	Apr 4.59 May 6.59 Jun 7.10
01/07/20 to 31/07/20	2,223*	1,903	320	14.4%	Jul 22%	Jul 74%	Jul 6.42%

* Since lockdown the telephone service opening has been restricted (with NO back-up). First few months there was no call recording and logging was inconsistent. All staff did not initially have laptops and only got Jaba until June 2020.

Helpdesk - Top five reasons for ESPF calls:

1. 71 – self-service on-line activation
2. 67 – log-in to website issues
3. 45 – guidance with forms
4. 35 – wanting updates on benefit settlements **
5. 31 – member options guidance

** breakdown by type of benefits – 19 retirements, 6 deaths, 4 leavers, 4 refunds, 1 deferred & 1 possible retirement

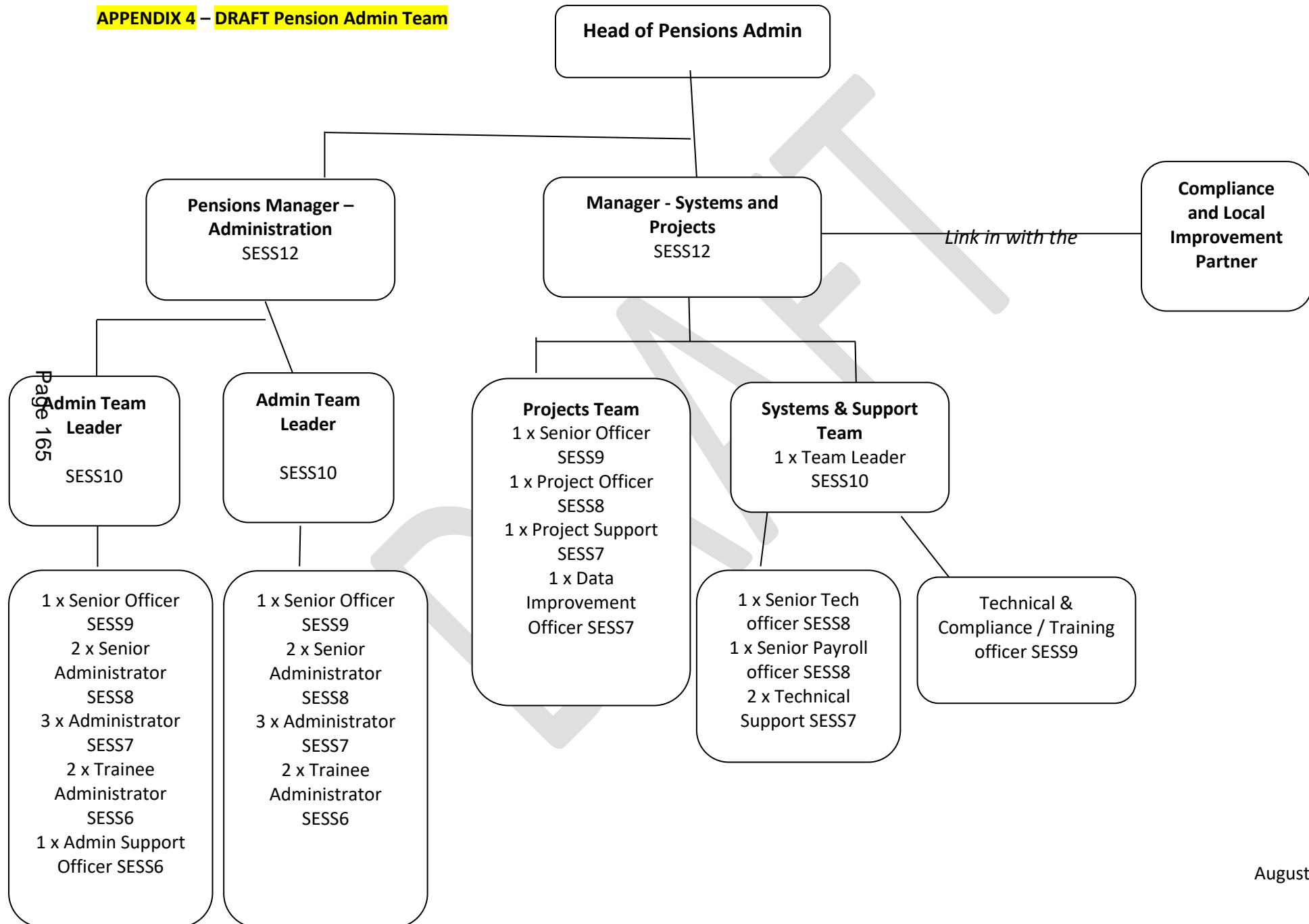
Helpdesk (website) performance

Period	Calls received	Handled	Abandoned	Abandoned %	SLA %	Queue %	Abandoned Time
01/01/20 to 31/03/20	697	574	123	17.64%	Jan 24% Feb 28% Mar 28%	Jan 52% Feb 49% Mar 37%	Jan n/a Feb 5.08 Mar 1.17
01/04/20 to 30/06/20	1,320	871	449	34.02%	Apr 28% May 28% Jun 0%	Apr 43% May 56% Jun 75%	Apr 2.59 May 2.27 Jun 4.13
01/07/20 to 31/07/20	242	216	26	10.7%	Jul 1%	Jul 41%	Jul 4.45

Helpdesk Notes:

- Looking to introduce additional options for the callers including informing them of average waiting time, where they are in the queue & a call back facility.
- Complaints have not been logged, with effect from August 20 will be logged and if not immediately resolved by the helpdesk team they will be passed to operations team to complete.

APPENDIX 4 – DRAFT Pension Admin Team



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Appendix 3

Audit	Date	Ref	Finding	Risk Rating	Agreed Action	Target Date	Requested Revised Target Date	Responsible Officer	Imple-mented?	Comments
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	1.1	We found that the payments of lump sums and transfers out to other pension providers are managed through a central spreadsheet. The spreadsheet, which is not password protected, has no audit trail and is accessible to all members of the Pension Administration Team, is forwarded periodically to the Business Operations Payment Team in order to set up new vendor records and new payments in SAP. The Pensions Administration Team Leader, who is a SAP approver, advised that the payments in SAP are only checked back to the spreadsheet, not to the source information held in Altair before being released for payment.	High	1. We shall instigate a project to standardise and align these controls by introducing a direct interface between Altair and SAP which will remove the need maintain a payments spreadsheet.	01/03/2020	01/10/2020	Nick Weaver	Partial	Heywood's Altair software has the ability to make one-off payments using the "Immediate Payments" module. This can either work in a stand-alone, or fully integrated way. To ensure proper control it needs to be fully integrated, requiring all other software components to be in place and up-to-date. The stand-alone version was implemented from 1st June, integrating it is planned as soon as the core system is up-to-date. We anticipate implementing "Admin to Pay" intergatrion module for payroll and accounting by 1st October 2020 once the accounting team have signed off the monthly payroll file is posting ok and the current posting differences between SAP pension payroll and Altair pension admin systems have been rectified.
		1.2		High	2. Until the interface has been implemented, we will ensure that all outgoing payments are correct and reconcile to members' records in Altair.	01/02/2020	01/02/2020	Clare Chambers	Yes	Short term - Team Leaders check the spreadsheet v SAP v Altair for every entry. Long term - Integrated Immediate Payments.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	3.1	It was brought to our attention during the course of this audit that, the Pensions Administration Team (PAT) has been undertaking a range of salary-related calculations on behalf of East Sussex County Council, an employer in the scheme. The estimate of the resources used in making these calculations is two full time equivalent staff. These include:	High	1. A technical solution is being developed to remove the need for these calculations to be made by the Pensions Administration Team.	30/06/2020	01/10/2020	Kevin Foster	Partial	Technical solution has been implemented within Surrey. There is a requirement up update SAP in East Sussex due to system configuration; in the meantime a work around have been put in place prior to permanent solution.
		3.2	• final and career average revalued earnings (CARE) salaries; • leavers moving into deferred status; • leavers moving into retirement status; • refunds (for members with between three and 24 months' LGPS membership)	High	2. A credit adjustment will be made to the annual pension administration charge to compensate the Fund, whilst the technical solution is being developed. The terms of the financial compensation plan will be worked through and presented to the Pension Committee.	01/04/2020	01/04/2020	Ian Gutsell	Yes	Review undertaken and no action no required
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	4	The Administration Service reported to the September 2019 Pension Board that 258 active members and 11,004 deferred members had not received their Annual Benefit Statements (ABS) for 2018/19. However, our testing identified further members who had not been sent their ABS, or had not been provided with written notification that their ABS are available on-line, as required under section 14 of the Public Service Pensions Act 2013. Specifically: 1. 1,780 members held in 'status 2' (undecided leavers) did not received their ABS; 2. 5,631 active members, where no email address was held, did not receive written notification that their statements were available on-line; and 3. New members were not advised in writing that their ABS was available on-line. Additionally: 4. There are 4,500 members held in 'status 9' (frozen refunds), who may also be entitled to an ABS, did not receive one; and 5. There are 9,535 deferred members, for whom we do not hold a current email address, and who did not receive an ABS. At the time of testing, these additional breaches had not been reported to the Pension Regulator.	High	Measures to ensure that all required ABS are issued by the statutory deadline for 2020 will include, but are not limited to: • A series of workshops to plan the end to end process; • The creation of a robust plan which sets out roles and responsibilities, milestones and objectives; • Consultation with key stakeholders and immediate communication of expectations from employers; • The identification of early tasks that need carrying out before 31 March; • The cleansing of data held in Altair prior to 31 March; • Establishing a membership baseline through the creation of a snapshot of the membership database – as at 31 March; • The identification of all members requiring an ABS; • A clear understanding that no assumptions are made in the absence of documentation from employers; • Appropriate communications with members in accordance with LGPS regulations. The final plan will be agreed with the Fund.	30/06/2020	01/10/2020	Mike Lea & Clare Chambers	Partial	Work was progressing with Hymans to incorporate the Data Improvement Plan (DIP) results into the ABS' and to issue them by the agreed 31 July deadline. However, for various reasons (including coronavirus) not all the data was collected from the employers by the extented deadline of 15th June 2020. That collected and forwarded to the Orbis system support team was incorporated into the ABS data. The Pensions Board and Officers asked Hymans to cease work on the DIP and prepare a handover report as at 24 July 2020. The DIP project will be continued by the East Sussex PAT. COVID-19 had an impact on the employers ability to complete their annual returns so the deadline for completing the ABS was pushed back to 31st August 2020. An update report will be provided to the Board & Committee in September 2020.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	5.1	We understand that a data cleansing exercise was undertaken during 2019 in preparation for the Triennial Valuation, which identified a number of critical errors, which have subsequently been corrected. We requested sight of information relating to the data cleansing process, including sight of the audit trail of changes made to extracted data. Whilst most of our questions relating to this data were answered satisfactorily, it remains unclear, at the time of reporting, why the number of deferred members reported appears to exceed the number of records on the extracted data. A high-level review of data in the live system was carried out, which identified a number of data quality issues, including: • Eight active member records, where one or more fields contained the word 'Delete' or 'Duplicate?', which casts doubt on the accuracy of these records.	Medium	1. The Fund has commissioned a data improvement programme to be carried out by Hymans Robertson, who will liaise with employers to correct any missing data or inaccuracies. The data collected will be provided to the Pensions Administration Service which will upload it onto Altair. Any changes between the snapshot provided to Hymans and the data held in the live system at the point of upload will be investigated and resolved.	01/04/2020	31/12/2020	Paul Punter	Partial	See 4 above. Significant data quality improvement work has been achieved by Hymans; the work is being handed back the the East Sussex PAT to finalise by 31st December 2020.
		5.2	• Twelve active and 115 deferred members with temporary National Insurance numbers. • Fourteen deferred records where the date commenced employment, or the date commenced current employment were blank. • Six deferred cases where there was no record of the date that the member left active service. • We found 2,261 deferred cases where the reason for the change in status from Active to Deferred was not recorded.	Medium	2. The Pension Administration Service will propose procedures and policies to maintain and enhance data quality and seek to obtain the relevant ISO quality accreditation. This will include consideration of capacity and the benefit and cost of establishing a new data quality team.	01/04/2020	01/10/2020	Ian Gutsell	Partial	The East Sussex Compliance Local Imorvement Partner (CLIP), started on 3rd August 2020, who will oversee data quality. The PAT has changed the way some Altair status field are used and any misuse of these should be minimal going forwards.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	7.1	A review of cases held in Altair under 'status 2' (Undecided Leavers) and 'status 9' (Frozen Refunds) identified over 5,000 cases that had been in these status codes for more than a year and, in some cases, based upon the 'date left active service' field in Altair, extending back as far as 1975. A review of these cases, found that 449 members were above the retirement age, including 288 who were above the age of 70. Whilst we have not tested the reasons behind these cases, we have seen evidence of at least one transfer out where notification of a member's intention to transfer the pension had been received but had not been actioned because the Administration Team believed the information to be incomplete. When this matter was brought to the attention of the team, it was indicated that no action would be taken to address the issue because they believed it was not their responsibility to take any further action. From this, it may be inferred that it is possible that other notifications have been received but not processed, which would result	Medium	1. The Pension Administration Team will develop an improvement plan and identify specific administration resources to address Status 2 and Status 9 cases. It will share the plan with the Pension Board, to which it will also share progress reports.	01/04/2020	31/12/2020	Mike Lea	Partial	On 31 March 2020 there were 512 status 2 and 5,031 status 9 cases When the system software enables calculations and payments to be fully integrated it would be good practice to analyse the outstanding refund cases and develop an appropriate plan. The Hymans DIP reviewed and determine the correct status for most of both status 2 and 9 cases. Many have been corrected before the handover to the East Sussex PAT in August 2020. The remaining cases should be completed by 31st December 2020
		7.2		Medium	2. Consideration will be given to the creation of a new role - Compliance and Local Improvement Partner (CLIP), to co-ordinate and oversee improvements.	01/04/2020	01/04/2020	Kevin Foster	Yes	CLIP started on 3rd August 2020
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	9.1	The previous year's audit reported that a data cleansing exercise had been carried out, which had identified 14,000 queries and 67,000 warnings, where data may contain errors or be incorrect. It was agreed that all errors and/or warnings from the membership data cleansing exercise would be investigated and the data would be amended, if it was found to be incorrect. This action has not been carried out and it was noted that the 2019/20 data cleansing exercise for the triennial valuation identified 137,911 warnings.	High	See Action 5, above.	01/04/2020	01/10/2020	Kevin Foster	Partial	See 5 above
		9.2		High	See Action 5, above.	01/04/2020	01/10/2020	Ian Gutsell	Partial	See 5 above
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	10.1	Testing of a sample of deferred pensions found that new deferred tasks are not always allocated to members of the Pensions Administration Team for processing immediately. We found that eight out of 15 cases tested had not been processed promptly, with an average delay of nine weeks before the tasks were allocated in these cases. The KPI for deferred pensions sets a target to process 98% of all deferred cases within 25 days of receipt. The KPI's between November 2018 and July 2019 state that the target has been met. However, the way that the figures are calculated does not take account of the delay in allocating new cases and, therefore, the published KPI for deferred cases is overstated.	Medium	1. This issue will be resolved by the transfer of responsibility for the final pay calculations for ESCC employees to the County Council.	30/06/2020	01/10/2020	Kevin Foster	Partial	The issue is linked to 3.1 above and when that is resolved this item will be fixed.
		10.2		Medium	2. Until such time that final pay calculations are transferred to ESCC, the KPI for deferred pension transactions will exclude ESCC Pension Fund members.	01/02/2020	30/06/2020	Clare Chambers	Yes	Included in KPIs

Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	13	During testing, we found evidence of correspondence having been sent to a member threatening to suspend their pension unless they responded to the letter to confirm that they were still alive. In this case, correspondence had previously been returned marked 'Unknown at this address'. However, at the date of testing, which was a month past the specified deadline, the pension was still in payment. We understand that the reason why the pension was still in payment was because the Pension Administration Team had not sought or received approval from the Governance Team to suspend the member's pension benefit.	Medium	A process, including clearly defined roles and responsibilities, between the Pension Fund and the administration will be developed and agreed with the Pension Fund.	31/03/2020	01/10/2020	Michelle King & Clare Chambers	Partial	The Good Governance Working Party resolved on 19/05/20 that the roles and responsibilities is due to be agreed by Committee in September 2020. There has been a delay by Orbis in agreeing these documents therefore additional time has been agreed by the Working Party. The decision to move the administration back in-house means there will be a more holistic approach and joined up processes. The East Sussex head of pensions administration is in September undertaking a review of the existing "suspended" pensioners (278).
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	16	The previous audit (2018/19) found that five out of 32 users who had access to Altair had left the Council. It was agreed that the users' accounts would be deleted and that a review of user access to Altair would be undertaken, at least on an annual basis. We found that the five users' accounts identified during the last audit had been deleted. However, the review of user accounts had not been completed.	Low	A review of user access to Altair will be undertaken annually and evidence of the review will be maintained.	31/05/2020	01/10/2020	Clare Chambers	Partial	Systems and Support Team to document a process for maintaining system access and levels to Altair and all support systems by providing East Sussex head of pensions administration a quarterly report of users and their access rights for review and approval. The primary responsibility for informing IT and systems of joiners and leavers resides with HR. The quarterly checks are a safety net.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	3	There is currently no Service Level Agreement in place between the East Sussex Pension Fund and Business Operations, which provides its Pension Administration Service. The only document that sets out the service to be provided, is a Statement of Requirements, which is dated 2013, and does not cover more formal responsibilities in the event that service provision falls below the expected standard.	High	Aon, Eversheds Sutherland and Hymans Robertson to produce three Service Level Agreements which sit under the umbrella of the current Inter-Authority Agreement (IAA). Eversheds are updating the IAA to ensure compliance with GDPR provisions and to determine the roles and responsibilities of the Data Owner, Data Controller and Data Administrator. The following Service Level Agreements (SLAs) are sub sections of the IAA agreement. Aon are preparing a SLA between the Fund and the Administrator which will be performance managed through the Performance Management Group which is a newly formed governance vehicle to conduct oversight of the operational requirement. A separate SLA for actuarial services to determine performance between Orbis and the actuary is commissioned to ensure that information is provided to the actuary in a timely, accurate and complete manner. All SLAs will form appendices to the IAA and will be ratified by the Pension Committee on 16th March 2020. The IAA will be further, retrospectively, ratified by the Pension Committee on 16th March 2020.	16/03/2020	01/07/2020	Michelle King	Partial	Dependant on production of SLA through Good Governance Review. The Good Governance Working Party resolved on 19-05-20 that the roles and responsibilities is due to be agreed by Committee in September 2020. There has been a delay by Orbis in agreeing these documents therefore additional time has been agreed by the Working Party. Philip Baker has advised that no changes will be made to the IAA. The SLA will sit outside of the IAA.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	4	In accordance with regulations, there is an Internal Dispute Resolution Procedure Guide available which provides a formal process to handle and escalate complaints. However, there is no policy or procedure in place for the resolution of customer complaints at a basic level, prior to this escalation.	Low	The implementation of a Service Level Agreement, as agreed in reference three, will set out the Fund's requirements of the administration in relation to complaints handling; this will be discussed at Pension Committee on 16th March 2020.	16/03/2020	16/03/2020	Michelle King	Partial	Dependant on production of SLA through Good Governance Review. The Good Governance Working Party resolved on 19-05-20 that the SLA is due to be agreed by Committee in September 2020. There has been a delay by Orbis in agreeing these documents therefore additional time has been agreed by the Working Party. In relation to complaint handling by the Pension Fund at a basic level the Pension Fund follows the ESCC Complaints processes. The Orbis Pension Administrator as a supplier to the Pension Fund will need to provide the method statement agreed by CIPFA within the National Framework Procurement detailing the provisions for complaint handling in the tender.

Appendix 3

CLOSED ACTIONS

Audit	Date	Ref	Finding	Risk Rating	Agreed Action	Target Date	Requested Revised Target Date	Responsible Officer	Implemented?	Comments
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	2.1	The Altair system calculates pension benefits for new pensioners. However, during testing, we found that in two out of 15 cases, the benefits had been calculated manually by the Pension Administration Team. We understand that this was because of delays in receiving documentation from the employer, in one case, and the employee in the other case. It is further understood that the Altair system cannot calculate benefits retrospectively. In reviewing these two cases, whilst we found evidence of signed checklists, the manual calculations were not completed using a formal template to aid consistency and there was no clear evidence that the calculations had been checked, for example by the signature of the checker at the foot of each page where system generated figures had been overwritten by manual calculations. Furthermore, there is no clear governance process to support the over-writing of data held in Altair with manual figures because the supporting checklist does not adequately demonstrate that each step in the process has been completed and then checked. Testing of an additional 15 new pensions found a further four pension benefits that had been calculated manually. This suggests that around 20% of pension benefits involve a manual calculation although no errors were found during testing. A pension calculation is a longstanding calculation so an error at inception would pervade 20-30 years after the calculation was committed. This would affect all other calculations derived from that initial calculation.	Medium	1. Aquila Heywood will be commissioned to implement system functionality to resolve the retrospective calculation issue together with relevant system controls and sign off controls.	01/04/2020	30/06/2020	Nick Weaver	Yes	Further investigation with the Internal Audit identified a misunderstanding about the functionality capabilities of the Heywood Altair system. It does calculate the member pension benefits at the normal retirement date. Under the LGPS Regulations if the member, for whatever reason, does not forward the completed acceptance forms in a timely manner the benefits are backdated for a number of months or years the Altair system is unable to determine the current benefits. The administrator uses a template spreadsheet to take the Altair calculated benefits at the original normal retirement date to determine the subsequent annual pension increases between then and the actual first payment date plus the arrears for the first pension payment. To ensure the template spreadsheet is clear that it has been checked four new boxes have been added to show the name of the doer and checker and the date they performed and check the work. These names and dates should then be able to be crossed checked against the retirement calculation checklist to provide a clear audit trail that the work was checked. East Sussex follow the same process as Surrey.
		2.2		Medium	2. Until a system-based solution is achieved, we will implement a template for recording manual calculations in order to aid consistency, reduce the risk of error and to provide a clear audit trail to demonstrate how the figures and the final benefit award were derived.	01/02/2020	30/06/2020	Nick Weaver	Yes	ESCC have adopted the Surrey version of the template spreadsheet.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	6	We understand that Status 8 is used in Altair for records that have been created in error. However, we reviewed a sample of six cases and found two records where members had opted out and had received a refund of contributions via payroll. These records had been moved to Status 8 in error and we understand that they have now been moved to Status 0 (opt Out) following the queries raised by Internal Audit.	Low	The Pension Administration Team will develop an improvement plan and identify specific administration resources to address Status 8 cases. It will share the plan with the Pension Board, to which it will also share progress reports. Consideration will be given to the creation of a new role - Compliance and Local Improvement Partner (CLIP), to co-ordinate and oversee improvements.	01/06/2020	01/06/2020	Mike Lea	Yes	Periodically a report of status 8 cases will be run to ensure it is being used correctly. Historical cases were reviewed by Hymans and the East Sussex head of administration has in August 2020 been given the Heywoods Altair system supervisor status to "delete" records where appropriate.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	8.1	We understand that there is no process in place to update addresses for employees who opt out and defer their pensions, even though employers hold this information.	Low	1. The Pension Administration Team will develop an improvement plan and identify specific administration resources to capture changes of address for all deferred members. It will share the plan with the Pension Board, to which it will also share progress reports.	01/06/2020	01/06/2020	Clare Chambers	Yes	This will be part of the standard deferred benefit process.
		8.2		Low	2. Consideration will be given to the creation of a new role - Compliance and Local Improvement Partner (CLIP), to co-ordinate and oversee improvements.	01/06/2020	01/06/2020	Kevin Foster	Yes	CLIP started on 3 August 2020.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	11	The Pension Administration send out an annual return at the end of each year relating to members' annual allowances. For new members transferring into the fund, this information needs to be collected from the previous employer. We tested a sample of transfers into the Pension Fund. We found that, in one out of five cases, the member's annual allowance information had not been received from the previous employer but that the checklist had been approved as complete, despite the step to obtain the annual allowance information being left blank. Further enquiries confirmed that there were five other transfers in where the annual allowance was missing. In three of these cases, checklists had been marked to show the transactions as complete. The remaining checklists differed and did not cover the receipt (or not) of annual allowance information. The closing of transfer-in cases before all steps have been completed also has a positive and misleading impact upon the KPIs.	Low	We will review the process and the Transfer in checklist to ensure that the most efficient use is made of our resources. We shall review the KPI report to ensure all relevant information is included and that reports provided to the Board and Committee are clear.	01/06/2020	30/06/2020	Clare Chambers	Yes	The Annual Allowance (AA) statements are produced for about 120 ESPF members who exceed the annual monetary amount. In trying to determine the correct AA information you can account for any unused allowance for the previous three years. For members who have completed an interfund transfer during the year the data may not be easily assessable (for members with no Altair member print from the previous employer). East Sussex administration team tried to obtain a note of the AA used in the current year as part of the TV-in process. As the provision of this data is not mandatory or statutory and does not impact the calculation of the transfer of benefits it is not chased at the time of transfer. If later, it is discovered the member is actually exceeds the AA, then the administrator will as part of that task request the AA data from the previous employer.

Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	12	Testing revealed that 80% of complaints to the Pensions Administration Team were not responded to within 10 days, in accordance with Orbis service standards, increasing the risk of reputational damage. It was also noted that there is a lack of information recorded within the Complaints Log, with some fields being left blank. Furthermore, some members' feedback, which could reasonably be considered to be complaints, is recorded as comments, thus avoiding the need to include them in the statistics. In addition, we found that some complaints had not been recorded within the KPI figures presented to the Committee or Board, whilst all compliments, including those relating to a fund managed on behalf of another authority were, thus reducing the accuracy with which Members are able to view the administration's performance.	Low	KPI statistics will be checked to ensure that they are complete and only include data relating to the East Sussex Pension Fund. Accompanying narrative on the cause of each failure will be provided together with proposals to rectify any failures.	01/05/2020	30/06/2020	Clare Chambers	Yes	Action undertaken and only complaints for the East Sussex Fund are reported as part of the KPI reporting. A
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	14	The Pensions Regulator expects pension administrators to maintain complete and accurate records and has published guidance on the minimum data that it expects trustees and scheme managers to hold. Of the eleven common data fields specified by the Regulator, nine are mandatory in Altair. Although we did ask for clarification from management about the other two mandatory fields, no response was forthcoming and it remains unclear why the 'Address' and 'Post Code' Fields are not mandatory.	Low	We will approach the software vendor (Aquila Heywood) to investigate the possibility of making the address fields mandatory, including any potential cost implications.	31/05/2020	30/06/2020	Nick Weaver	Yes	The address and postcode fields are not mandatory on any pension software suppliers. East Sussex does have policies in place to undertake missing address tracing exercises biannually. In addition for individuals approaching retirement where an address is missing address tracing is performed three months beforehand. East Sussex PAT will produce TPR validator common and conditional reports annually for the Pensions Board to track the data quality scores.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	15	The previous audit (2018/19) identified an employer, which had left the Fund, but could still access the employer portal (Pensions Web). It was agreed that the employer's account would be deleted and all employers with access to Pensions Web would be contacted to confirm their employees who need access to the system on an annual basis. We found that that the employer account referred to above had been deleted. However, there was no record to confirm whether all employers had been contacted to confirm who needed access to Pensions Web.	Low	We will write to all employers with access to Pensions Web to confirm the employees who need access to the system on an annual basis.	31/05/2020	30/06/2020	Clare Chambers	Yes	Systems and Support Team will document a process for maintaining access to PensionsWeb for scheme employers. There is an employer database which holds the employer key contact details- name, address, email, plus authorised signatories etc. These will be updated as part on the annual data return for the ABS process. CLIP will have oversight of the quality of this work.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	17	The previous audit (2018/19) found that the Pensions Regulator requires each scheme to have developed a set of scheme specific data items that should be present for each member. No scheme specific data set has been defined.	Medium	The Pension Administration Team will develop a set of scheme-specific data, including considering guidance from outside bodies, as necessary. This will be presented to the Board for approval.	31/03/2020	31/03/2020	Mike Lea	Yes	Will be captured by East Sussex PAT
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	18	The previous audit (2018/19) found that Surrey County Council (as the pension administration service provider within Orbis) is responsible for developing an annual schedule of tasks that will be agreed by East Sussex County Council. The annual schedule sets out a timetable of key pension activities that should be completed by the service provider, including statutory activities such as submitting tax returns and issuing annual benefit statements. However, the annual schedule for 2018 was not developed, despite requests from the Council. It was agreed that an annual schedule of key pension activities would be presented to the Council for approval by the start of each calendar year. Whilst a schedule has been produced for 2019, it has not been shared with, and approved by, the Pension Fund.	Medium	We shall develop and submit an annual schedule of key pension activities to the Council for approval by the start of each calendar year. We shall ensure that the schedule includes all statutory returns and reports.	31/03/2020	31/03/2020	Clare Chambers	Yes	The 2020 Annual Schedule has been drafted and being submitted to the 8 June Local Pension Board.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	18	All breaches or potential breaches should be recorded in a log which should be used to inform the Pension Board and Pension Committee on a regular basis. Our testing found two versions of the breaches log, neither of which appeared to be complete. The log does not always record: • whether the breach was reported to the Pension Board; • whether the breach was reported to the Pension Committee; • whether the breach is open or closed; or • the breach's RAG status. Moreover, the log has no provision to capture: • whether the breach has been reported to the Pension Regulator; • who decided to report the breach; or • who made the decision to close the breach.	Medium	Aon and Eversheds Sutherland have been commissioned to determine a breaches policy, breaches log and breaches procedure which complies with Regulation. This will be agreed at the Pension Board on 2nd March and Pension Committee on 16th March.	16/03/2020	16/03/2020	Michelle King	Yes	Agreed by the Pension Committee on the 22 June 2020.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	2	The Reporting Breaches Policy states that breaches or likely breaches should be reported to the Pension Committee, Pension Board and, where necessary, the Pension Regulator. Despite the incomplete nature of the breaches log (see ref 1, above), the entries that had been made indicated that few breaches had been reported to the Pension Committee or Pension Board. As previously mentioned, the log does not record whether breaches have been reported to the Pension Regulator.	High	All officers will be reminded to comply with the Breaches Policy and Procedures to be agreed at Pensions Committee on 16 March 2020. This policy will ensure that the reporting of breaches complies in full with the provision of the Regulator's Code of Practice.	01/04/2020	01/04/2020	Michelle King	Yes	Agreed by the Pension Committee on the 22 June 2020.

East Sussex Pension Fund

Data Improvement Project Closure Report

July 2020

Susan McKenzie
Project Manager
For and on behalf of Hymans Robertson LLP

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Appendices

Appendix 1 – RAID - Final
Appendix 2 - Plan Summary - Final
Appendix 3 – Handover - Final

1 Document Control

Version	Date	Author	Change Description
V0.1	13 July 2020	Susan McKenzie	Initial draft
V0.2	30 July 2020	Susan McKenzie	Comments on initial draft

2 Document Sign Off

The creation of a project closure report is a formal process. Once the document is finalised the intention is that it be reviewed by various groups involved in the project and signed off accordingly.

Group	Names	Sign off date
Hymans Robertson (Hymans)	Susan McKenzie Peter Riedel Richard Warden	
Orbis Administration	Nick Weaver Sarah Spence	
East Sussex Pension Fund Officers	Ian Gutsell Michelle King Paul Punter	
ABS Working Group & Pension Committee Chair	Councillor Gerard Fox	
ABS Working Group Members	Ray Martin Diana Pogson Stephen Osborne	For Review Only
East Sussex County Council – Internal Audit	Russell Banks Danny Simpson	For Information Only

3 Document Purpose

This project closure report is the final project document providing full and objective assessment of the East Sussex Pension Fund Data Improvement Project delivery.

To formally close the project this report will document:

- Delivery to the project objectives
- Key achievements and challenges
- Highlights and best practice for future projects
- Lessons learned and recommendations
- Confirm outstanding tasks/issues and owners of those

This document is intended to be used internally and to aid any similar exercises in future.

4 Executive Summary

Following a workshop in October 2019, which included attendees across Hymans, AON, Orbis and the Fund, a scoping paper was agreed, detailing data cleansing work for East Sussex Pension Fund. The Data Improvement Project was approved at the Pension Committee in November and communicated to Employers at the Fund's November Employer Forum.

A kick off meeting in January set the scene for the project and work commenced with more detailed communications to Employers, articulating what was expected of them during the project.

The ABS Working Group were given delegated decision-making authority from the Pension Committee to oversee the project. Monthly meetings were held from February 2020. During March as the COVID-19 situation emerged, the Working Group meetings moved to twice monthly to facilitate more regular formal communication of progress and escalation and resolution of issues.

It was acknowledged early in the project that success was highly dependent on employer engagement and action and this was raised as a risk.

The project successfully delivered on key objectives; however, the project's success was hampered by the COVID-19 pandemic and the impacts of employers who were forced into unplanned remote working and furlough of their staff. This resulted in more challenging employer engagement and ultimately more time taken to resolve the queries.

5 Background & Objectives

5.1 Background

The primary purpose of the Fund is to pay the correct pension benefits to its members when they become due. It is therefore imperative that the East Sussex Pension Fund (ESPF) achieves and maintains the highest possible standards of member data quality, in order to comply with its core functions and to ensure the cost-effective use of resources. High quality member data is also at the heart of all fund valuations and employer work, and facilitating effective decision making linked to them.

Keeping and maintaining high quality member data is, however, becoming increasingly difficult due to:

- the continual expansion of the Fund in terms of number of participating scheme employers, and the differing needs of each type of employer;
- the increasing number of payroll providers being used by the scheme employers;
- the continuing increase in membership; and
- the administrative complexity inherent in the scheme's design.

Added to this is the increased overriding legislative requirements and external scrutiny that is being applied to all public service pension schemes, including the Local Government Pension Scheme (LGPS). In order to avoid adverse publicity and criticism it is important for the ESPF to continually consider how it meets its regulatory requirements, including the quality of its member data, and to take the appropriate steps to address any concerns as they are identified.

Given the above, the ESPF has a duty to ensure accurate records are maintained in respect of its scheme members, as well as communicating all information in an accurate, timely and secure manner. In order to achieve this, it is imperative that scheme employers are clear on their individual responsibilities and have the required support from pension administrators in fulfilling their duties. The recent issues noted by the Pension Administration in delivering the 2019 Annual Benefit Statements has highlighted a number of concerns regarding scheme employer understanding of their responsibilities, as well as their ability to provide accurate and complete data in a timely manner. The Fund Actuary, Hymans Robertson, in undertaking of the Triennial Valuation as at 31 March 2019, similarly identified a high level of validation and critical data error points within scheme employer common and scheme specific data, which highlights the need to undertake an assessment and review of employer data sets.

Given the increased focus of the Pension Committee regarding day-to-day administration, together with the accuracy of member data and its impact on scheme liabilities the purpose of this report is to set out the steps being proposed to undertake a comprehensive review of scheme member data held by scheme employers, reconcile this with that held on scheme member data records and ensure appropriate procedures are in place to support scheme employers for the future.

5.2 Objectives

The Pensions Regulator (TPR) has set accuracy targets of 100% for both common and scheme specific data, although the exact definition of scheme specific data for the LGPS has still to be confirmed by the Scheme Advisory Board. In measuring scheme specific data, therefore, the ESPF uses measurements set out in the Heywood Altair reporting as benchmarks to measure its data quality.

The key objectives of the data cleanse project are:

- to ensure accuracy of historic active scheme member data records to 31 March 2020, to ensure the correct calculation of pension entitlements and employer liabilities;
- to ensure that the ESPF is compliant with legislation and in particular, with the guidance of TPR. Furthermore, in doing so, to ensure it establishes a robust, reviewable and transparent framework necessary for the acquisition and upkeep of accurate, complete and up-to-date records
- to ensure the ESPF 2020 annual benefit statement exercise is successfully completed in advance of the statutory 31 August deadline;
- to ensure the percentage of Annual Benefit Statement sent on time is as close to 100% as possible;
- to prepare Orbis Business Operations and the participating scheme employers for the introduction of monthly receipt and posting of scheme member pension contributions and member data via the i-Connect module of the administration system Altair;
- to avoid censure from TPR as a consequence of any material breaches of the law directly attributable to poor or missing scheme member data.

Supplementary benefits of the data cleanse project include:

- 1 ensuring clarity of roles and responsibilities between the ESPF and scheme employers, ensuring all parties are committed to continuing engagement to improve data quality and promote ongoing accurate record keeping;
- 2 ensuring that all data collection processes are clearly documented and regularly reviewed to check the validity of data

5.3 Scope

High level deliverables in scope as follows:

Scheme employer communication – creation and issue of employer communication introducing the data cleanse project and preparing scheme employers for the introduction of i-Connect during 2020;

High level data analysis – undertaking a high-level analysis of the ESPF active member data set versus the Heywood Altair common and scheme specific data reports in order to quantify the number and significance of the data issues requiring attention and reporting on the results;

Data cleanse (common data items) – undertake a cleanse of common data items for all active members (including those currently held under “status 2” (unresolved leaver) and “status 9” (frozen refunds)” on Altair) against scheme employer payroll records;

Data cleanse (CARE pay) – sense check of CARE pay and remuneration in respect of active members, with corrections where required, from 1 April 2014 to 31 March 2019;

Data cleanse (agreed scheme specific data items) – high level consistency check of agreed scheme specific data items, to ensure accuracy of active member data sets;

31 March 2020 year end – preparation, in collaboration with Orbis, for the 2019/20 year-end reconciliation exercise ahead of Orbis completing the 2020 annual benefit statement exercise.

6 Structure and Control

Following an initial planning workshop in October 2019 a regular meeting and reporting schedule was established. This consisted of:

- The creation of the ABS Working Group, Terms of Reference were approved by the Pensions Committee who also delegated decision making powers to this group
- Monthly meetings of the ABS Working Group, Hymans and Orbis were established. This was the project's decision-making forum; twice monthly meetings were initiated from April, following COVID-19 impact on the project
- Pension Board and Pension Committee reporting;
- Weekly progress emails were issued initially, however these were superseded by more regular ABS Working Group meetings
- Adhoc meetings as required; and
- Bi- weekly meeting of Hymans and Orbis was set up moving to weekly as data corrections were being collated for Orbis to update and as key Annual Benefit Statement preparation and planning evolved.

A project plan was created to capture granular detail on each workstream.

A high-level summary project view of workstreams and milestones was shared at each ABS Working Group meeting.

7 Summary of Workstreams

7.1 Project Management and Stakeholder Engagement

The purpose of this workstream was to:

- Scope and plan the activities within the project
- Provide structure and a framework to track progress
- Identify and address risks and issues and document key decisions
- Communicate within and outside the project

A detailed project plan was created to identify and manage all activities across all stakeholders and a RAID log was created and maintained throughout the duration of the project. Regular ABS Working Group packs were issued to the Fund and regular project meetings kept stakeholders informed and engaged.

7.2 High Level Analysis

A data extract was required from Altair, the administration system to obtain a starting position. This extract formed the basis of the data cleanse and was taken as at 30 January 2020.

This allowed an initial high level analysis to be shared with the ABS Working Group and was used to inform the project approach.

Initial findings indicated that:

Membership

- 11 Employers accounted for 88% of the membership – this group of employers was designated “Annex A”
- 112 Employers accounted for the remaining 12% of the membership – these remaining employers were designated “Annex B”

Status 2 (Unresolved Leavers)

- 15 Employers accounted for 88% of Status 2 cases, all of which had more than 10 cases – this population was agreed as the primary focus for resolution.
- 27 Employers accounted for the remaining 12%
- 71 Employers had no Status 2 cases

Status 8 (Incomplete Joiners)

- 20 Employers accounted for all Status 8 cases

Status 9 (Frozen Refunds)

- 11 Employers accounted for 90% of Status 9 cases
- 46 Employers accounted for the remaining 10%
- 66 Employers had no Status 9 cases

7.3 Employer Communications

The project was heavily reliant on positive employer engagement. Communications with employers occurred at various points in the project

- Advanced notice of the project was communicated at the November Employer Forum

- Email communication was issued to all employers on 28th January 2020 by the Fund to introduce the project and the Hymans team
- The employer communication was then split across the 2 annexes: Annex A covered 11 larger employers with over 200 members and Annex B covered the remaining 112 employers with less than 200 members.
- Initial requests for data were tailored to these annexes, with requests for payroll information and status 2 & CARE pay information requested separately from Annex A employers. Annex B data requests were combined. These communications contained explanations, worked examples and contact points at Hymans for assistance.
- Regular reminders were issued to non-responding employers with escalation to the ABS Working Group as required.
- Annex A responses received
 - 8 out of 11 (72%) Annex A Payroll responses were received
 - 3 out of 11 (27%) Annex A Status 2 & CARE pay responses were received
- Annex B responses received
 - 89 out of 112 (79%) responses were received
- Contact details from the Fund and Orbis as the Administrator were used to identify contact points. Any new contact points advised to Hymans were passed to Orbis.
- Project transition will be communicated to Employers by Orbis.

7.4 Unresolved Leavers (Status 2)

Opening position for Status 2 cases as at 30 January 2020: 977 cases

The workstream dealt with resolving as many status 2 cases as possible, which was reliant on employer engagement and ability and desire to respond:

- Identifying employers with higher volumes of cases – 15 Employers accounted for 859 status 2 cases (88%), with the remaining 118 cases (12%) split across 37 employers
- Communicating with employers, including educating employers on which cases to prioritise
- Contacting employers to confirm request received by correct contact point and chasing responses from employers' multiple times
- Passing leaver forms to Orbis for processing
- 532 cases were resolved during the project.
- 117 cases are with Hymans to validate and forward to Orbis to resolve

Closing position for Status 2 cases: 323 cases are to be passed to Orbis to resolve – see appendix for detail

- 8 Employers account for 282 cases (87%)
- 16 Employers account for the remaining 41 cases (13%)

7.5 Frozen Refunds (Status 9)

Opening position for Status 9 cases as at 30 January 2020: 4,650

This workstream dealt with:

- Validating that all status 9 cases were in fact true status 9's
- All were found to be genuine, with the exception of 6 cases which were discussed with Orbis
- An ageing analysis was carried out to allow Orbis to focus on oldest refunds first – see appendix for detail

This workstream culminated in action agreed at the ABS Working Group of 30 April 2020 for Orbis to issue refund payments and to undertake a member tracing exercise where required.

7.6 Incomplete New Starter (Status 8)

This workstream dealt with incomplete new starter records. These cases were unlikely to impact the Annual Benefit Statements and investigations were planned towards the end of the project.

Opening position for Status 8 cases in May 2020: 287

- Removal of duplicated members removed 40 cases: 247
- Investigations carried out resulted in the following findings:
 - 67 cases appear to be errors from system notes
 - 123 cases investigated by Hymans Robertson and appear to be errors. Findings shared with Orbis as part of the project closure handover
 - 57 cases to be investigated by Orbis

Deletion of records were discussed with the ABS Working Group; however, a decision was not reached.

To close this workstream Orbis should agree an approach on deletion of records with the Fund and review current processes to avoid recurrence.

7.7 Common Data

This workstream focussed on comparing payroll data and pension fund data across key data items, detailed in appendix 3. A key assumption made early in the project was that payroll data was correct, however this proved to be flawed, which resulted in additional Hymans effort to validate data for correction. Following comparison of payroll and pension administration data, a number of anomalies were investigated by Hymans and categorised under 3 error points as follows:

- 1 Pension Administration system updates required.
 - 42 Employers records had corrections applied to their pension record by Orbis. The total number of adjustments required was 8,630
 - The largest volume of changes related to forenames, job title and payroll references
- 2 Payroll corrections required
 - 25 Employers records had corrections returned to them. We are not able to validate that corrections have been made. The total number of adjustments required was 1,730
 - The largest volume of changes related to forenames and joining dates
- 3 Unable to conclude which record was correct
 - Across 40 Employers Hymans were unable to confirm if payroll or pension records were correct. The total number of anomalies identified were 3,148
 - The anomalies were reported on titles, surnames, addresses and post codes, job titles

- Corrections were identified across 49 Employers
 - 21 Employers were reported across all 3 error points
 - 16 Employers were reported across 2 error points
 - 12 Employers were reported across 1 error points

7.8 CARE Pay

Following discussions with Orbis and a sample of Employers, we provided comfort to the Fund and the ABS Working Group that the process of calculating CARE pay and the accuracy of CARE data on the Pension Admin system was robust.

This workstream focussed on 2 elements of CARE pay

- 2019/20
 - As part of the data improvement project return we asked Employers to provide their member's most recent pensionable pay information. This was compared with the pensionable pay held by the Pension Fund for the 2018/19 scheme year, to see if it highlighted any significant changes (increases or decreases) in any individual's pensionable pay that may be worthy of further investigation.
 - Members were highlighted where it appeared that a member's pensionable pay during the 2019/20 scheme year had increased or decreased to an extent that suggested further investigation might be required. We were not suggesting that the pensionable pay information was inaccurate, the purpose of this exercise was to provide an advanced warning ahead of the Fund's year-end exercise and help the employer in pre-empting queries from the Fund.
- 2014 - 2019
 - During the course of our data improvement work we identified a number of cases where it appeared individuals had missing CARE pay, some going back to the 2014/15 scheme year when the CARE accrual was introduced. We sent employers an email setting out each instance where a CARE pay amount was either missing or significantly lower than expected. We further advised that it was likely that missing or low CARE pay arose as a result of a member being on parental leave or long-term sickness absence and an assumed pensionable pay figure was required to be calculated. We provided additional information on assumed pensionable pay with our communication to assist with calculations.

7.9 Annual Benefit Statements (ABS)

The purpose of this workstream was to coordinate across the data improvement project and the ABS run, targeting 30 June completion date. This date moved to 31 July following the impact of COVID-19 on the project, specifically the ability of employers to respond to the Year End request for data and the ability to run statements remotely.

Remote production of the statements was trialled by running employers separately and this was deemed successful and gave the ABS Working Group confidence that running statements remotely was possible.

Following detailed checking, issues were identified with the content of the statements and risks were raised as any fixes for Altair were reliant on Heywood, who would be working to the industry deadline of 31 August for statement production.

As at the transition of the project to Orbis, the Heywood calc fixes has been implemented. The ABS run was confirmed as targeting 31 August 2020 for completion

7.10 Handover to Pensions Administrator

The purpose of this workstream was to formalise a handover to Orbis following the closure of the project.

- Employer Communication
 - Email advising Employers that project is now transitioned to Orbis and contact point provided
 - Employers may advise of further changes following our review of their common data return
- Status 2 (unresolved leavers)
 - 323 outstanding cases passed to Orbis to resolve
 - 117 Employer returns to be passed to Orbis to update Altair
- Status 8 (incomplete joiners)
 - Agree deletion approach with the Fund
 - 190 cases to be validated and deleted
 - 57 cases to be investigated
 - Current processes which allocate members to status 8 to be reviewed
- Status 9 (frozen refunds)
 - Refund of member contributions, with member tracing as required.
- CARE pay 2014 - 2019 gaps and queries
 - Responses received prior to 30 June reviewed and forwarded to Orbis for update to Altair
 - Responses received by Hymans post 30 June to be forwarded to Orbis for review
 - ESPF may choose to chase outstanding responses from employers, following final Hymans chaser.
- Annual Benefit Statements
 - Risks relating to the fixes required to run the statements are being managed by the Orbis project team
 - Production of the Annual Benefits Statements remains an Orbis responsibility

8 Lessons Learned

8.1 What went well on the project

- The application of overarching project management worked well and provided structure and discipline for the project. Frequency of meetings was appropriate.
- Sharing project updates with the Pension Board and Committee gave confidence that the project was well controlled and on track.
- High level of engagement across the project and a desire to work together was evident.
- Some of the employers responded positively to the project engagement and benefited from the education and examples provided in the data packs and supporting email and phone contact.
- Updated contact points provided to Hymans were passed on to Orbis
- The Orbis Year End team processed the common data corrections with no impact to the year end processes, using overtime approved by the Fund
- Insight provided to the Fund and the ABS Working Group on the member population and the employer engagement, highlighting areas for attention.
- Altair access was a real benefit to the Hymans team
- Any new contact points notified to Hymans were shared with Orbis

8.2 What didn't go well on the project

- Some of the employers did not respond positively to the project and a higher level of engagement was required with these employers than had been anticipated. Escalations from the ABS Working Group did not always have a positive impact.
- COVID-19 negatively impacted the ability of the employers to respond to the project, due to remote working and furlough. This delayed the project and impacted their ability to resolve status 2's. At times employers seemed to have to choose between DIP and Year End.
- An early assumption that payroll data was correct proved flawed which resulted in more effort to check common data than was anticipated
- Additional resource required for data corrections was not fulfilled early enough to be onboarded before COVID-19 impact hit
- Some contact points provided to Hymans were out of date
- A data breach was reported to the ABS Working Group

8.3 What could be done differently

- Future data cleanse projects would benefit from being distanced from the year end processes, which may increase the likelihood of employer engagement. Use of high level analysis is key to focus attention on areas of concern.
- Suggest Orbis liaison point for Employers to assist with employer engagement and relationships

9 Reliance and Limitations

The analysis in this report and recommendations are built on the cumulative work done to date for East Sussex Pension Fund Data Improvement Project, supported by Hymans Robertson LLP.

References throughout the report to “we” or “us” refer to the project team.

The purpose of this report is to provide a summary of the work undertaken in respect of the East Sussex Pension Fund Data Improvement Project, identify the highlights, challenges and issues that arose, as well as suggesting a number of recommendations that the project sponsor and other key parties may wish to consider. This document is intended to be used internally and to aid any future similar exercises.

Hymans Robertson accept no liability to any third party relying on the advice or recommendations in this paper. Any associated documentation, standard materials or templates that were developed for the project and referred to within this document are shared for information only. East Sussex Pension Fund shall take full responsibility for the future use of such materials for other projects. Hymans Robertson accepts no liability of any nature in respect of their future use or reliance.

Prepared by:-

Susan McKenzie

31 July 2020

For and on behalf of Hymans Robertson LLP

Appendices

[Appendix 1 - RAIDs Final](#)

[Appendix 2 – Plan Summary Final](#)

[Appendix 3 – Handover Final](#)

See attached items

Appendix 1 - RAIDs Final

Risks

EAST SUSSEX PENSION FUND - [Risk log as at 31/07/2020]														
Next risk no. is 13														
HYMANS ROBERTSON														
Risk No.	Notified by & when	Owner	Workstream	Deliverable	Description of risk	POSSIBLE MITIGATION: Prevention, reduction, acceptance, contingency,	Impact	Probability	Risk level	When is it likely to	Last review date	Next review date	Progress / risk level update	Date closed
1	22/10/19	Hymans Robertson (PR/AMKIC)	Comms & Employer Engagement	Data Cleanse	There is a risk that the required Employer action around data fixes will not be gained as a result of poor engagement or limited resource at the Employers leading to limited success of the Data Improvement Project	MITIGATE - creation of a tracker to identify non-responders and allow escalation where required	High	Medium	High	from Feb onwards	12/06/20	25/06/20	21/07 - 6 YE returns are outstanding. Risk closed as being managed by Orbis 23/06 - YE returns are slowing arriving. One DIP return since last meeting. Final push for DIP responses planned for July 12/06 - the number of YE returns has increased however as not all top 15	21/07/2020
3	22/10/19	ESPF (MK)	Data Cleanse	Data Cleanse	There is a risk that there is no Single Point of Contact at Employers as a result of limited resource or experience leading to limited traction on data fixes	MITIGATE - contact points received from East Sussex and Orbis to widen contact points.	Medium	Medium	Medium	from Feb onwards	12/06/20	25/06/20	13/07 - closed due to end of project and no further contact details will be received - contact list issued to Orbis 23/06 - contact point knowledge being	21/07/2020
4	22/10/19	ESPF/Orbis (MK/NW)	Data Cleanse	Data Cleanse	There is a risk that Orbis Resource will not be available to support the DIP as a result of other priorities leading to limited traction on DIP deliverables	MITIGATE - Good engagement so far	Medium	Low	Low	from Jan onwards	12/06/20	25/06/20	13/07 - closed - summary of remaining activities advised to ABS Working Group 23/06 - common data corrections well underway. Data cut off date now passed. Any	21/07/2020
11	22/06/20	Orbis	ABS Planning 2020	ABS Run	There is risk that Heywoods known calc errors will not be fixed in time to hit the targetted ABS run of 31 July leading to the a delay in the ABS run.	ACCEPT: Heywoods is an LGPS standard system and it is unlikely that the fix will not be made, however this may impact the targetted run date The population impacted by the errors is low volume	Medium	Low	Low	01/07/2020	22/06/20	25/06/20	21/07 - closed as now an issue. Heywood fix received by Orbis mid July however will impact targetted ABS run date of 31/07 23/06 - the Status of the Heywood fix will be discussed at the weekly Orbis meeting	13/07/2020
12	22/06/20	Orbis	ABS Planning 2020	ABS Run	There is a risk that the recent 14/19 corrections required will not be carried out in time to hit the 2020 ABS Run leading to incorrect statements being issued.	ACCEPT: The statements could be re-run and issued to the member Any 14/19 amends will be done on a best endeavours basis given the date cutoff date has passed	Medium	Low	Low	01/07/2020	22/06/20	25/06/20	13/07 - closed as will be managed up by Orbis 23/06 - Currently the volume of amends is low and a sample are being reviewed by Orbis to validate action to be taken	13/07/2020

Actions

EAST SUSSEX PENSION FUND

31/07/2020

Next action no. is

HYMANS ROBERTSON

Action No.	Notified by & when	Description / level	Action	For	Deadline	Update	Date closed
58	ABS Working Group - 30/04/20	East Sussex College Group only have payroll information from 1 April 2018 when merger took place and cannot confirm final salary figures, alternative is using P35 or P60 for the members affected	Pete to request P60/P35 information from East Sussex College Group to assist in clearing status 2's where final salaries cannot be confirmed	Pete	15/05/2020	13/7 - closing action PR to send email to ESCG and Hastings Academies Trust 12/06 - Hymans have had no response as yet, Pete will chase with ESCG 28/05 - no response has been received, this action will remain open to monitor progress 15/05 - update given earlier in the meeting	
68	ABS Working Group - 28/05/20	Diana noted a number of Academies were on non-responders and it was agreed that when contacting the Academies, the letter should be sent to the Principal to ensure they are aware of the non-engagement	Pete to draft letter of information required to be issued to Principals of the Academies/College	Pete	28/05/2020	13/7 - closing action PR to send email to ESCG and Hastings Academies Trust 12/06 - Pete is drafting the letter and will send to Michelle for review	
71	ABS Working Group - 12/06/20	It is common at the end of a project to produce a 'lessons learned' document on points that have gone well and points that could have gone better or where a different approach could have been taken	All to feedback any points to Susan by email or by telephone	ALL	26/06/2020	13/7 - closed - no items received from ABS WG 23/06 - chaser for replies and on agenda for 25/06	21/07/2020

EAST SUSSEX DATA IMPROVEMENT PROJECT 30 JUNE 2020

Overall Status
Project complete

Nov

Dec

Jan

Feb

Mar

Apr

May

June

July

2019

2020

Report Date

1a. Stakeholder Engagement & Comm

1.1 Project Calls

1.2 Monthly ABS WG

1.3 Weekly highlights

1.4 Board / Committee

1b. Project Scope

2.1 Workshop

2.2 Scoping

2.3 Project Plan

2.4 Proposal (PID)

2.5 Proposal Approval

2.6 Kick off

2.7 Project Closure

2. Streams 1 & 2

2.1 Data Request

2.2 HL Analysis

2.3 Success Criteria

2.4 Investigations

2.5 Cleanse

2.6 Fix

3. Stream 3

3.1 Data Request (large)

3.2 Data Request (med/sm)

3.3 HL Analysis

3.4 Success Criteria

3.5 Investigation

3.6 Cleanse

3.7 Fix

4. ABS Statements

4.1 Readiness Checkpoint

4.2 Statement Run Start

4.3 Print Runs /Queries

4.4 Statement Run End

4.5 Lessons Learned

5. Employer Comms

5.1 Employer Forum

5.2 DIP Comms

5.3 Year End & Emp Returns

5.4 ABS Run

5.5 DIP Response Tracking

6. Training

6.1 Training Plan

6.2 Transition to BAU

Not yet started

Ongoing and on track

Complete

Ongoing – some slippage: action plan in place

Ongoing and now behind

Milestone

Milestone achieved

KEY Meeting Dates

Report Date

Checkpoint

Appendix 3 – Handover Final

Items 2-5 will be loaded to the East Sussex Focalpoint site, Orbis Folder

1. Employer Communication
 - a. Email advising Employers that project is now transitioned to Orbis and contact point provided.
 - b. Employers may advise of further changes following our review of their common data return.
2. Status 2 (unresolved leavers)
 - a. 323 outstanding cases passed to Orbis to resolve.
 - b. 117 Employer returns to be passed to Orbis to update Altair.
3. Status 8 (incomplete joiners)
 - a. Agree deletion approach with the Fund.
 - b. 190 cases to be validated and deleted.
 - c. 57 cases to be investigated.
 - d. Current processes which allocate members to status 8 to be reviewed.
4. Status 9 (frozen refunds)
 - a. Refund of member contributions, with member tracing as required.
5. CARE Pay 2014 - 2019 gaps and queries
 - a. Responses received prior to 30 June reviewed and forwarded to Orbis for update to Altair.
 - b. Responses received by Hymans post 30 June to be forwarded to Orbis for review.
 - c. ESPF may choose to chase outstanding responses from employers, following final Hymans chaser.
6. Annual Benefit Statements
 - a. Risks relating to the fixes required to run the statements are being managed by the Orbis project team.
 - b. Production of the Annual Benefits Statements remains an Orbis responsibility.

ESCC PENSION FUND

Guaranteed Minimum Pension (GMP) Reconciliation Project Update

We have now completed your GMP reconciliation and have reached an agreed position on all members. This report details our findings and the next steps that will be taken to start the necessary Rectification of records.

Since the outset of the project in August 2018 we have had 15 team members working on your project full time, including substantial management oversight and strategic review to ensure we have got you the best position possible. This has included regular liaison with the Orbis team to help resolve queries and discuss decisions to be made. The summary position detailed below sets out the final position following these investigation and the Fund Decisions that were made for the members where the position could not be agreed with HMRC following the exhaustive reviews and checks carried out.

Summary of detailed final position

Below are details of the final position following the review and queries raised with HMRC:

Category:	Cleared	Matched	In Tolerance	No Further Action	Fund Accepted No Liability	Total
Total members	9,394	47,471	4,852	169	2,138	64,024
Overall Percentage of cases:	14.7%	74.1%	7.6%	0.3%	3.3%	

Definitions:	
Cleared	Cases where the review has confirmed the member to have no liability
Matched	GMP amounts have been agreed and matched with HMRC value, or the existing value held on the Administration database. Note that these cases could still require rectification
In tolerance	Differences in GMP amounts are within agreed tolerance levels set (£2 tolerance)
No Further Action	Cases where Fund Decisions have been applied – see Appendix A
Fund Accepted No Liability	Cases where Fund Decisions have been applied – See Appendix A

Mercer (JLT) actions completed:

- All membership and GMP value queries have been reviewed, amounting to over 35,000 queries.
- Fund Decisions agreed on any cases where an agreed position with HMRC could not be established – see appendix A.
- The majority of your queries have been resolved with manual review of files, which means our team of 15 are constantly reviewing the data from HMRC against the Altair record to ascertain the correct membership and GMP.
- Referred queries to you where we have been unable to resolve and taken action on your responses.

- Applied bulk rules to our data from experience to resolve ‘types of cases’ (and applying experience from your fund data).
- Refer cases to you for Fund Decisions (see Appendix A).
- Settlement of outstanding CEP payments under the Scheme Financial Reconciliation process.
- Finalised the data gathering phase.

Mercer (JLT) next steps:

1. Analysis of HMRC final SRS data cut

The HMRC are producing a final data cut from their records, which we will look to compare to our findings from the GMP Reconciliation work we have undertaken. From this we will look to produce a report detailing any discrepancies in the data held by HMRC, and any decisions on this which need to be made by the Fund.

Timescale: as it stands the HMRC have not yet confirmed when these data cuts will be available but this is currently expected to be by the end of June.

2. Analysis of latest System data against the GMP Reconciliation findings

Once the above is completed, we will look to prepare the data ready for the data rectification process. To do this we will analyse our GMP Reconciliation findings against the very latest Administration data to take account of any data movements since the original extract was taken. For example, this will enable us to identify members who will have retired or left the scheme, and also any other member data updates that have taken place. This will give us the complete details of all data to be rectified.

Timescale: the completion of this work will follow step one above.

3. Fund Calculations Review

We will look to undertake a review with Orbis to understand the specifics of the fund to allow us to complete the rectification calculations in line with how the fund data is administered, and how the calculation routines are undertaken. We will also require details of the historic retirement factors and a full pension increases history for the fund.

4. GMP Rectification Calculations

We will then look to undertake the calculations for those members whose GMP values require amendment, and advise the Fund of the revised pension amounts, together with any under or overpayment values. From this the Fund will need to make a decision on how to deal with these under and over payment cases. For example, whether to recover any overpaid amounts, or just look to correct the level of pension going forward for these members. Guidance from the LGA is available to help with these type of decisions.

5. Amendment to members records and communications

Records will be updated to capture any required changes in benefits and pension amounts and payroll will implement revisions to pensions in payment on the next payment date. Updates will include capturing missing data on the member record which has been captured during the Reconciliation process. Agreed communications will also be issued to members confirming the changes being made.

Appendix A

Fund Decisions:

Not on Admin – Members on HMRC records but not active on Fund records

Background	Recommended Resolution
Refunds – members who according to the administration received a refund of contributions. CEPs may or may not have been received by NISPI and may be paid as part of the Fund Financial Reconciliation	Accept the Fund data as correct and validate through the Financial reconciliation process with HMRC which will confirm whether the CEPs have been allocated. NB, to note that following the reconciliation of CEPs, funds may have received a refund or payment request from HMRC to clear these liabilities.
Transfers out – members who according to the administration record have transferred out of the Fund. NISPI may not have received or not processed the CA form	Accept the Fund data as correct The fund will be passed details of the data gathering providing information where it is held on the Altair record. Where full information is not held on Altair (and is held on back files it would be prudent for the fund to source the information in case of any future claim)
Trivial commutation – members who according to the administration trivially commuted their benefits and extinguished the GMP liability	Accept the Fund data as correct HMRC do not log Trivial Commutations, as the member is still classed as contracted out for the period. As such, the Fund records will always differ from HMRC.
Unable to Trace – NISPI hold a record and in some cases a GMP liability but there is no trace on the Fund	Accept the Fund data as correct i.e. no liability; and hold information on these cases centrally for any future claims that may arise. Consideration should be given to GDPR requirements for holding this data.

Not on NISPI – Members on the administration record but not on NISPI records

Background	Recommended Resolution
<p>Cases where the Fund has a record for a member but NISPI has no record. Which can include:</p> <ul style="list-style-type: none">- Dependent's pensions in payment that NISPI have been unable to link with the original member- NISPI believe the liability lies with another Fund but no evidence on the record to suggest this is correct (ie Teachers)- Any member for whom the Fund has a service period but NISPI do not- GMP values differ and there is no evidence to agree the NISPI figure	Accept the Fund data as correct

May 2020

Stephen Jones

Principal, Mercer
stephen.w.jones@mercer.com

Update to East Sussex "Annual Benefit Statements" Position as at 31 August 2020

DEFERRED STATEMENTS 2020								
Fund	Total Nos Produced	Total Nos errored	Number "errored" breakdown				Other	Total Errors
			Gone away (supressed)	Error on record (calc not allowed)	Not eligible for statement (deferred after 31 March)	Record missing Requisite Spouse's pension from GMP details data view		
East Sussex	29,727	1296	1132	42	97	23	2	1296

Notes - East Sussex Deferred Statement Errors	Gone away	If the record has "gone away" selected, Altair will supress the statement from being run. 112 not included in exercise (Assume marked as gone away post exercise). 30 did have address updated but since marked as gone away, remaining 990 confirmed were part of exercise and address could not be traced (ITM exercise Nov 19 to April 20.)
	Error on record	35 had record set to not allow a benefit calc to be run (in basic details 2 screen) which will not allow a statement to be run. Systems Manager (SM) thinks a team leader/officer set it so that a calc cannot be run, because the benefits need to be recalculated. (Or could have been set in error.) Team Leader will need to run the individual cases . 1 had an error message of "module list data missing" - SM thinks there is likely to be some inconsistency on the records and will need investigating. 1 had "PI requires recalculation" so will need the PI applied needs investigating on the record. 5 had "No Consistency Check" - SM reported that a consistency check is a verification that can be run on the record and is automatically generated when a benefit calc is run.
	Other	1 record was an active and should be deferred and 1 is now a pensioner.

ACTIVE STATEMENTS 2020										
Fund	No. of active statements run by 31 August	EOY return		Missing 19/20 CARE Pay		Other reasons - East Sussex specific			Total no. of statements produced	Total no of records that are eligible to have a statement run
		No of employers - EOY not received	Nos of records with no statement	No of records affected	Default option for missing pay	Brighton & Hove CC	East College Group	Casuals with no 19.20 earnings		
East Sussex	21,639	5	14	69	left empty	343	197	325	21,639	22,262

Notes - East Sussex Active Statements	No of employers - EOY not received	The Fund knows about 2 employers that did not supply an EOY; Sussex City Partnership (1 eligible record) and Brighton Dome & Festival (3 eligible records). When running report to see how many records have no 19.20 pay the Kingston team dealing with ABS found 10 eligble records (active service prior to 31 March). It transpires there are in 3 employers Orbis did not know are in the Esst Sussex Fund - they were set up in Altair post April 2020 and the ABS team were not informed so an EOY was not sent to them. Glendale Services (1 eligible record) set up on 15 April. Churchill St Paul's (6 eligible records) set up on 16 July, Churchill St Leonards (3 eligible records) set up on 16 July. Action: EOY will need to be sent to the 3 new employers to capture 19.20 data as well as 2 existing employers.
	Missing 19.20 CARE Pay.- No of records affected within total run	There are 30 records that we did not get a response from for missing 19.20 CARE Pay - chased several times! - across a number of employers (excluding Brighton & Hove & East Sussex College group). The other 39 records are still under investigation; upon a quick glance, it looks like one has been set up in July 2020 with service pre 31 March so was not on EOY and some other anomolies. Total number with no 19.20 (that had earnings) is 609 (including Brighton & Hove CC and East Sussex College Group).
	Default option for missing pay	The default option for East Sussex Fund was to leave 19.20 field blank for those records with missing CARE pay for 19.20. If this field is blank then Altair will not produce a statement. Other Funds have a default option and a statement will be produced. Those East Sussex members not receiving a statement will have bespoke comms explaining why they didnt have a statement and relevant employers will also be informed.
	Brighton & Hove CC	Responses to pay queries for 19.20 were returned from Brighton & Hove but extremely late (2nd week of August) and Fund informed would not be able to update high volume of records so close to deadline. Action: records will need to be updated
	East College Group	Responses to missing pay records not received, Fund has been informed. Action: Employer to be chased for missing records.
	Casuals with no 19.20 pay	Fund is determining the treatement for members with no earnings for 19.20 (casual staff). 70 are from East College Group and they entered £0.01 on their EOY which we have not used. 118 are from Brighton & Hove CC and 137 from other employers.

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Address Tracing: Summary Report

Background and information

Over recent years, The Pensions Regulator (TPR) has outlined and increased the importance of accurate member data and regular data maintenance in order to effectively administer the pension scheme. Holding accurate addresses on an ongoing basis is an essential data item to ensure the efficient running of the Scheme and for communicating with members.

TPR code of conduct outlines, 'schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data is up-to-date.'

In order to ensure member addresses are accurate on the administration system, ITM were appointed to carry out a member tracing exercise on members who have an entitlement to a deferred benefit, but for whom a current address is not held on the Altair administration database. The results of which will provide an increase in data quality which will allow for more efficient member communications and pension administration.

The ITM tracing was split into two phases:

1. **Mortality Screening and Electronic Trace** - Members with a last known address are checked against financial and credit data. This is a non-intrusive process with no contact being made with the member. Any members identified as deceased in the mortality screening do not go forward in the electronic tracing.
2. **Full Trace** - Where an address has not been able to be validated during the Electronic Trace or no previous UK address is available, these members have a full trace carried out using data sources such as GRO indexes, credit databases and historic electoral rolls. This is priced per category of result from the electronic trace, regardless of successful result in the exercise.

Data

The East Sussex Pension Fund had a total of 7,764 deferred members which were in scope for the member tracing exercise.

Where a member does not have a last known address listed on the administration system, these automatically are required to undergo the full trace. Members with an address that is not within the United Kingdom are not eligible for the electronic trace.

The below table breaks down the data for the electronic trace.

Category	Number of cases
Member with address history	7,742
No address held	22
Total	7,764

ITM were securely transferred data from Altair on the 7,742 members of which had address data on their record. These cases then went forward for the mortality screening and electronic trace phase.

Mortality Screening

The mortality screening process identifies members who have died within the last 11 years. The data for the in scope population were compared to the Disclosure of Death Registration Information (“DDRI”) data from the General Registry Office (“GRO”) to identify any recent deaths. The results are summarised below:

There is a standard cost of £0.20 per member for the mortality screening.

Category	Number of Cases
Excellent Match	3
Good Match	33

An excellent match is a case where all admin and DDRI data items match, leaving ITM in no doubt that the member is deceased. A good match will be generated where all data items match except the postcode or all data items match with the exception of the address but ITM have confirmation that the individual was living in the same area.

All 36 cases identified in the mortality screening process were sent onto the pension administration team to ensure scheme member data is correct and any action required is carried out. These cases were then excluded from the electronic tracing exercise.

Electronic Trace

Excluding the 36 cases identified in the mortality screening, 7,706 members were then eligible for the electronic trace. However initial data analysis performed by ITM on the member data supplied highlighted that:

- There were 123 members with overseas address

These 123 members were therefore ineligible for the electronic trace.

7,583 members were then taken forward to the electronic trace. This is a multi-stage process made up of:

- Comparing known addresses against the Royal Mail’s Postcode Address File (“PAF”) in order to pick up any missing postcodes and to correct addresses where possible.
- Then the data undergoes an automated comparison against the Electoral Roll to obtain additional forenames and verify continued residence.
- Where continued residence is not obtained, ITM perform a check on financial and credit data to locate the member. This is a non-intrusive process with no contact being made with the member.

The results of the electronic trace are summarised below:

Trace Result	Number of cases	Next steps
Traced Same <3 Months	389	No further action
Traced New <3 Months	4,294	Update member address on admin system
Traced Same >3 Months	6	Full trace required to verify address
Traced New >3 Months	757	Full trace required to verify address
Person Matches	1,084	Full trace required
No Matches	1,053	Full trace required
	7,583	

There is a cost of £1.25 if ITM were successful in tracing a member to a new address within the last three months. There is no further cost if the member cannot be traced to a new address or is verified at the same address during the electronic trace.

The cost to the East Sussex Pension Fund for the mortality screening and electronic address tracing work is:

	Cost per case	Cases	Total Cost
Mortality and Electronic Trace	£0.20	7,742	£1,548.40
Traced to new address within the last 3 months	£1.25	4,294	£5,367.50
			£6,915.90
		VAT 20%	£1,383.18
			£8,299.08

Of the 7,583 members included in the electronic trace, ITM successfully located 4,683 of these members to either the same address held on the administration system or a new address. This is a 61.76% successful trace rate on the electronic trace exercise. All newly identified addresses were then updated on the pension administration database, as agreed by the Fund.

Full Trace

Where an address has not been able to be validated during the Electronic Trace or no previous address is available, ITM carried out an in depth full trace using various data sources such as GRO indexes, credit databases and historic electoral rolls. The data sources are interrogated by skilled analysts to identify a possible address which is then identified via direct communication with the member.

There were two categories that made up the full trace:

1. Members with no address history on Altair. These cases could not be included in the electronic trace.
2. Members who were unsuccessfully traced in the electronic trace, either due to the address being unverified outside of the last 3 months or no matches on the data results.

The pricing for the full trace is based on the member category.

Full trace category	Price per case
New address verification (outside of 3 months)	£5.25
No matches from the Electronic Trace	£7.00
No last known address	£7.50

The below summary of results outlines the quantity of members per category and the number of positive trace results.

Full trace category	Cases in category	Positive trace result	Result percentage
New address verification (outside of 3 months)	763	436	57.14%
No matches from the Electronic Trace	2,137	1,192	55.78%
No last known address and Abroad address	145	28	19.31%
Totals	3,045	1,656	54.38%

All newly identified addresses were then updated on the pension administration database.

The cost to the East Sussex Pension Fund for the full trace is:

	Cost per case	Cases	Total cost
New address verification (outside of 3 months)	£5.25	763	£4,005.75
No matches from the Electronic Trace	£7.00	2,137	£14,959.00
No last known address and Abroad address	£7.50	145	£1,087.50
			£20,052.25
		VAT 20%	£4,010.45
			£24,062.70

Summary of project

In total ITM carried out a trace on 7,764 members and were able to identify addresses for 6,339 of these members. Based on these figures, the success rate of this exercise is 81.65%.

The project was delivered in accordance with defined timescales and agreed budget.

Overall the project to trace deferred members addresses can be seen as a success due to the number of successful trace results. Furthermore the exercise has been completed in line with TPR code of conduct, ensuring the scheme are compliant with regular data maintenance and holding accurate common data. By carrying out this exercise data quality and accuracy has been improved and will provide benefits in the efficient running of the Scheme and communicating with members.

Where a new address was identified by ITM, the 'gone away' indicator was removed for these members on Altair at the point the address was updated on the system. Furthermore an indicator has been included on the members Altair record for audit purposes, confirming the address was updated as part of the ITM address tracing exercise.

Future work

It is the recommendation of the Orbis pension service that this work is added to the annual events calendar and contract be put in place with ITM to carry this work out annually. The service also recommend adding status 9 members to the scope of this annual exercise, to ensure these cases can be processed. This will keep the East Sussex Pension Fund in line with TPR code of conduct and act as a common data quality exercise on a regular basis.

Report to: **Pension Committee**

Date: **21 September 2020**

By: **Chief Financial Officer**

Title of report: **2020/21 Pension Fund Business Plan and Budget**

Purpose of report: **This report updates the 2020/21 business plan at Quarter 1 for the East Sussex Pension Fund.**

RECOMMENDATION – The Pension Committee is recommended to

- 1. note the updated business plan;**
 - 2. note the forecast outturn position;**
 - 3. consider the report of the actuary on ill Health Management (Appendix 2) and the Legal & General Illustration (Appendix 3).**
-

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 business plan and budget 2020/21 (Appendix 1) sets out the direction of travel, objectives and targets to be achieved 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.

1.3 As reported at the last meeting the budget estimates do not incorporate any provision for investment fees earned by the alternative fund managers since these are deducted at source by asset managers, however the Fund will begin from September 2020 to monitor fees. In addition, the Fund has not received a quotation for pension administration costs for this financial year for approval by Pension Committee. This will be explored with the Chief Operating Officer with a view to presenting a budget for approval in November 2020.

2. 2020/20 Investment and Administration Expenses Outturn Report

2.1 In June 2020 the Pension Committee agreed to the revised down budget of £3.730M from £3.795M agreed in March (2019/20: £4.857M) due to budget adjustments in respect of the Data Improvement Plan, and Environmental, Social Governance (ESG) suppliers, PIRC and EIRIS.

2.2 The forecast outturn for 2020/21 is £3.702M, against a budget of £3.730M resulting in an underspend of £0.028M.

2.3 The attribution of the underspend, in the main relates to ending of the data improvement programme. These are set out below in paragraphs 2.4 to 2.6.

2.4 Since the last report the decision was taken to end the data improvement programme as the benefits of the project were substantially met. The original budget to complete all aspects of the original scope was £100k for 2020/21 when the project ended costs of £40k had been incurred leaving an underspend on this item of £60k.

2.5 The Internal Audit forecast has been increased to be in line with the increased activity that internal audit is required to do for the Fund based on the findings in previous internal audit reports. The overspend on this item is £18K from an initial budget of £19K.

2.6 The income expected on Fund officer rebates has been reduced as the work time that officers have been able to provide ACCESS has reduced during the Covid 19 Pandemic. This income has been reduced by £10K for an initial budget of £20K.

2.7 Two items are not included in the revised budget and forecast outturn position as there is still uncertainty around these activities. They are detailed below in paragraphs 2.8 and 2.9.

2.8 A restructure of the Pension Fund Team was launched in August and the estimated budget requirement for 2021/22 to fully resource the proposed structure will be £687K. An increase of £302K on the agreed budget of £385k for 2020/21. It is expected that recruitment to these posts will begin in September. When appointments are made to the new structure it will be possible to update the forecast outturn figure.

2.9 Arrangements around the Pension Administration Service provided by Orbis Business Operations. The delivery of this service is currently undergoing a review and the final position will not be known until later in the year when this has been concluded.

2.10 The 2020/21 outturn against line items is shown at Table 1 in paragraph 3 below. The table also shows the budgeted expenditure and the budgetary performance to Quarter 1.

3. Table 1 2020/21 Outturn Report

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Actuals to July £000	2020/21 Forecast Outturn £000
	<u>Pension Fund Oversight and Governance</u>			
345	Actuarial Fund Work	250	56	250
97	Actuarial Employer Work	150	8	150
(97)	Employer reimbursement	(150)	(3)	(150)
88	Good Governance Program	47	25	47
75	Data Improvement Program	100	40	40
8	Independent Pension Board Chair	5	4	5
307	Fund Officers*	385	13**	385
30	External Audit – Grant Thornton	26	(7)	30
17	Internal Audit*	19	-	37
119	Legal Fees	115	19	115
11	Subscriptions and other Expenses	70	40	70
1,000	Sub Total	1,017	195	979
	Investment activities			
114	Investment Consultant	120	29	120
-	PIRC ESG Report	11	-	11
-	EIRIS Carbon Report	24	25	24
11	Independent Advisor Basic	12	-	12
5	Independent Advisor Project work	8	4	8
54	Custodian	150	-	150
3,003	Investment Manager Fee Invoices	1,200	104	1,200
3,187	Sub Total	1,525	162	1,525
	ACCESS			
67	ACCESS Support Unit	98	35	98
(3)	Fund Officer Time Rebates	(20)	(2)	(10)
64	Sub Total	78	33	88
	Pension Board/Committee Training:			
-	Training Costs	30	1	30
-	Sub Total	30	1	30
1,106	Pension Administration*:	1,080	-	1,080
5,357		3,730	390	3,702

* These costs are invoiced to the Fund from ESCC and Orbis currently this is done annually but we are working with the finance officer for ESCC and Orbis to do this quarterly going forward.

** These are costs for temporary staff paid directly by the Fund

4. III Health Risk Management

- 4.1 The ill health risk management workstream was added to the Fund's 2020/21 business plan as part of the June Board and Pension Committee meetings. This has since been progressed by Officers working alongside the Fund Actuary to investigate the potential risk management options (including obtaining a range of indicative insurance quotes from Legal & General). For your consideration, this information is set out in the paper prepared by the Actuary within Appendix 2 and Appendix 3. The Pension Committee is asked to consider its preferred option for officers to progress with the Fund's actuary.

5. Conclusion and reasons for recommendation

- 5.1 The Business Plan sets out the themes of work for the Fund and the work plan details specific areas of work required to meet these. The Budget sets out the costs and considerations associated with delivering the Funds Business Plan.

IAN GUTSELL
Chief Finance Officer

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East Sussex Pension Fund

Appendix 1

2020/21

Business Plan & Budget

1. Business Plan

1.1 It is anticipated that 2020/21 will see some key activities within the following themes:

- **Pension Fund Oversight and Governance activities:** Fund/Employer actuarial work, Fund external legal advice, Pension Fund Annual Report and Accounts, External/Internal audit work, Data Improvement and Cleansing, Achievement of the Statutory Annual Benefit Statement, Implementation of McCloud provisions, Revised Asset Liability Modelling and Good governance Programme. Public Sector Exit Payments, Review of Academies, Tier 3 Employers and procurement of new contract for Fund Actuary and Investment Advisors.
- **Investment activities:** Review and implement new investment strategy, develop the Fund's ESG credentials, UK Stewardship Code 2020 Principles of Responsible Investment, review and implement agreed changes to the Fund's equity structure, assistance with annual accounts completion, Investment Government, Investment Pooling, Cost Transparency, Cost Management, Strategic ESG Repositioning.
- **ACCESS activities:** ACCESS support unit (ASU), Actively managed listed assets, ACS sub fund construction, transition activity, alternative / non listed assets, passive assets, Governance.
- **Pension Board/Committee Training:** Provision of 3 joint Committee and Board Training days, Provision of 2 Investment Governance/Strategy days, Attendance at third party provided LGPS related training, Breaches, Good Governance.
- **Pension Administration:** Performance Management Group, Maintaining Member Data, Data Improvement Programme, ABS Compliance and Service Level Agreement Oversight, Orbis Service Improvement Programme and Robust Employer Engagement

1.2 Each theme within the business plan includes activities planned for the year. The strategic nature of East Sussex Pension Fund objectives means that a number of the 2020/21 activities build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

1.3 On a day to day basis the pension function is lead and co-ordinated by the Pension Fund Officers. Pension administration is provided by Orbis Business Operations and reviewed by the Performance Management Group. The Pension Committee and Board will receive updates on the work plan each quarter.

1.4 The decision was taken during since the last meeting to bring the East Sussex Pension Administration team into East Sussex County Council this negotiations for this have started and the transition of staff over to East Sussex is expected to begin in the third quarter of the year. The Budget and cost for this move have not been agreed at this point with the

1.5 A budget totalling **£3.730m** (£3.795m February 2020 £4.857m for 2019/20) to support the business plan for 2020/21 is detailed below in Table 1:

Table 1 Pension Fund Management Expenses for Actuals for July 2020

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Actuals to July £000	2020/21 Forecast Outturn £000
	Pension Fund Oversight and Governance			
345	Actuarial Fund Work ¹	250	56	250
97	Actuarial Employer Work ²	150	8	150
(97)	Employer reimbursement ²	(150)	(3)	(150)
88	Good Governance Program	47	25	47
75	Data Improvement Program ³	100	40	40
8	Independent Pension Board Chair	5	4	5
307	Fund Officers ⁴	385	13	385
30	External Audit – Grant Thornton	26	(7)	30
17	Internal Audit	19	-	37
119	Legal Fees ⁵	115	19	115
11	Subscriptions and other Expenses	70	40	70
1,000	Sub Total	1,017	195	979
	Investment activities			
114	Investment Consultant	120	29	120
-	PIRC ESG Report	11	-	11
-	EIRIS Carbon Report	24	25	24
11	Independent Advisor Basic	12	-	12
5	Independent Advisor Project work	8	4	8
54	Custodian	150	-	150
3,003	Investment Manager Fee Invoices ⁷	1,200	104	1,200
3,187	Sub Total	1,525	162	1,525
	ACCESS			
67	ACCESS Support Unit ⁸	98	35	98
(3)	Fund Officer Time Rebates ⁸	(20)	(2)	(10)
64	Sub Total	78	33	88
	Pension Board/Committee Training:			
-	Training Costs ⁹	30	1	30
-	Sub Total	30	1	30
1,106	Pension Administration:	1,080	-	1,080
5,357		3,730	390	3,702

¹Due to issues raised in internal audit reports we are anticipating the actuary having to carry out additional work in 2020/21 until these are resolved.

²As we are exiting a valuation year we expect the employer queries to decrease in 2020/21

³This is a one of project approved by the Pension Committee to improve the current standard of pensioner data that is held on our pension system.

⁴Due to Vacancies in the current team it is anticipated that more expensive temporary staff will be need until the Good Governance Project is completed.

⁵There is currently a lot of specialist advice that the Fund is seeking in response to the breaches that the Fund has reported to the Pension Regulator this is anticipated to still be required in 2020/21.

⁶New budget items determined after procurement of services.

⁷The Fund's investment managers that have now transferred into the ACCESS sub-funds are no longer contracted directly to the Fund. The Fund will therefore no longer pay the investment manager fees directly and these will be a charge within the sub-fund structure taken out of the assets of the sub-funds.

⁸As ACCESS is moving from the set-up phase to more business as usual footing it is expected to reduce the contribution to run the Pool. The ASU function is now fully staffed and virtual technical leads time being recharged.

⁹A dedicated training budget has been created to ensure the Board and Committee get the training they require to perform their functions.

¹⁰To ensure of deferred pension data is accurate a tracing services project is being undertaken in 2020/21

Key budget assumptions

1.6 The key budget assumptions are set out below

- Staffing budgets have been left at the same level as the previous year until the implications of the Good Governance Review are understood.
- Training costs are based on three training sessions run by East Sussex Pension Fund at a cost of £5,000 each, two investment governance sessions at £5,000 each and £5,000 for external training events.
- ACCESS cost based on the budget set by the ACCESS Joint Committee.
- Manager fees based on invoiced fees only and these are anticipated to only be payable to UBS and Schroders in 2020/21. Fees are based on the assets under management no movement has been included in this figure.
- The budget excludes estimates for the Service Improvement Programme and Good Governance Programme, but these may be considered at a later date.

1.7 This budget will deliver the key themes detail in table 2 below:

Table 2 Business plan deliverables by key theme

Theme	Tasks	2020/21 activity	Action Update
Fund Oversight and Governance activities	Fund/Employer actuarial work	<p>2019 Valuation close-off/</p> <p>Employer accounting reports/Employer requests/ Bulk Transfers calculations</p> <p>Regular meeting attendance / Officer Support</p> <p>Employer asset tracking (HEAT)</p> <p>Benefits Consultancy and Governance support/Club Vita longevity analysis/</p>	<p>Actuarial Valuation completed by the 31 March 2019 and submitted by the Actuary to MHCLG.</p> <p>SLA between Orbis and Pension Administration awaiting agreement by Orbis.</p> <p>Actuary attendance on 8 June 2020 and 22 June 2020</p> <p>Employer FRS102 and IAS 19 reporting generated through HEAT with returns due by (July 2020)</p>
	Fund external legal advice	LGPS specific legal advice provided by external specialist lawyers.	<p>Actuary consultancy undertaken in regard to errors in Pension Increase calculation and to agree the deferral of contributions policy and exit credit policy.</p> <p>Legal consultancy undertaken in regard to deferral of contributions and exit credit policy and employer admissions and cessations.</p>

Theme	Tasks	2020/21 activity	Action Update
	Pension Fund Annual Report and Accounts	Statutory documents produced once a year providing information on the Pension Fund activities over the past year.	Draft Accounts are with Grant Thornton the Annual report is still outstanding.
	External audit	External Audit: statutory audit of the 2019/20 Pension Fund accounts.	External Audit by Grant Thornton has commenced expected to complete in September 2020.
	Internal audit	Internal Audit: delivery of the 2020/21 Internal Audit Plan	Internal Audit update of management actions expected at November 2020 meeting
	Good Governance	Implementing the Good Governance Project to ensure that the Pension Fund has appropriate governance in place.	The governance project has ended with a report to the board and committee planned to take place at September 2020 meetings.
	Procurements	Strategically important procurement of Investment Consultant and Actuary	The following procurements have commenced under the national frameworks for the: Actuary; Investment Advisor, Benefit Consultancy. There were 3 Bidders for the Investment tender and 2 for the Actuarial evaluations are taking place for decision by Pension Committee in September 2020. The evaluation committee Michelle King, William Bourne, Russell Woods.

Theme	Tasks	2020/21 activity	Action Update
	Ill Health review	At the committee meeting in June an Ill Health review was agreed to be added to the work plan	Hymans have commenced this work stream.
Investment activities	Review and implement agreed changes to the Fund's equity structure	Implement any strategic changes agreed at the Q1 2020 strategy review. Review the Fund's private markets programme. Review Passive/Active investment position. Review the Income generation of the Fund's investments. Once the strategic allocation to equities is agreed, discuss and agree on the equity structure and implement any agreed changes	The review of the asset liability model in May 2020 has lead to a revised passive/active mix; equity structure; private markets; infrastructure, protection and ESG assets. Revised strategic asset allocation. Work has taken place with the Investment Working Group to determine options for the revised equity structure to be presented to the Committee in September 2020.
	Review and implement new investment strategy	Discuss strategy at the annual strategy day.	Due to Covid 19 the strategy day was cancelled and this work passed to the Investment Working Group and incorporates the changes above that will be going to the Committee in September.
	Develop the Fund's ESG credentials	Consider requirements under the UK Stewardship Code and PRI, with a view to the Fund becoming a signatory.	Investment strategy and revision to ISS to be details of the strategy during August will be discussed in September 2020.
		Undertake the transition pathway analysis in respect of the Longview holdings.	This action was combined into the Carbon foot printing analysis that went to the June Committee

Theme	Tasks	2020/21 activity	Action Update
	Assistance with annual accounts completion	<p>Collate quarterly analysis of fossil fuel exposure and voting & engagement records.</p> <p>Prepare the usual information for the Report & Accounts, including performance and private markets summary</p>	<p>Q1 Report to June 2020 Committee</p> <p>Action completed July 2020</p>
ACCESS	ACCESS Support Unit	The size and scope of the ASU will be reviewed during 2020/21.	Work has commenced with reports commenced.
	Actively managed listed assets	The completion of pooling active listed assets within the Authorised Contractual Scheme (ACS). Ongoing monitoring and engagement with the operator and investment managers of the ACS sub-funds	<p>15 sub-funds launched to date</p> <p>End of June values £24.3bn</p> <p>Plans for August sub-fund launches paused due to placement of sufficient insurance Link dialogue underway with FCA on potential for transition sub-funds</p>
	Alternative / non listed assets	The initial implementation of pooled alternative assets.	<p>In June Authority engagement recommences with bfinance at OWG. In July individual Authority discussions were held with bfinance and outline recommendations for each sub-asset class:</p> <ul style="list-style-type: none"> - Private Debt - Private Equity - Infrastructure - Real Estate <p>Each Authority asked to provide priority order</p> <p>OWG considering results</p>

Theme	Tasks	2020/21 activity	Action Update
	<p>Passive assets</p> <p>Governance</p>	<p>Ongoing monitoring and engagement with UBS.</p> <p>The application of appropriate forms of governance throughout ACCESS.</p>	<p>Workstream not commenced yet.</p> <p>Revised Inter Authority Agreement (IAA) – Circulated to Monitoring Officers (MO) in June 2020 Revisions to Schedule 5 (Cost Sharing) shared at July s151 meeting. Awaiting confirmation from all MOs expected by the end of August note on progress for 7 September Joint Committee</p>
Pension Board/Committee Training	<p>3 joint Training days</p> <p>2 Investment Strategy days</p> <p>Third party training</p>	<p>Provision of speakers to deliver East Sussex Pension Fund lead training.</p> <p>Commissioning work to examine the current investment strategy</p> <p>Identifying useful third party provided session that will be useful for ESPF to attend.</p>	<p>Training strategy presented in June 2020. Annual Training Plan update to be presented in September</p> <p>In place in section on ALM.</p> <p>Training strategy presented June 2020. Annual Training Plan update to be presented in September.</p>
Pension Administration	<p>Performance Management Group</p> <p>Maintaining Member Data / Data /</p>	<p>Overseeing the activities of the administration service.</p> <p>Day to day imputing of data into the pension system to ensure the records are up to date. Identifying areas where data within the pension system can be improved and developing plan of redress.</p>	<p>Workstream planned to commence in July 2020</p> <p>Data Improvement Programme underway - report in this agenda</p>

Theme	Tasks	2020/21 activity	Action Update
	Improvement Plan ABS Production	Annual Benefit Statements need to be produced by statute. Ensuring the data is up to date to be able to provide an accurate statement to Members.	ABS programme underway – report in this agenda.

1.8 A separate risk register measures the risk of the strategic objectives and milestones not being achieved.

1.9 ACCESS maintains its own risk register and highlights the red and amber risks to the Joint Committee; risks are kept under constant review by Section 151 Officers and the Officer Working Group (OWG) - supported by the ACCESS Support Unit (ASU). Key risks are those with an amber or red rating. An overview of the current (as proposed) and previous quarter's risks is set out below:

	June 20	September 20
Red	2	2
Amber	16	15
Green	5	7

1.10 A List of websites that provide training and useful information are provided below:

- <https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/understanding-your-role/learn-about-managing-public-service-schemes> The Pensions Regulator public service schemes toolkit
- <https://www.cipfa.org/training?tab=date&filters=%7b8ADDC910-A1F1-455D-B8A5-0CBD9725EEAD%7d#filters> Cipfa training courses
- <https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes> The Pensions Regulator Public service schemes
- <https://www.lgpsmember.org/more/Videos.php> The Local Government Pension Scheme Videos - Pensions Made Simple
- <https://www.lgpsmember.org/> The Local Government Pension Scheme members site
- <https://www.local.gov.uk/our-support/workforce-and-hr-support/local-government-pensions/local-government-pension-scheme> LGA website
- <http://www.lgpsregs.org/index.php> LGPS Regulations and Guidance
- <http://lgpsboard.org/> The Local Government Pension Scheme Advisory Board

2. Significant Workstreams Analysed by Stream

2.1 There are 5 significant work streams against various thematic headings with in the budget these are:

1. Pension Fund Oversight and Governance activities:

- Good Governance Review
- Data Improvement

2. Investment activities:

- Investment Strategy
- UK Stewardship Code 2020
- Principals of Responsible Investment
- Investment Governance

3. ACCESS activities:

- Sub Fund transition management
- Investment Governance

4. Pension Board/Committee Training:

- Relevant Training
- CIPFA Knowledge and Skills Framework

5. Pension Administration:

- Performance Management Group
- McCloud Work Plan

1. Pension Fund Oversight and Governance activities:

Good Governance Review

The Pension Committee commissioned forward looking Good Governance Review, with its primary purpose to support the East Sussex Pension Fund's desire to get ahead of the game and establish the principles of the Scheme Advisory Board's ("SAB") Good Governance Project in the Pension Fund's governance arrangements, in order that it will be compliant with the recommendations expected to follow.

The review is not purely focussed on the SAB project, but also incorporate other areas of best practice, including requirements within other guidance such as from The Pensions Regulator, MHCLG (the legislators for the LGPS) and CIPFA (relating to professional standards) as described in the next section of this report.

The guidance and requirements that are subject to the Good Governance Review are as follows:

- SAB Good Governance Project – phase 2 report ("SAB Good Governance Project Outcomes ")
- MHCLG Statutory Guidance on Governance Compliance Statements² ("MHCLG Statutory Governance Guidance")

- The Pensions Regulator's Code 14: Governance and administration of public service pension schemes³ ("TPR Code of Practice")
- CIPFA's Administration in the LGPS: a guide for pensions authorities⁴ ("CIPFA Administration Guide")

Data Improvement

The recent issues noted by the Pension Administration in delivering the 2019 Annual Benefit Statements has highlighted a number of concerns regarding scheme employer understanding of their responsibilities, as well as their ability to provide accurate and complete data in a timely manner. The Fund Actuary, Hymans Robertson, in undertaking of the Triennial Valuation as at 31 March 2019, similarly identified a high level of validation and critical data error points within scheme employer common and scheme specific data, which highlights the need to undertake an assessment and review of employer data sets.

Given the increased focus of the Pension Committee regarding day-to-day administration, together with the accuracy of member data and its impact on scheme liabilities the purpose of this report is to set out the steps being proposed to undertake a comprehensive review of scheme member data held by scheme employers, reconcile this with that held on scheme member data records and ensure appropriate procedures are in place to support scheme employers for the future.

A workshop was held on 22 October 2019 to gain a common understanding of the challenges and agree priorities to inform the objectives and scope detailed in this document. The project proposals were presented to the East Sussex Pension Board on 11 November 2019 and a recommendation to proceed was made to the Pension Committee, who then approved the project scope and spend on 25 November. The Pension Committee created a delegated approval board, the ABS Working Group, terms of reference are attached as an appendix (where?)

The Pensions Regulator (TPR) has set targets of 100% for both common and scheme specific data, although the exact definition of scheme specific data for the LGPS has still to be confirmed by the Scheme Advisory Board. In measuring scheme specific data, therefore, the ESPF uses measurements set out in the Heywood Altair reporting as benchmarks to measure its data quality.

The key objectives of the data cleanse project are:

- to ensure accuracy of historic active scheme member data records to 31 March 2020, to ensure the correct calculation of pension entitlements and employer liabilities;
- to ensure that the ESPF is compliant with legislation and in particular, with the guidance of TPR. Furthermore, in doing so, to ensure it establishes a robust, reviewable and transparent framework necessary for the acquisition and upkeep of accurate, complete and up-to-date records
- to ensure the ESPF 2020 annual benefit statement exercise is successfully completed in advance of the statutory 31 August deadline;
- to ensure the percentage of Annual Benefit Statement sent on time is as close to 100% as possible;
- to prepare Orbis Business Operations and the participating scheme employers for the introduction of monthly receipt and posting of scheme member pension contributions and member data via the i-Connect module of the administration system Altair;

- to avoid censure from TPR as a consequence of any material breaches of the law directly attributable to poor or missing scheme member data.

Supplementary benefits of the data cleanse project include:

1. ensuring clarity of roles and responsibilities between the ESPF and scheme employers, ensuring all parties are committed to continuing engagement to improve data quality and promote ongoing accurate record keeping;
2. ensuring that all data collection processes are clearly documented and regularly reviewed to check the validity of data.

2. Investment activities:

New Investment Strategy

As the valuation has taken place during the 2019/20 financial year the Fund will need to carry out asset liability modelling exercise. This will help the Fund determine the best investment strategy for the Fund. The expected result from this is a need to change the strategic asset allocation of the Fund. This is due to better Funding position and the likelihood of reduced employer contribution rates affecting the cashflow of the Fund.

This will require a review of all aspects of the Fund's investments such as the Passive/Active position, the private markets programme.

UK Stewardship Code 2020

This sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The investment market has changed significantly since the publication of the first UK Stewardship Code. There has been significant growth in investment in assets other than listed equity, such as fixed income bonds, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities and signatories will need to consider how to exercise stewardship effectively in these circumstances.

Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship. The Code also recognises that asset owners and asset managers play an important role as guardians of market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios.

When applying the Principles, signatories should consider the following, among other issues:

- the effective application of the UK Corporate Governance Code and other governance codes;
- directors' duties, particularly those matters to which they should have regard under section 172 of the Companies Act 2006;

- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;
- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

PRI (Principle of Responsible Investment)

The PRI is the world's leading proponent of responsible investment.

It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI encourages investors to use responsible investment to enhance returns and better manage risks but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

Investment Governance

Our Independent Adviser review the governance of the arrangements under which East Sussex Pension Fund invests its assets. They have not looked at the resources available or value for money achieved, except note that both are important considerations.

The legal and regulatory background has been considered along with the main characteristics of good investment governance and the roles of the main parties involved. This resulted in the following recommendations that are going to be implemented

Recommendation 1: Establish two Working Parties a year in place of the Strategy Day in order to facilitate deeper discussions.

Recommendation 2: Strategic Asset Allocation of the Fund should be the subject of at least an annual discussion at a Working Party, with any changes to be approved at the following PFC meeting.

Recommendation 3: Officers test the current arrangements for implementing changes. When ACCESS is fully up and running, they test the arrangements there too.

Recommendation 4: A review is undertaken of the format of the quarterly monitoring report which Hymans provides for the PFC with the aim of providing the most useful and relevant information clearly.

Recommendation 5: The paper on manager performance benchmarks which Hymans produced in 2018 be subject to discussion and formal approval.

Recommendation 6: When considering a new manager appointment outside the ACCESS pool, Hymans are asked to show a shortlist of at least three managers to the PFC for discussion.

Recommendation 7: The Fund continue to engage with its ACCESS partners to agree possible measures to mitigate concerns over pool governance.

Recommendation 8: The Risk Register's section on investments is reviewed on a regular (i.e. at least every six months) by either the PFC or The IA.

Recommendation 9: The scope of the independent governance review which is likely to be required in the future explicitly include consideration of value for money received from the investment arrangements.

3. ACCESS activities:

Sub Fund transition management

As at the end of December 2019 there is £24.634 billion of investments pooled within ACCESS. The total number of actively managed listed asset sub-funds created by link is currently 13 with another 14 planned to launch over the next year. There are 3 more sub-funds being considered by ACCESS as potentially viable in the pool.

Once this has been completed ACCESS will need to review its sub-fund offering to ensure it enables investing authorities to implement their investment strategies. Consider requests from investing authorities around additional sub-fund offerings.

ACCESS will need to undertake a review of its arrangements for the operator of its ACS to determine how it wants to proceed at the end of the current contract.

The ACCESS Support Unit and Link are continuing to work to find a solution to enable investing authorities to transition investments from one sub-fund to another, within Link's ACS structure. Currently this is not possible within the sub-fund structure as the trading costs associated with investing and dis-investing would be shared by any other investors in the sub-funds.

Discussions have taken place with Link with a view to create a number of specific 'transition' sub-funds, that would enable transitions within the ACS and ensure that the costs of transition remain with the authority moving their investment. Link have provided an initial quote for the cost of 'transition' sub-funds.

It remains an option for authorities invested in a sub-fund to transition in cash – by disinvesting from one sub-fund and using the cash to invest in another, or transition outside the ACS – authorities can disinvest from a sub-fund 'in-specie' and undertake a transition in an account held with their own custodian, using a specialist transition manager, and then invest 'in-specie' to the new sub-fund.

Investment Governance

The governance arrangements around ACCESS is currently being reviewed with updates to the Inter Authority Agreement and Governance manual being updated to reflect current

practices. Once these have been agreed the structure of the Officer groups will be reviewed to ensure that the appropriate decisions are being made at the appropriate level with the necessary level of delegation.

4. Pension Board/Committee Training:

Relevant Training

Relevant training is required to aid the Committee members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities. The Committee and Board are required to improve knowledge and skills in all the relevant areas of activity for the purposes of enabling members and representatives to properly exercise their functions as a member of the ESPF.

The training necessary to achieve the required knowledge and skills is set out in the training plan. The strategic objectives relating to knowledge and skills are to:

- ensure the Fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- ensure the Fund is effectively governed and administered;
- ensure decisions are robust, are well founded and comply with regulatory requirements or guidance from the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government.

To achieve these objectives – Members of the Committee require an understanding of:

- their responsibilities as delegated to them by East Sussex County Council as an administering authority of an LGPS fund;
- the fundamental requirements relating to pension fund investments;
- the operation and administration of the Fund;
- the principles involved in controlling and monitoring the funding level; and
- effective decision making in the management of the Fund.

To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and the Pension Regulator's Code of Practice to meet the skill set required. Attention will also be given to the guidance issued by the Scheme Advisory Board, the Pensions Regulator, Local Government Association and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Board and Committee's activities as set out in the Fund's business plan.

Addressing the ESPF Business Plan

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan. The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

Consideration will be given to various training resources available in delivering training to the Board and Committee. These may include but are not restricted to training delivery:

- In-house
- Self-improvement and familiarisation with regulations and documents
- The Pension Regulator's e-learning programme
- Attending courses, seminars and external events
- Internally developed training days and pre/post meeting sessions
- Regular updates from officers and/or advisers
- Circulated reading material
- Desktop / work-based training
- Attending courses, seminars and external events
- Internally developed sessions
- Shared training with other funds or frameworks
- Circulated reading material

The Fund will commit to providing a minimum of 4 formal training sessions per year, to form part of usual committee and board meetings, plus a separate stand-alone training session.

CIPFA Knowledge and Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on s101 pension committees and non-executives in the public sector within a knowledge and skills framework. The framework covers six areas of knowledge identified as the core requirements:

- pension accounting and auditing standards;
- financial services procurement and relationship development;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skills required for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS funds.

Local Pension Boards: A Technical Knowledge and Skills Framework In August 2015 CIPFA extended the Knowledge and Skills Framework to specifically include members of local pension boards, albeit there exists an overlap with the original framework. The framework identifies the following areas as being key to the understanding of local pension board members;

- Pensions Legislation;
- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial markets and product knowledge;
- Actuarial methods, standards and practices.

Given that the local pension board framework effectively covers the same material as the earlier committee focused one, albeit across 8 modules rather than six, training session for both Committee and Board members will be based around the most recent framework.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice") recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

Guidance from the Scheme Advisory Board

The Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and in January 2015 published Guidance for administering authorities to support them in establishing their local pension board. The Guidance includes a section designed to help local pension board members to understand their knowledge and understanding obligations. While this guidance is aimed at local pension boards, some of the principles and good practice relating to training will be adopted by the Fund in respect of the Committee as well as the Pension Board.

Knowledge and understanding must be considered in the light of the role of a local pension board and East Sussex County Council will make appropriate training available to assist and support Committee and Board members in undertaking their role. The approach, where possible will be to schedule joint training sessions for Board and Committee members.

Degree of Knowledge and Understanding

Committee members should have sufficient knowledge and understanding to make sound decisions in the best interests of the East Sussex Pension Fund. It is the role of the Committee to ensure that the Fund is managed in a way that complies with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

Acquiring, Reviewing and Updating Knowledge and Understanding

Committee members should commit sufficient time in their learning and development and be aware of their responsibilities immediately they take up their position. The Fund will therefore provide induction training for all new Committee members.

Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment when too inflexible to reflect a change in pension law or new responsibilities required of Board members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

The Pensions Regulator E-learning toolkit

The Regulator has developed an on-line tool designed to help those running public service schemes to understand the governance and administration requirements in the public service schemes code of practice. The toolkit is an easy to use resource and covers 7 short modules. These are:

- Conflicts of Interests;

- 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.

These modules are designed to apply to all public service schemes and are not LGPS specific. The toolkit is designed specifically with pension board members in mind, however in the view of Fund the material covered is of equal relevance to members of the Committee. Completion of the toolkit will not in itself provide Committee and Board members with all the information they require to fulfil their knowledge and skills obligations. It does however provide a good grounding in some general areas.

The intention is that the e-learning modules will be completed collectively by the members of the committee as part of their regular meetings. This allows answers to be discussed among the group and ensures that all members present will benefit from the training. As with other training sessions, the e-learning sessions will only be undertaken when the committee is quorate.

Risk

Risk Management

The compliance and delivery of training is at risk in the event of –

- frequent changes in membership of the Committee;
- resources not being available;
- poor standards of training;
- inappropriate training plans.

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

Budget

Training is an essential requirement of a well-run pension fund. A training budget will be agreed as part of the business plan and costs will be met from the Fund.

5. Pension Administration:

Performance Management Group

The Performance Management Group (PMG) has been established to performance manage the new Service Level Agreement with the ORBIS Pensions Administration Service. Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all employers participating in the fund and all past and present members, including their dependants.

The Performance Management Group's (PMG) is a local governance structure, to create a legacy of improvement and transformation. Through PMG, East Sussex Pension Fund will place a greater emphasis on offering coordinated, joined up and holistic support for business as usual delivery and improvement. PMG brings together a wealth of expertise on quality, compliance and operational improvement and draws together well developed links with Pension Administration, Fund Advisors, East Sussex Business Leaders and Benefit Consultants to draw down their specialist advice. PMG will act as a critical friend and offer

robust challenge to ensure that participants at every level take the necessary action to the achieve the performance and improvements required.

The PMG will have a key responsibility for ensuring a shared and accurate sense of progress and risks to business as usual, as well as, planned improvement across the pension service to ensure a continuous focus on adding value and building a foundation for ongoing sustainable improvement. Advisors in attendance at PMG will be expected to provide advice to support the successful leadership and delivery of business as usual with a focus on continuous improvement: advising on the continued development, review and monitoring of the administration business plan for East Sussex.

A key function of PMG is to monitor the new Service Level Agreements between the Fund and Orbis and Orbis and the Actuary and to ensure timely oversight on administration matters for seamless service delivery.

McCloud Work plan

This year the Committee and Board will need to agree the actuarial approaches for managing the associated risk and uncertainty within funding strategy until the remedy to McCloud is confirmed, focussing on the 2019 valuation, contributions setting, cessation debts, new employer asset allocations, accounting and bulk transfers.

The Fund is part of the Local Government Pension Scheme (LGPS), a public service scheme for local government and associated workers. Following the Hutton review of public service pension schemes, LGPS benefits accruing from 1 April 2014 were changed from 1/60ths final salary to 1/49ths Career Average Revalued Earnings (CARE). Retirement ages were also increased from age 65 to State Pension Age (SPA), although many members have protected retirement ages lower than 65. CARE benefits effectively lose the link to salary growth and are instead revalued each year in line with Consumer Price Index (CPI) inflation. As part of a package of “transitional protections” accompanying the change, members who were within 10 years of the 60ths scheme normal retirement age at 1 April 2012 were protected by an ‘underpin’. The underpin ensures that the benefit received by eligible members for service from 1 April 2014 was the greater of 1/60ths final salary or 1/49ths CARE.

Two Court of Appeal judgements in December 2018 (which the Supreme Court denied the Government’s leave to appeal against in June 2019), collectively referred to here as the “McCloud” judgement, ruled that similar transitional protections in the Firefighters’ and Judges’ pension schemes amounted to unlawful discrimination against younger members (and indirectly against women and ethnic minorities). A written ministerial statement confirmed that the principle applies to these transitional protections in the LGPS and other public service schemes.

It is, however, very unclear what form the remedy will take in the LGPS i.e. how benefits will change to remove the discriminatory protections and what would be done to compensate members for any adverse impact on service from 2014 to that point. In essence, therefore, McCloud will have a retrospective effect on current active members’ benefits, as well as future service benefit accrual.

Managing ill-health early retirement risk

Purpose

This paper has been requested by and is addressed to East Sussex County Council as the Administering Authority to the East Sussex Pension Fund (“the Fund”). It is intended to provide a general overview of some issues and considerations surrounding the risk to funds in the Local Government Pension Scheme (“LGPS”) of ill health early retirements and the associated additional costs of these. We summarise the various risk mitigation options available. This paper is not intended to provide financial advice to support a recommended option and should be read as such.

Ill Health Early Retirements costs

When an LGPS member is awarded early retirement on grounds of ill health there is an increase in the pension liability for the participating employer (“the strain cost”). This results from:

- early payment of the pension compared to under normal retirement; and
- an increase in the benefits payable to the member through augmentation awarded on ill-health retirement (either based on full prospective service to retirement for a Tier 1 early retirement or 25% of prospective service for a Tier 2 early retirement).

Ill health early retirements are relatively infrequent (around 1 to 2 per 1,000 employees per annum) but variable and unpredictable. The number and cost can vary significantly from year to year for an employer and at whole fund level. Examples of actual member strain costs experienced from the Fund are given below. These represented an immediate increase to the liabilities (and hence likely deficit) of the employer.

Employer	Member age	Member salary	Tier 1 strain cost	Employer payroll
Council	50	£75,000	£567,000	£133.0m
College	45	£39,000	£534,000	£2.9m
Admitted body	49	£19,000	£163,000	£1.0m
Academy	34	£20,000	£155,000	£2.2m
Town council	36	£18,000	£110,000	£0.3m

A summary of the overall experience across the whole of the fund is set out in Appendix A.

At present the Fund’s approach is that employers effectively self-insure by making a contribution towards potential ill health strain costs via a small proportion of their total contribution rate. For example, East Sussex County Council pay around 0.9% of pay per annum, but this amount varies from employer to employer depending on membership profile. When a member retires due to ill health the strain cost is allowed within the liabilities at the next valuation and subsequently recovered within future contributions.

This contribution arrangement works well for larger employers (e.g. Councils) where large numbers of members make strain costs relatively predictable, but not for medium or smaller employers (e.g. Academies). There is a risk that some employers in the Fund may be unable to meet the strain cost arising from an ill-health early retirement. In the worst-case scenario, the increased deficit and contributions could put an employer out of business.

Risk mitigation options

Given the above disparity and risk, it has become good practice within the LGPS for funds to have an ill health cost management and mitigation approach. This typically involves either (a) insuring some or all employers via a third party insurer or (b) through internal cost sharing between employers. Each is considered below.

(a) Ill health insurance

In exchange for a premium, ill health liability insurance involves an external insurer paying a lump sum equal to the strain cost in the event of an employee retiring on ill health grounds. This effectively offsets the additional liabilities in the Fund. Legal & General is the established LGPS provider of the insurance with policies in place across 20 funds with around 1,500 employers covered.

We have been working with Fund officers to investigate two possible policy options:

- Compulsory Partial Fund insurance covering a group of employers selected by the Fund (e.g. small/medium employers)
- Employer “Choice” insurance where each employer holds its own policy, should it elect to do so

The premium for the insurance is calculated as a percentage of each employer’s pay and the employer’s own regular contributions to the Fund are reduced by the premium. This ensures the employer’s annual cash payments to the Fund are the same whether it insures or not, and prevents the employer from effectively “paying twice” for ill health costs.

Since discussion at the June Pension Committee, indicative insurance quotes have been obtained from Legal & General. The premiums are set out below for context:

- “Partial Fund” insurance
 - *All employers excluding Councils and Fire – 0.9% of pay*
 - *All employers with less than 150 active members - 1.4% of pay*
- Employer “Choice” insurance – 1.6% of pay

Letting employers decide under the “Choice” option might be attractive. However, there is some concern that employers may not have the time or knowledge to make an informed decision on what is quite a complex issue. In particular, this may apply to those small and medium sized employers most at risk.

The “Partial Fund” approach could remove this concern by compelling or automatically opting-in employers into using the insurance to manage the risk.

However, as with any insurance product, there is a risk that the Fund or employer has fewer ill health early retirements than expected, and so the insurance premium will be higher than the claims made.

(b) Internal cost sharing

An alternative to external insurance is internal cost sharing or “self-insurance”. This is simply an internal pooling arrangement between employers within the Fund. With cost sharing, employers with good experience subsidise those with poor experience.

The benefit to the Fund is that employers are not giving up profits to the insurer should experience be good.

Other LGPS funds have found that a major stumbling block to this approach is that employers are normally unhappy to cross-subsidise other employers in such an explicit manner. Therefore, we would recommend an employer consultation is carried out to explain the cost sharing approach.

In addition, there is also a danger with this approach that employers become less thorough in their decision-making process to allow an employee to ill health early retire i.e. in being aware they are only partly responsible for their own costs.

We would be happy to implement the internal ill health cost sharing as part of the formal valuation process. The cost of setting up and running the arrangement would be small relative to total strain costs.

Summary

Currently, Fund employers are (often unwittingly) exposed to ill health strain cost risk, both from their own adverse experience but also from the cost of another employer becoming insolvent as a result of unaffordable strain costs.

The following table summarises the main considerations under the three options:

	Contribution rates adjustments (Current approach)	Internal cost sharing	External insurance
Risk to Fund	No external risk transfer or protection against poor experience.		Full control of risk but may cost more depending on experience
	Strains could lead to failing employers with total deficits ultimately falling to other employers.	Like external insurance but no risk reduction from being able to pool experience outside the Fund.	
Risk / Cost to employers	Potentially unaffordable strain costs (particularly for small to medium size employers).	Reduces affordability & liquidity concerns	
		Likely lower but more volatile costs than external insurance due to pooling of experience across Fund only.	Premium depends on extent of coverage chosen (partial fund to single employer)
		Additional costs for actuarial work including valuations, accounting reports and employer work	Profit share / premium refunds available for good experience.
Cross subsidies	None – employers left to meet own strain costs	Cross subsidies between employers due to sharing costs	Overall fund and wider LGPS experience could impact premium
Administration	No change to current arrangements	Additional administration requirements e.g. establishing and monitoring ill-health “reserve”, more governance	Fund needs to calculate strain costs.

Next steps

- 1 Consider preferred approach to manage ill health cost risk
- 2 If insurance is being considered, conduct procurement exercise for further insurance quotes
- 3 Conduct employer consultation exercise
- 4 Report final recommendation to November 2020 Pensions Committee for approval
- 5 Implement risk management approach
- 6 Regular review and monitoring of approach going forward

Reliances and limitations

This paper has been commissioned by East Sussex County Council. It intended for use by East Sussex County Council only for the purposes of considering its options to manage ill-health early retirement risk.

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Hymans Robertson LLP acts as an introducer to Legal & General Assurance Society Limited. At present, we are remunerated for our support and administration services on an introductory/administration fee basis (paid by Legal & General), which is 10% of the annual premiums paid for the Ill Health Liability Insurance. If the insurance premium rate decreases/increases, there will be a corresponding decrease/increase in the commission we receive, in pounds and pence.

The following Technical Actuarial Standards¹ are applicable in relation to this report and have been complied with where material:

- TAS 100; and
- TAS 300.

Prepared by:-

Robert McInroy FFA Richard Warden FFA

August 2020

For and on behalf of Hymans Robertson LLP

¹ Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

Appendix A – Whole of Fund experience

Year	No. of IHERs	Strain (£m)	Estimated Strain as % of pay ¹
2012/13 ²	34	2.9	0.76%
2013/14 ²	41	3.6	0.84%
2014/15	23	1.8	0.42%
2015/16	35	3.2	0.72%
2016/17 ³	37	2.9	0.67%
2017/18 ³	32	2.9	0.63%
2018/19 ³	32	2.4	0.52%

¹ Calculated using payroll derived from accounts and contribution data

² Figures have been re-based on to 2014 Scheme equivalent costs (i.e. 22% increase due to change in accrual)

³ Estimated using the Fund's 2019 valuation data

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III Health Liability Insurance Plan for Local Government Pension Schemes - quotation



Plan name: **East Sussex Pension Fund**
 Quotation reference: **GRP/K/GPE0465450**
 Date of quotation: **10th August 2020**

Costing details

Unit Rate	:	Partial Fund – all employers excluding Scheduled Bodies (G59518)	£0.90 per £100 of the employer's salary roll (Plan Earnings)
	:	Partial Fund – compulsory to all employers with less than 150 employees (G59519)	£1.40 per £100 of the employer's salary roll (Plan Earnings)
	:	Employer Choice (G59517)	£1.60 per £100 of the employer's salary roll (Plan Earnings)
Plan Start Date	:		1 st October
Commission	:		10% of premium
Annual Renewal Date	:		1 st April
Guarantee Expiry Date	:		31 st March 2021
Quotation guaranteed?	:	Partial Funds	NO
	:	Employer Choice	YES until 10 th November 2020

Scheme details

Employer eligibility:	All employers who are members of the administering authority's pension fund within the Local Government Pension Scheme (LGPS)
Employee eligibility ages:	Not less than 16 years but less than later of 65 and their state pension age
Qualifying service:	Nil
Benefit Termination Date:	When the member reaches later of 65 or their state pension age
Benefit:	An amount equal to the tier one or tier two strain on the pension scheme (see question 1.3 of the technical guide)
Entry Date:	Daily
Benefit Alteration Date:	Daily

III Health Liability Insurance Plan for Local Government Pension Schemes - quotation



Plan name: **East Sussex Pension Fund**
Quotation reference: **GRP/K/GPE0465450**
Date of quotation: **10th August 2020**

At the Plan Start Date

We will not pay benefit in respect of any employee who has already been considered for III Health Early Retirement by their employer's occupation health advisers prior to the Inception Date. For avoidance of doubt, this will be a definite date that can be established from any relevant case notes, files or correspondence.

Employer Choice

The following terms will apply to employers joining the plan:

- Employers can join the **plan** within six months of the **plan start date** (or within six months of the **annual renewal date** in the second and subsequent years) or within six months of them becoming a member of the LGPS.

Cover in respect of individual employees is subject to them being **actively at work** before cover starts.

- For employers joining the **plan** at any other time, individual cover will be subject to a **pre-existing condition exclusion**. This means we will not pay benefit in respect of an employee who, in our opinion, already qualified for benefit at the date his or her employer's cover starts under the **plan**.

The contract

- All payments made to or by us under the **policy** will be in sterling, in the United Kingdom.

We can change the policy terms at the **annual renewal date** immediately following a Guarantee Expiry Date as long as we give (except in the case of a rate review) two months advance notice.

Setting up the policy

If you decide to join the **plan**, please advise us before cover is needed so that we can agree a date from which cover is to start. The cover will be on the basis set out in the quotation.

You must then send us:

- a) The completed Proposal Form for the **partial fund**, otherwise for **employer choice** one for each employer to be included
- b) A cheque for the first years premiums or, if premiums are to be paid monthly, a Direct Debit Instruction in respect of subsequent premiums and
- c) Any other items specified in this quotation.

We must receive the completed Proposal Form and first premium within 14 days of the date we agree to provide cover.

Assumptions

- There are no changes to the plan eligibility or benefit structure or to any other details or information used to prepare the quotation

We've based our quotation on the specification and member data supplied to us. Our premium has been worked out using membership data as at 31st March 2019 and claims data as at 5th March 2019.

This quotation forms part of the contract of insurance. The other terms of the contract are in the plan document and policy document, which we will issue after we have gone on risk. The plan document and policy document contain provisions relating to the calculation of premiums, the payment of benefits, termination of cover,

III Health Liability Insurance Plan for Local Government Pension Schemes - quotation



Plan name: **East Sussex Pension Fund**
Quotation reference: **GRP/K/GPE0465450**
Date of quotation: **10th August 2020**

notification of eligible members, the provision of data, limitations on the payment of benefits and amendments to the policy. If you would like to see a copy of the plan document and policy document, please ask us.

This quotation should be read with the III Health Liability Insurance Plan for Local Government Pension Schemes Technical Guide 05/15, which explains in more detail the general features of the product and the options available. The Technical Guide does not form part of the contract although this quotation may refer to it for a fuller explanation of certain terms used in the quotation.

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Report to: Pension Committee

Date of meeting: 21 September 2020

By: Chief Financial Officer

Title: Discretionary Policy for Death Payments

Purpose: Annual Review of Discretionary Policy for Death Payments

RECOMMENDATIONS:

The Pension Committee is recommended to consider and agree the Discretionary Policy for Death Payments contained in appendix 1 of this report.

1. Background

1.1 This report outlines the approach that East Sussex County Council ("ESCC"), acting in its capacity as administering authority to the East Sussex Pension Fund exercises its discretion over who should receive a death grant in a way that is compliant with the Local Government Pension Scheme ("LGPS") Regulations, in accordance with acknowledged best practice and consistent with precedence established by The Pensions Ombudsman. These policies are subject to annual review, and this report presents the latest update of Discretionary Policy relating to Death Payments, to be formally noted by the Board.

1.2 The report has been passed to the Pension Board ahead of the Pension Committee for prior information and comment.

2. Supporting Information

2.1 This policy is necessary to ensure that the death benefit process is fair and transparent for all potential death grant recipients and to provide a robust process that mitigates the risks of successful appeals under the Internal Dispute Resolution Procedure.

3. Conclusion and reasons for recommendations

3.1 The Pension Committee is recommended to consider and agree the policy as set out in Appendix 1 to this report.

IAN GUTSELL

Chief Financial Officer

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East Sussex Pension Fund

Local Government Pension Scheme: Policy on the exercising of discretionary powers in relation to the payment of death grants

Objectives of this policy

1. To ensure that the East Sussex County Council ("ESCC"), acting in its capacity as administering authority to the East Sussex Pension Fund exercises its discretion over who should receive a death grant in a way that is compliant with the Local Government Pension Scheme ("LGPS") Regulations, in accordance with acknowledged best practice and consistent with precedence established by The Pensions Ombudsman.
2. To ensure that the death benefit process is fair and transparent for all potential death grant recipients.
3. To provide a robust process that mitigates the risks of successful appeals under the Internal Dispute Resolution Procedure.

Background

Payment of death grants under the LGPS is discretionary which means that when paid to an individual beneficiary they will not form part of the deceased's estate and so will not be subject to inheritance tax. Death grants are also paid free of other taxes in most circumstances.¹, recognising that if this goes into Probate the Estate will be subject to Inheritance Tax.

The LGPS Regulations 2013 permit payment of death grants to beneficiaries following the death of an active, deferred and pensioner member. In all cases the definition of who receives the death grant is the same;

The appropriate administering authority may, at its absolute discretion, pay the death grant to or for the benefit of the member's nominee, personal representatives or any person appearing to the authority to have been a relative or dependent of the member.

General Principles

The key phrase is "absolute discretion". While the administering authority should seek to establish the intentions of the deceased member and may consider the views of other relevant parties in reaching its decision, they are not bound by anyone else's will and the sole responsibility of the decision lies with the administering authority.

However, there are well established principles that public bodies should follow when exercising a discretion². These are summarised below;

¹ A special lump sum death charge is payable when the death grant is not discharged within 2 years of the date of death, or within 2 years of the date on which the administering authority could reasonably be expected to have become aware of the member's death and the payment is made to the personal representatives, as required by the LGPS regulations

² Associated Provincial Picture Houses Ltd v Wednesbury Corporation (1948)

- In making a decision, the decision maker must ask itself and others the correct questions and direct themselves correctly in law (in particular, they must adopt a correct construction of the relevant regulations).
- It is for the decision maker to decide how much weight to attach to any piece of evidence. The only requirement is that the evidence is considered, and the decision maker takes account of all relevant matters and disregards any irrelevant matters.
- The decision maker must not arrive at a perverse decision, i.e. a decision which no reasonable person, properly directing themselves, could arrive at in the circumstances.

Experience of Pensions Ombudsman decisions underlines these principles. It is possible for reasonable people, faced with identical circumstances, to reach different decisions about the payment of a death grant. The Pensions Ombudsman will not overturn or second guess decision where it can be evidenced that the above principles have been properly applied.

The decision-making process

In reaching a decision ESCC operates a process based on the following principles;

Gathering the relevant information

An information gathering exercise will be carried out. This involves contacting the next of kin, personal representatives and/or family and friends of the deceased to obtain relevant documentation and information. On occasion legal advice may also be sought.

Identifying all possible beneficiaries

Using the information obtained, the full list of individuals with a beneficial claim to a death grant will be established.

Considering all relevant factors and disregarding irrelevant factors

There are a number of factors to consider in deciding who should receive a death grant, some will be relevant, and some will need to be disregarded as irrelevant. The Administering Authority has the absolute discretion to attach whatever weight to a factor as it chooses, nor is it bound by any single factor.

The ESCC process requires a note to be made of each factor, whether that factor has been considered or disregarded, the reasons why and the extent to which any factor has been relied upon.

Reach a reasonable decision

In making a final determination ESCC will start from the position that the member's wishes, where they can be identified, and reasonably be upheld. However, this will not always be the case and there may, on occasion, be sufficient reason for the death grant not be distributed in accordance with the member's wishes.

Where it exists, one of the prime factors in determining who should receive a death grant will be an Expression of Wish Form, completed by the member.

The presence of an Expression of Wish Form is not definitive. It is merely one piece of evidence to be considered alongside others.

Summary of the process

Where the member **has completed** an Expression of Wish Form, the process can be summarised as follows;

1. The death grant can be paid to or for the benefit of the member's nominee(s) or for the benefit of the personal representatives or any person who was a relative or dependent of the deceased member.
2. Establish whether Expression of Wish is still valid?
 - Is/are the nominee(s) alive?
 - If a spouse/civil partner is named, were they still married/in the civil partnership and living together at the time of death?
 - If a partner is named, were they living together at the point of death?
 - If children are named, are there any other children born after the Expression of Wish was made?
 - Are there any other factors that would suggest not following the Expression of Wish Form, for example, the nominee was involved with the member's death or evidence of fraud. Has there been any other evidence provided that would challenge the members expression of wish form? If so, has that been investigated?
3. Are there any other individuals with a beneficial claim to a share of the death grant?
4. Is there a will and if it has been seen, who are the beneficiaries, and does it give any cause to question the Expression of Wish? The will does not override an Expression of Wish Form, but it can provide an indication of a member's intentions.
5. Is further information required from the nominee(s)/next of kin or other parties to assist with the decision?
6. Having considered the above, is there any reason why payment should not be made in accordance with the Expression of Wish?
7. Where the Expression of Wish is no longer valid or it is not considered payment can be made to the nominee(s), the case will be treated as if an Expression of Wish is not held.

Where an Expression of Wish Form **does not exist** or has been **discounted for a valid reason**, the process can be summarised as follows;

1. The death grant can be paid to or for the benefit of the personal representatives or any person who was a relative or dependant of the deceased member.
2. Establish the next of kin. What is their relationship to the member?

3. Are there any other people who it is considered might have or make a claim to a share of the death grant? If they are not relatives, they must be dependent on the member in some way.
4. Is there a will and, if so, who are the beneficiaries?
 - Is the main beneficiary the next of kin?
 - If there are other beneficiaries what is their relationship to the deceased member?
5. Is further information required to assist with the decision? Such information could come from, next of kin, family, friends or any individual or body that can provide information about the late member's situation and intentions.
6. Payment will typically be made to one or a combination of the spouse/partner, eligible child(ren) and/or other dependents.
7. Where there is no next of kin, beneficiary or other party to consider, payment will be made to the legal representative of the deceased member.

Note that the above scenarios are for illustrative purposes only and each case must be considered based on its own merits and evidence provided.

The decision maker

East Sussex County Council has delegated the power to determine the recipient of a death grant to officers. This is consistent with the principle that officers should make operational decisions and it also prevents delays that can occur where such decisions are delegated to committees of the council, which meet infrequently.

ESCC, categorises decisions on death grants into 2 levels, according to the complexity and, therefore, risk that they pose.

Level 1

These cases are the most straightforward and may display some additional areas of complexity;

1. An up to date, valid Expression of Wish Form / or alternatively there is no Expression of Wish Form or there is evidence to suggest that the Expression of wish might be invalid
2. There is no evidence from other sources that the Expression of Wish form should be disregarded
3. There is no evidence of an alternative claim from any individual or organisation
4. Either, there exists a spouse/partner, eligible child(ren) and/or other dependent(s), or; There is no person appearing to the authority to have been a relative or dependent of the member, but there is a personal representative.
5. There is no evidence of an alternative claim from any individual or organisation

Level 1 cases can be decided by the Head of Pension Administration.

Level 2

These cases are the most complex and will typically exhibit one or more of the following characteristics.

1. There is no Expression of Wish Form or there is evidence to suggest that the Expression of wish might be invalid.
2. The late member's domestic circumstances are unclear or complicated.
3. There is conflicting or contradictory evidence.
4. The entitlement of one or more of the potential beneficiaries is disputed by another party.
5. There is an involvement by agencies such as the Police, social workers or similar.
6. There is suggestion of fraud or other impropriety.

Level 2 cases will be decided by the Head of Pensions, who make seek advice from the ESCC monitoring officer and/or s151 officer as appropriate.

Policy details

Policy Owner	Head of Pension Fund
Current Version	Version 1
Date	24 August 2020

This policy will be reviewed on an annual basis and updated where relevant.

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Report to: **Pension Committee**

Date: **21 September 2020**

By: **Chief Financial Officer**

Title of report: **Annual Training Plan and Training Strategy**

Purpose of report: **Annual Training Plan & Training Strategy for the East Sussex Pension Fund**

RECOMMENDATION – The Pension Committee is recommended to:

- 1. Note the Training Strategy; and**
 - 2. Note the issues regarding the delay in the production of the Annual Training Plan.**
-

1. Background

1.1 In June 2020, the Pension Committee resolved to put in place a comprehensive training strategy and programme to support its efforts in embedding good governance and continuous improvement. The Pension Committee agreed a programme of action with Hymans Robertson to ensure that key individuals within the governance and management of the Fund have the appropriate level of knowledge and understanding to carry out their duties effectively.

1.2 It is a requirement of Administering Authorities to publish a Training Strategy and maintain an approach to the delivery, assessment and recording of training plans to meet the requirements of the Scheme Advisory Board.

1.3 The findings of the Good Governance Review continue to be adopted by the Pension Committee and the Training Strategy (Appendix 1) seeks to progressively embed good governance into the culture of the East Sussex Pension Fund.

2. Supporting Information

2.1 It was agreed at the meeting of the Pension Committee in June 2020 that each individual with a requirement to attain knowledge and skills under this Training Strategy has to ensure completion of a Training Needs Assessment (TNA), either following the adoption of this Strategy or upon commencing their role, whichever is later. The TNA will be used to identify areas of potential strength and weakness and will form part of developing the Fund's training plan.

2.2 It was further agreed that specific TNA's on particular subjects will also be carried out as and when required by the Training Officer and will be used to inform subsequent training requirements.

2.3 It was expected that the individual Training Plans would be ready for review by the Pension Committee in September 2020. However, this will not be possible due to the low number of returns.

2.4 In order to ensure the development of the Annual Training Plan, it is requested that members of the Pension Committee complete their Training Needs Assessment by the end of September 2020.

3. Next Steps

3.1 The Pension Committee members who have not completed a training needs analysis are requested to do so to enable the development of individual learning plans and the annual training schedule.

4. Conclusions and recommendations

4.1 The Pension Committee is requested to note the delay in production of the Annual Training Plan and ensure that all members of the Pension Board complete their TNA by the end of September 2020.

IAN GUTSELL
Chief Finance Officer

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East Sussex Pension Fund Training Strategy

Introduction

This is the training strategy of the East Sussex Pension Fund (“the Fund”). It has been established to aid the Pension Committee, Pension Board and Officers understanding of their respective responsibilities. This training strategy sets out how these key roles within the Fund will obtain and maintain the necessary knowledge and understanding in order to fulfil their role.

Objectives

The Funds’ objectives relating to knowledge and understanding are to:

- Ensure the Fund is appropriately managed and those individuals responsible for its management and administration have the appropriate knowledge and expertise;
- Ensures that there is the appropriate level of internal challenge and scrutiny on decisions and performance of the Fund
- Ensure the effective governance and administration of the Fund; and
- Ensure decisions taken are robust and based on regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Housing, Communities and Local Government.

CIPFA Knowledge and Skills Framework – Pension Fund Committees

Although there is currently no legal requirement for knowledge and understanding for members of the Pension Committee it is the Fund’s opinion that members of the Pension Committee should have no less a degree of knowledge and skills than those required in legislation by the Local Pension Board. As at date of writing, the ongoing SAB ‘good governance’ project signals a much stronger requirement on Pension Committee members knowledge and understanding.

The CIPFA framework, that was introduced in 2010, covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

Under each of the above headings the Framework sets out the knowledge required by those individuals responsible for Fund’s management and decision making.

CIPFA Technical Knowledge and Skills Framework – Local Pension Boards

CIPFA extended the Knowledge and Skills Framework in 2015 to specifically include Pension Board members, albeit there is an overlap with the original Framework. The 2015 Framework identifies the following areas as being key to the understanding of local pension board members;

- Pensions Legislation;
- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial markets and product knowledge;
- Actuarial methods, standards and practices.

Links to The Scheme Advisory Board's Good Governance project

In February 2019 the Scheme Advisory Board commissioned Hymans Robertson to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Following extensive consultation and engagement with the LGPS community the SAB published 2 reports. The following recommendations from the second report relate directly to the attainment of knowledge and skills;

- Key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
- A requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
- Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
- Relevant professional bodies to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, this Training Strategy recognises the principles behind the recommendations and seeks to embed them into the culture of the East Sussex Pension Fund.

The Pensions Regulator's E-learning toolkit

The Pensions Regulator has developed an online toolkit to help those running public service schemes understand the governance and administration requirements set out in its code of practice 14 – *Governance and administration of public service pension schemes*. The toolkit covers 7 short modules, which are:

- Conflicts of Interests;

- 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 modules of the Regulator's toolkit are by their very nature generic, having to cater for all public service pension schemes. While they give a minimum appreciation of the knowledge and understanding requirements set out in the Code of Practice they do not cater for the specific requirements of the individual public service schemes.

As a result the Regulator's toolkit does not cover knowledge and skills requirements in areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation.

Pension Committee

Under the constitution of East Sussex County Council, The Pension Committee has the responsibility "To make arrangements for the investment, administration and management of the Pension Fund".

Members of the Committee must, therefore, have an understanding of all aspects of running the Fund and how to exercise their delegated powers effectively.

Members of the Pension Committee require an understanding of:

- their responsibilities as delegated under the constitution of East Sussex County Council as the administering authority for the fund;
- the requirements relating to pension fund investments;
- the management and administration of the Fund;
- controlling and monitoring the funding level; and
- effective governance and decision making in relation to the management and administration of the Fund.

There also exists a specific requirement under MiFID II¹, that those making investment decisions, must be able to demonstrate that they have the capacity to be treated as professional investors.

Expectations on Pension Committee Members

¹ Markets in Financial Instruments Directive II (2014/65/EU)

The role of Pension Committee member is an important one and there are certain expectations on those undertaking the role. These include;

- A commitment to attend and participate in training events and to adhere to the principles of this Training Strategy
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others
- Judge the information provided in a fair and open minded way that avoids pre-determining outcomes
- Operate within the terms of reference for the Pension Committee and the elected member code of conduct

Local Pension Board

Under the constitution the Local Pension Board is required;

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.

The role of the Local Pension Board is to provide assistance to the administering authority to ensure that the fund is well run and complies with its legal responsibilities and best practice. The Local Pension Board does not replace the administering authority or make decisions which are the responsibility of the administering authority.

Local Pension Board members must be conversant with:

- the relevant LGPS Regulations and any other regulations governing the LGPS;
- guidance issued by The Pensions Regulator and other competent authorities, relevant to the LGPS;
- any policy or strategy documents as regards the management and administration of the Fund; and
- the law relating to pensions and such other matters as may be prescribed.

Expectations on Local Pension Board members

The training provided to members of Local Pension Boards will ensure that they are familiar with certain legal requirements with they must comply. These are listed below;

- Members must have the capacity to represent employers or scheme members, according to whether they them selves are an employer or scheme member representative;
- Members must not have conflicts of interest and must provide the administering authority with any information they require in order to ensure that conflicts do not exist or arise in future;
- Have the appropriate level of knowledge and skills to carry out their role

In addition, Local Pension Board members will be expected to demonstrate other attributes, including;

- A commitment to attend and participate in training events and to adhere to the principles of this Training Strategy
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others
- Judge the information provided in a fair and open minded way that avoids pre-determining outcomes
- Operate within the terms of reference for the Pension Board

Chief Finance Officer (Section 151 Officer)

The Chief Finance Officer has specific LGPS related delegated powers under the constitution of East Sussex County Council. These include;

- Responsibility for implementing the policy decisions of the Pension Committee and to act for the Pension Committee in certain emergency situations where to delay buying or selling assets might be detrimental to the Fund;
- The power to approve the terms of admission agreements on behalf of the administering authority;
- The power to approve the membership of certain categories of employees of foundation schools as being eligible for LGPS membership
- To undertake any necessary actions in connection with the admission of any academies to the East Sussex Pension Fund as scheme employers

In addition, The Chief Finance Officer has the responsibility under s151 of the Local Government Act 1972 for the proper administration of the authority's financial affairs, including those relating to the LGPS fund.

It is important therefore that the individual carrying out the role of the Chief Finance Officer has an appropriate knowledge of LGPS and pension matters.

The Chief Finance Officer should be familiar with:

- The LGPS Landscape and the role of the administering authority;
- The wider legal and regulatory framework
- Key bodies and organisations
- External Scrutiny
- Employer issues including outsourcing and restructuring
- The role of the actuary

In addition the Chief Finance officer should be familiar with certain specific aspects of his or her role in respect of the LGPS, these include;

- CIPFA guidance of the role of the Chief Finance Officer in the LGPS
- Fiduciary duties
- Relevant case law
- LGPS funds in a local authority context

Head of Pensions

The Head of Pensions has responsibility for the operation of all aspects of the Fund and has delegated responsibilities in connection with the Council's role as administering authority for the East Sussex Pension Fund. Furthermore, the Head of Pensions provides expert advice and guidance to the pension committee. It is, therefore, expected that the Head of Pensions retains an exceptional level of knowledge, commensurate with the role.

The Head of Pensions should have an exceptional knowledge of;

Pensions legislations: including LGPS, wider relevant pensions and guidance

Pensions governance: including legal and constitutional matters, relevant legal bodies and performance monitoring.

Pensions administration: including administration and communications strategy, best practice in administration delivery and data management and security.

Funding and actuarial matters: including setting funding strategy, employer risk and covenant, valuations and funding reporting and scrutiny.

Accounting and auditing: including financial strategy, accounting, financial reporting and audit standards

Investment strategy: including asset allocation, pooling, performance and risk management

Financial markets and products knowledge: including MiFID II, pooling and asset classes

Procurement: Including contract management, SLA's and relationship management

Other officers responsible for the management and administration of the Fund

All individuals responsible for the management and delivery of the LGPS or who have a decision-making, scrutiny or oversight role require the appropriate training to ensure they are equipped to do their job well.

The knowledge and skills required of staff are set out in their job descriptions, including any formal qualifications required.

The exact nature and level of knowledge required will vary considerably by role.

Fund officers should have a strong understanding of:

- Relevant areas of the LGPS as required for the delivery of their role
- The processes and procedures required to successfully carry out their role
- Any pension fund or East Sussex County Council policies which apply, for example IT security, data management, equality and diversity.

Participating Employers

The success of the Fund depends on the strength of the relationship between the administering authority and the employers that participate in it. Employers have a range of responsibilities within the LGPS and must employ individuals who have an understanding of the of those responsibilities.

Employers must be able to identify individuals who have an understanding of;

- Employer discretion policies
- The role of the appointed person and the Internal dispute resolution procedure
- Their responsibilities for starters, leavers and changes to membership as set out in the Fund's administration strategy
- Their responsibilities for collecting and remitting contributions (including additional contributions)
- The reasons for leaving under the LGPS regulations
- Providing information requested by the Fund at year end or as required
- Their responsibilities with respect to outsourcing, staff transfers and reorganisations.

Management and delivery

To achieve these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and the Pension Regulator 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 (SAB), the Pensions Regulator and the Secretary of State.

The implementation of this Strategy and the delivery of the accompanying Training Plan will be the responsibility of the Fund's Training Officer. However, each individual with a requirement to attain knowledge and skills under this Strategy has a personal responsibility to ensure they meet the required standards and must fully engage with the process.

Training Needs Assessment

Committee and Board members, and officers covered by this Strategy will undergo a Training Needs Assessment (TNA), either following the adoption of this Strategy or upon commencing their role, whichever is later. The TNA will be used to identify areas of potential strength and weakness and will form part of developing the Fund's training plan.

Specific TNA's on particular subjects will also be carried out as and when required by the Training Officer and will be used to inform subsequent training requirements.

Level of knowledge and skills required

In developing the training plan, consideration will be given as to the level of knowledge needed for each group of individuals. For example, the committee and board may require only an "awareness" or "general understanding" of some areas while an officer may require "detailed" or "expert" knowledge of the same topic.

The levels of knowledge that will be considered when drawing up the training plan and scheduling training events will be, in ascending order;

For committee and board members:

- An awareness – i.e. recognition that the subject matter exists
- A general understanding – i.e. understanding the basics in relation to the subject matter
- A strong understanding – i.e. a good level of knowledge in relation to the subject matter (but not necessary at detailed level).

For the officers:

- A strong understanding – i.e. a good level of knowledge in relation to the subject matter (but not necessary at detailed level)
- Detailed knowledge – i.e. knowledge of all aspects of the subject matter
- Expert knowledge – i.e. in depth mastery of all aspects of knowledge in relation to the subject matter

Individual Training Plans

Training plans will contain core elements, such as the CIPFA knowledge and Skills modules and the TPA's requirements, but there will be variations within each individual's training plan to reflect their specific role and level of knowledge required.

Measuring the effectiveness of training

Following the delivery of training, each recipient of the training will be required to complete a brief written test based on the topic. The responses will be marked by the Training Officer and the results collated and used to evidence level of understanding.

The Training Officer will also maintain a log of all training events and each individuals attendance and assessment score.

Timing

Ideally, targeted training will be provided that is timely and directly relevant to the Committee and Board's activities as set out in the Fund's business plan.

Approach

This Strategy sets out how the Fund provide training to members of the Pension Committee and Pension Board. The Officers involved in the management and administration of the Fund will have their own team and personal training plans and career development objectives.

- **Induction training** - Pension Committee and Pension Board members will receive induction training to cover the role of the Fund, Pension Board and understand the duties and obligations East Sussex Council as the Administering Authority, including funding and investment matters.

Induction training will be arranged by the Training Officer and will be provided prior to the member attending their first committee or board meeting.

- **External courses** - Additionally, a number of specialist courses are run by bodies such as the Local Government Association, actuarial, governance and investment advisers as well as fund managers. Appropriate courses will be selected by the Head of the Pension Fund and the Training Officer and information circulated to members in advance. Courses will be selected for their relevance to the Training Plan.
- **Conferences** - There are also a number of suitable conferences run annually, which will be brought to members attention where appropriate. Of particular relevance are the LGA Annual Governance Conference, LGA Fundamentals Training, Pension and Lifetime Savings Association (PLSA) Conference, the Local Government Chronical (LGC) Local Authority Conference, and the Local Authority Pension Fund Forum (LAPFF) annual conference.

Appropriate conferences will be selected by the Head of the Pension Fund and the Training Officer and information circulated to members in advance. Conferences will be selected for their relevance to the Training Plan.

Additionally, consideration will be given to various training resources available in delivering training to Pension Committee and Pension Board members. These may include but are not restricted to:

- In-house and shared training events where it improves economy, efficiency and effectiveness
- Self-improvement and familiarisation with regulations and documents

- The Pension Regulator's e-learning programme
- Attending courses, seminars and external events
- Internally developed training days and pre/post meeting sessions
- Regular updates from officers and/or advisers
- Informal discussion and one-to-one sessions
- Formal presentations
- Circulated reading material
- E-learning

Flexibility

When considering training for members of the Pension Committee and Pension Board it is recognised that individuals may have different learning styles. The Fund will seek, where possible, to ensure flexibility in the manner in which training is provided to support these different learning styles.

Maintaining knowledge

In addition to undertaking ongoing training to achieve the requirements of the CIPFA knowledge and skills framework Pension Committee and Pension Board members are expected to maintain their knowledge and understanding of topical issues through attendance at internal/external events and seminars where appropriate.

Owing to the changing world of pensions, it will also be necessary to attend ad hoc training on emerging issues or on a specific subject on which a decision is to be made in the near future.

Risk Management

The delivery of this training strategy is at 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, recorded and cross referenced with attendance details and assessment scores by the Training Officer and reported to the Pension Committee and Pension Board if their impact is likely to prevent the East Sussex Pension Fund from achieving the objectives of this Training Strategy.

Reporting and Compliance

In line with the CIPFA Code of Practice a disclosure will be made in the Fund's Annual Report and Accounts that covers:

- How the Knowledge and Skills framework has been applied.
- What assessment of training needs has been undertaken.

- What training has been delivered against the identified training needs.

Budget and costs

A training budget will be agreed with the Pension Committee and costs fully scoped.

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the Fund, 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.

Effective date

This strategy comes into effect from [insert date].

Review

This strategy will be reviewed every 2 years, and if necessary, more frequently to ensure it remains accurate and relevant.

Signed by

_____ (Section 151 officer)

_____ (Head of Pensions)

_____ (Chair of Pension Committee)

_____ (Chair of Pension Board)

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Report to: Pension Committee

Date of meeting: 21 September 2020

By: Chief Finance Officer

Title: Pension Fund Risk Register

Purpose: To consider the Pension Fund Risk Register

RECOMMENDATIONS: The Pension Committee is recommended to:

1) Review the 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. Supporting Information

2.1 **The Risk Register** at Appendix 1 has been updated since the last meeting for the circumstances outlined below.

2.2 The onset of Coronavirus and Covid-19 continues to place significant pressures on both Employers to the Fund, the Pension Administration Service and increasing turbulence in the Financial Markets with continuing pressures on cashflow and liquidity. The Fund continues to place focus and emphasis on supporting high risk employers and ensuring that employers are continually covenant assessed and monitored for risk of business failure.

2.3 Since the last meeting, the following risks have materialised:

2.4 The Pension Administration Service commenced its immediate payment function and this has given rise to transition risks, and which resulted in a breach on the pensioner payroll payment to HMRC. The mitigations currently in progress with Surrey include commissioning and implementing a new interface report from Heywood, and the administrator conducting further reconciliations on the tax calculation for July. This has increased the risk indicator for Item 2 Inadequate Delivery of Pensions Administration by the Service Provider. Given the transition to an in-house function, it is further proposed that at the end of the transition period, this indicator is renamed to reflect the in-house nature of the service.

2.5 A new risk has been added to the Risk Register at item 19 for Environment, Social and Governance (ESG) Risk. This has been added due the intention of the Fund to focus more on responsible investment and its beliefs that ESG items can have an impact on the Pension Fund.

2.6 The Fund initiated the first part of its revised equity structure by increasing the investment in its current active manager this has given rise to transition risks. Due to restrictions in the prospectus around this investment it needed to split into two transfers which was highlighted to the Fund late in the process. This is included within the rebased risk indicator for Item 16 LGPS Investment Pooling & Sub Fund Issues.

3. Assessment of Risk

3.1 Risks are assessed in terms of the potential impact of the risk event should it occur, 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 East Sussex Pension Fund, risk profile has been updated and 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.

3.3 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 Committee, and should the Committee identify specific concerns requiring policy changes, then reports will be brought to the Pension Committee for approval.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Michelle King, Interim Head of Pensions
Tel. No. 01273 482017
Email: Michelle.King@eastsussex.gov.uk

Local Member(s): All
Background Documents
None

Risk Register Risk Scores

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 NEGLECTIBLE (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



	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)
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 Pandemic

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
Pensions Administration (Orbis -Business Operations)												
Page 260	Pension contributions: <ul style="list-style-type: none">• Non-collection• Miscoding• Non-payment If not discovered results inaccurate: <ul style="list-style-type: none">•employer FRS17/IAS19 & Valuation calculations• final accounts• cash flow	3	3	9	<ul style="list-style-type: none">• Employer contribution monitoring• Additional monitoring at specific times• SAP / Altair quarterly reconciliation• Annual year end checks• Fines imposed for late payment and late receipt of remittance advice.	3	2	6		Head of Pensions	On-going	
	2 Inadequate delivery of Pensions Administration by service provider <ul style="list-style-type: none">• Members of the pension scheme not serviced• Statutory deadlines not met• Employers dissatisfied with service being provided + formal complaint• Complaints which progress to the Pensions Ombudsman	4	3	12	<ul style="list-style-type: none">• Insource the Pension Fund from Orbis Surrey to an inhouse provision.• Internal Audit• Reports to Pension Board / Committee• Service Review meetings with business operations management• Awareness of the Pension Regulator Guidance• Transition programme enacted by Orbis Surrey to manage a number of workstreams impacting service delivery	4	3	12		Lead Pensions Manager	Management Actions in Internal Audit Report	




EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
3 Page 261	Loss of key/senior staff and knowledge/skills <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Diversified staff / team 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	↔	Lead Pensions Manager	On-going
4	Paying pension benefits incorrectly <ul style="list-style-type: none"> Damaged reputation Financial loss Financial hardship to members 	3	3	9	<ul style="list-style-type: none"> Internal control through audit process Constant monitoring / checking In house risk logs SAP / Altair reconciliation Task management Vita cleansing 	3	2	6	↔	Lead Pensions Manager	On-going
5	Guaranteed Minimum Pension (GMP) reconciliation <ul style="list-style-type: none"> Members of pensions scheme exposed to financial loss Inaccurate record keeping Damaged reputation 	3	3	9	<ul style="list-style-type: none"> Internal Audit Key performance indicators Reports to Pension Board and Committee 	3	2	6	↔	Lead Pensions Manager	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
6	Failure to issue Annual Benefit statements 31st August <ul style="list-style-type: none"> Reputational risk and complaints Fines and enforcement action by The Pension Regulator <ul style="list-style-type: none"> Covid 19 has reduced the ability of employers to participate in the data cleansing due to lockdown. 	3	3	9	<ul style="list-style-type: none"> 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. Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year-end. Pension Committee letter to employers requesting their participation and joint working between Hymans and Pensions Administrator on end of year returns. 	3	2	6		Lead Pensions Manager	Initial project deadline was 31 March 2020 this has been moved to 30 June
	Data Cleansing – failure to provide timely and accurate member data. <ul style="list-style-type: none"> Risk of financial loss and damage to reputation. Incorrect employer's contribution calculations Delays to triennial actuarial valuations process. Fines and enforcement action by The Pension Regulator Covid 19 has reduced the ability of employers to participate in the data cleansing due to lockdown. 										
7	Data Cleansing – failure to provide timely and accurate member data. <ul style="list-style-type: none"> Risk of financial loss and damage to reputation. Incorrect employer's contribution calculations Delays to triennial actuarial valuations process. Fines and enforcement action by The Pension Regulator Covid 19 has reduced the ability of employers to participate in the data cleansing due to lockdown. 	3	3	9	<ul style="list-style-type: none"> 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 4 additional FTE for an initial period of 6 months to focus on data deficiencies. 	3	3	9		Lead Pensions Manager	Data Improvement Programme Ongoing to June 2020


EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
Pensions Investment and Governance											
8	Required returns not met due to poor strategic allocation <ul style="list-style-type: none">Damaged reputationIncrease in employer contributionInability to Pay Pensions	4	2	8	<ul style="list-style-type: none">Investment AdvisorsTriennial reviewPerformance monitoringAnnual Investment Strategy ReviewReporting to Pensions Committee and BoardCompliance with the ISS/FSS Revision of the Asset Liability Model to support a viable Strategic Asset Allocation for the new valuation.	4	1	4		Head of Pensions	On-going
9	Employers unable to pay increased contributions / contributions <ul style="list-style-type: none">Lower funding levelIncrease in employer contributionsEmployer forced to sell assetsEmployer forced into liquidationIncrease in investment risk taken to access higher returns Lockdown and Halted Economy Covid 19 Impact	3	3	9	<ul style="list-style-type: none">ValuationRegular communication with EmployersMonthly monitoring of contribution paymentsMeetings with employers where there are concerns Covenant Assessments in progress with employers facing difficulties from Covid 19	3	3	9		Head of Pensions	On-going
10	Cyber Security of member data - personal employment and financial data <ul style="list-style-type: none">ESCC may incur penaltiesDamaged reputationLegal issuesMembers of the pension scheme exposed to financial loss / identity theftMembers of the pension scheme data lost or compromised	4	3	12	<ul style="list-style-type: none">ICT defence-in-depth approachUtilising firewalls,Email and content scannersUsing anti-malware.ICT performs penetration and security tests on regular basis	4	2	8		Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	<ul style="list-style-type: none"> Covid-19 Cybercrime Spike 										
11	Cyber Security of third party suppliers <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Service level agreement with termination clause Regular Meetings Regular reports SAS 70/AAF0106 Investment Advisors Global custodian 	3	2	6	↔	Head of Pensions	On-going
12	The decision to leave the European Union without a trade deal causing significant economic instability and slowdown, and as a consequence lower investment returns, resulting in: <ul style="list-style-type: none"> Financial loss, and/or failure to meet return expectations. Increased employer contribution costs. Changes to the regulatory and legislative framework within which the Fund operates. 	4	2	8	<ul style="list-style-type: none"> 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. The Govt. 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 ensure any regulatory changes are implemented 	3	2	6	↔	Head of Pensions	On-going
13	2019 Triennial actuarial valuation outcome	3	2	6	<ul style="list-style-type: none"> The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. 	3	1	3	↓	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
Page 265	<ul style="list-style-type: none"> An increase in liabilities that 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. Significant rises in employer contributions due to increases in liabilities or fall in assets. 				<ul style="list-style-type: none"> 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 each triennial valuation assumptions and challenge actuary as required. Funding Strategy Statement and Investment Strategy Statement updated and approved, Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy; 						
	Accounting - Failure to comply with CIPFA new pension fund accounting regulations. <ul style="list-style-type: none"> Risk of the accounts being qualified by the auditors. 	3	2	6	<ul style="list-style-type: none"> 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 	2	2	4		Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
Page 266					CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations. <ul style="list-style-type: none"> Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. Internal Audits - carried out in line with the Pension Audit strategy. External Audit review the Pension Fund's accounts annually 						
	LGPS Pooling - ACCESS Pool										
	15 Asset transition costs <ul style="list-style-type: none"> 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. 	3	3	9	<ul style="list-style-type: none"> 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. 	2	2	4	↔	Head of Pensions	On-going
16	LGPS Investment Pooling & Sub Fund Issues <ul style="list-style-type: none"> Increase in investment risk taken to access higher returns There can be size restrictions on certain investments. 	3	3	9	<ul style="list-style-type: none"> ACCESS Support Unit function to provide support. Officers have agreed Link should be allowed a reasonable time period to resolve issues, e.g., until ending of August. The ACCESS Contracts 	3	2	6	Rebased	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	<ul style="list-style-type: none"> Weaker control leading to poorer governance. There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure. 				Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may be considered, e.g. Funds may continue to hold the sub fund outside the ACS						
Page 267 17	Coronavirus and Covid 19 <ul style="list-style-type: none"> Employers unable to pay employer contributions Ceding Employers unable to find additional funds to support outsourced operations Revised dividend policies reducing income to pension funds Remote working presenting data protection risks Administration service unable to service demand Increased criminal activity from cyber scams and phishing investment environment changes radically, and Fund is slow to respond, leading to lower solvency 	4	4	16	<ul style="list-style-type: none"> investment working group created to actively review investment strategy on an ongoing basis Data improvement Programme and ABS Working Group monitoring employers and administration service in relation to data cleansing and end of year returns for the ABS. Covenant reviews underway and review of all high risk employers in the fund. Contribution deferral policy submitted to committee for consideration in June 2020. 	4	3	12	new	Head of Pensions	On-going
18	Pay awards higher than expected <ul style="list-style-type: none"> Inflation rises faster than the actuarial assumption as a result of Govt. response to COVID-19 	3	3	9	<ul style="list-style-type: none"> Current weighting of 5% to index linked, 50% to equities, 3% to infra, 9% to real estate all inflation correlated. 	3	3	9	new	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	<ul style="list-style-type: none"> Liabilities are higher than expected. Bond yields return to much higher levels Bond-equity correlations rise, and equities also fall in price Fund's solvency level falls 				<ul style="list-style-type: none"> Increase allocation to infrastructure assets if at acceptable valuation Monitor portfolio sensitivity to inflation 						
Page 268 19	Environmental, Social and Governance Issues <ul style="list-style-type: none"> Increase in investment risk taken due to unassessed ESG issues Weaker control leading to poorer governance. Decisions being made on incorrect assumptions leading to poorer outcomes Reputation issues around how the Fund is progressing the move to a decarbonised global economy. Revised dividend policies reducing income to pension funds investment environment changes radically, and Fund is slow to respond, leading to lower solvency 	3	3	9	<ul style="list-style-type: none"> Responsible Investment Policy Restructuring the equity portfolio to be able to avoid high risk companies and exploit opportunities Produce regular reports on the carbon footprint of the Fund Examine the transition pathway of companies our managers hold Challenge managers on their holdings Signing up to the Institutional Investors group on climate change Signing up to the Climate action 100+ Engaging via managers and investor groups with companies 	3	2	6	New	Head of Pensions	On-going

Risk Score Change Key –



= Reduced



= No Change



= Increased

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of the Local Government Act 1972.

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