PENSION COMMITTEE

MONDAY, 30 NOVEMBER 2020

10.00 AM CC2, COUNTY HALL, LEWES

++Please Note That This Meeting Will Be Taking Place 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 - 14)*

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 *(Pages 15 - 22)*

6 Investment Report *(Pages 23 - 74)*

7 Independent Auditors Report on the Pension Fund Account and Annual Report and Accounts 2019/20 *(Pages 75 - 234)*

8 Governance and Employer Engagement Report *(Pages 235 - 354)*

9 Pensions Administration report *(Pages 355 - 378)*

10 Internal Audit Report: Pension Fund: Governance, Strategy and Investments 2019/20 *(Pages 379 - 394)*

11 East Sussex Pension Fund Quarterly budget report *(Pages 395 - 404)*

12 Annual Training Plan 2020/21 *(Pages 405 - 426)*

13 Risk Register *(Pages 427 - 440)*

14 Work programme *(Pages 441 - 452)*

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 update *(Pages 453 - 466)*

18 Procurement of Pensions Administration software *(Pages 467 - 476)*

19 East Sussex Pension Fund Breaches Log *(Pages 477 - 480)*

20 Employer Admissions and Cessations *(Pages 481 - 492)*

21 Independent Advisor to the Pension Fund *(Pages 493 - 496)*

22 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
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20 November 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*

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 21 September 2020.

++Please note that the members joined the meeting remotely++

PRESENT	Councillors Gerard Fox (Chair) Councillors Nigel Enever, Andy Smith, David Tutt and Trevor Webb
ALSO PRESENT	Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Michelle King, Interim Head of Pensions Sian Kunert, Head of Pensions Russell Wood, Pensions Investments Manager Dave Kellond, Compliance and Local Improvement Partner Nigel Chilcott, Audit Manager Danny Simpson, Principal Auditor William Bourne, Independent Adviser Ben Fox, Hymans Robertson Paul Potter, Hymans Robertson Richard Warden, Fund Actuary Robert McInroy, Hymans Robertson Ian Colvin, Hymans Robertson Paul Punter, Head of Pensions Administration Martin Jenks, Senior Democratic Services Adviser Harvey Winder, Democratic Services Officer

22 MINUTES

22.1 The minutes of the meeting held on 22 June 2020 were agreed as a correct record.

23 APOLOGIES FOR ABSENCE

23.1 There were no apologies for absence.

23.2 Cllr Andy Smith was welcomed as a new member of the Committee.

23.3 Sian Kunert was welcomed as the new Head of Pensions and Michelle King was thanked for her work as Interim Head of Pensions.

24 DISCLOSURE OF INTERESTS

24.1 There were no declarations of interest.

25 URGENT ITEMS

25.1 There were no urgent items.

26 PENSION BOARD MINUTES

26.1 The Pension Committee considered the draft minutes of the Pension Board meeting held on 7th September 2020.

26.2 The Committee RESOLVED to note the minutes.

27 QUARTERLY INVESTMENT REPORT

27.1 The Committee considered a report providing an update on the investment activities undertaken by the East Sussex Pension Fund (ESPF).

27.2 The Committee's discussion included the following key issues:

- The ESPF was valued at around £3.8bn at the time of the triennial valuation last year. It was down by 13% at the lowest point during the Covid-19 pandemic and is currently down 2%. This suggests it has largely held up well during the crisis due to the diversified asset allocations of the Fund – with only 40% of the Fund's value in the hardest hit asset, equities. The Fund has still outperformed its benchmark over the past five years.
- There is an assumption that the losses to the Fund incurred during the initial outbreak of the Covid-19 pandemic, due to a significant fall in equities, will continue to recover over the next year. There has been a sharp increase in the value of technology companies in recent weeks, which has led to a recovery in equity values, but it is not clear yet whether this is a sustainable valuation, despite the increased value of technology companies to the global economy since lockdown began, due to the speed of the increase. This makes a fall in market value a possibility.
- Liabilities have remained broadly flat over the past year, which has helped the overall strength of the Fund.

27.3 The Committee RESOLVED to note the report.

28 RESPONSIBLE INVESTMENT POLICY

28.1 The Committee considered a report on the Statement of Responsible Investment Principles for the ESPF.

28.2 The Committee's discussion included the following key issues:

- An additional belief should be included in the Statement of Responsible Investment Principles to clarify the Fund's belief that companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic and social challenges might be expected to exhibit above average long-term growth characteristics.
- The Fund should carry out an annual review of its fossil fuel exposure starting from the baseline of March 2020. This will demonstrate the impact of the recent rebalancing of asset allocations that may reduce exposure from 4% to 2% of assets, as well as any future changes to asset allocation.
- The Fund – through the Investment Working Group – should consider the fossil fuel exposure of assets held in UBS regional equity funds to understand whether a particular

region, e.g., North America, Japan, or emerging markets, has higher fossil fuel exposure than others.

- The Fund does not directly invest in companies but does so through investment managers offering passive index funds that invest in a range of companies that mirror the listings of a stock market. It cannot, therefore, choose to freeze further investment only in fossil fuel companies without divesting entirely from passive index funds (where 33% of the Fund's value is held).
- Whilst transitioning to active asset managers may be one way of reducing fossil fuel exposure, not all active managers are able to provide a good return on investment, particularly for the additional cost. The Government also says Local Government Pension Scheme (LGPS) should invest some of their assets in passive index funds, particularly the assets that have been moved to pooled funds.
- The Fund has therefore agreed to alter its fossil fuel exposure by changing the weighting of its passive funds. This involves reducing holdings in existing UBS passive market-cap funds and increasing them in smart-beta passive equity funds – which favour stocks in companies with lower carbon exposure, such as technology companies, or companies that are making demonstrable efforts to decarbonise – and in Longview, which does not have exposure to fossil fuel companies.
- The Fund continues to work with IIGCC and Climate Action 100+ to ensure investment managers, who are shareholders of companies on behalf of the Fund, lobby companies for action on climate change. Ruffer, one of the Fund's active managers, takes a leading role in lobbying companies in this way.

28.3 The Committee RESOLVED to:

1) approve the Statement of Responsible Investment Principles (Appendix 1) subject to the addition of the following Responsible Investment Belief:

> "ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the world's more serious environmental, sustainability, demographic and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc. Where successful, such companies might be expected to exhibit above average long-term growth characteristics";

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,

3) agree to receive an updated Investment Strategy Statement at the November Committee;

4) note the letters from Lewes District Council & Peacehaven Town Council;

5) agree the draft response to both letters contained in Appendix 5;

6) recommend that the Investment Working Group look at UBS regional equity fund holdings held by the ESPF and report back recommendations to the Committee; and

7) request an annual report on the Fund's exposure to fossil fuels.

29 GOOD GOVERNANCE REVIEW 2ND TRANCHE

29.1 The Committee considered a report providing an update on the Good Governance review.

29.2 The Committee's discussion included the following key issues:

- The Chairs of the Board and Committee and officers are to be commended for their work on the Good Governance review.
- The responsibility for communication with employers needs to be clarified within the Pension Team structure, as it is not currently clear where it sits, e.g., under the Pension Fund Team or the Pension Administration Team, which is currently provided by Orbis Joint Services but is due to come back inhouse.

29.3 The Committee RESOLVED to agree the deliverables as set out in paragraph 2.1 of the report.

30 RESPONSE TO THE MCCLOUD CONSULTATION

30.1 The Committee considered a report containing a draft response to the consultation on changes to the transitional arrangements to the 2015 Local Government Pension Scheme (LGPS) as a result of the McCloud judgement.

30.2 The Committee RESOLVED to:

1) agree the draft response to the consultation on the proposals for transitional arrangements; and

2) note the proposal to commence the McCloud Working Group.

31 PENSIONS ADMINISTRATION UPDATE

31.1 The Committee considered a report providing an update on matters relating to the Pensions Administration Team's (PAT) activities.

31.2 The Committee's discussion included the following key issues:

- The PAT should be congratulated for the improvements it has made to the Annual Benefit Statement (ABS) process. Excluding a few issues due to employers not responding, 99.6% of statements were issued on time.
- The Date Improvement Programme work to ensure employers and the Fund hold accurate, complementary data on scheme members; the Guaranteed Minimum Pension (GMP) Reconciliation programme; and the response to the McCloud judgement are all major projects that will be undertaken at roughly the same time. It will be important to get communications to scheme members correct and aligned across the three projects, as it may turn out, for example, that they have been overpaid through GMP reconciliation but underpaid through the McCloud judgement calculations. It will be confusing for scheme members if they receive contradictory communications about their benefits.
- Further work is being undertaken to look at how other LGPS categorise casual workers within their pension administration system. These are staff who may not work for a year,

so would not receive an ABS as if they were deferred but will have accrued benefits and still be an active member.

- The i-Connect system – which will allow monthly data updates from employers to the Fund – has been purchased from Heywoods (the supplier) and is being tested by with the East Sussex County Council Finance Team's SAP finance software. The wider use and roll-out of providing monthly data returns will be raised at the next Annual Employers Forum in November 2020.

31.3 The Committee RESOLVED 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 shared service arrangements (Appendix 4); and

4) request a report at its November meeting on best practice proposals for how to treat casual workers when issuing an Annual Benefit Statement.

32 <u>2020/21 PENSION FUND BUSINESS PLAN AND BUDGET</u>

32.1 The Committee considered a report on the 2020/21 business plan at Quarter 1 for the ESPF.

32.2 The Committee's discussion included the following key issues:

- The Fund has discretion to manage its ill health insurance scheme as it wishes, including requiring certain employers to adopt ill health insurance and allowing others to opt in if they wish, depending on their risk to the Fund.
- The Fund is currently undertaking work on the risk each employer poses to the Fund based on their financial solvency.

32.3 The Committee RESOLVED to:

1) note the updated business plan;

2) note the forecast outturn position;

3) note the report of the actuary on ill Health Management (Appendix 2) and the Legal & General Illustration (Appendix 3); and

4) request a report at a future meeting on the risk rating of the employers in the ESPF.

33 <u>DISCRETIONARY POLICY FOR DEATH PAYMENTS</u>

33.1 The Committee considered a report on the Discretionary Policy for Death Payments

33.2 The Committee RESOLVED to agree the Discretionary Policy for Death Payments.

34 ANNUAL TRAINING PLAN AND TRAINING STRATEGY

34.1 The Committee considered a report on the Annual Training Plan & Training Strategy for the ESPF.

34.2 The Committee RESOLVED to:

1) note the Training Strategy; and

2) note the issues regarding the delay in the production of the Annual Training Plan.

35 PENSION FUND RISK REGISTER

35.1 The Committee considered a report on the risk register for the ESPF.

35.2 The Committee discussed whether climate change and the uncertainty around the impact of reducing exposure to fossil fuels should be added to the risk register.

35.3 The Committee RESOLVED to:

1) note the report; and

2) agree that uncertainty around climate change and energy transition should be added as a risk.

36 EXCLUSION OF THE PUBLIC AND PRESS

36.1 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).

37 INVESTMENT WORKING GROUP BRIEFING

37.1 The Committee considered a report providing updates on the activities undertaken by the Investment Working Group.

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

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

38 PENSION FUND BREACHES LOG

38.1 The Committee considered a report on the Fund’s Breaches Log.

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

38.3 The Committee RESOLVED to note the report

39 <u>PENSION TEAM UPDATE</u>

39.1 The Committee considered a report on the ESPF team restructure.

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

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

40 <u>EMPLOYER ADMISSIONS AND CESSATIONS REPORT</u>

40.1 The Committee considered a report providing an update on the latest admission and cessation of employers within the Fund.

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

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

41 <u>OUTCOME OF PROCUREMENT FOR PENSION FUND ADVISORS AND ACTUARY</u>

41.1 The Committee considered a report providing an update on the procurement of the Fund's key advisers for Investment, Covenant and Actuarial services.

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

The meeting ended at 1.15 pm.

Councillor Gerard Fox (Chair)

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

Appendix 1

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 16 November 2020.

++Please note that Members joined the meeting remotely++

PRESENT	Ray Martin (Chair) Councillor Chris Collier, Councillor Tom Druitt, Stephen Osborn, Diana Pogson, Niki Palermo and Lynda Walker
ALSO PRESENT	Cllr Gerard Fox, Chair of Pension Committee Ian Gutsell, Chief Finance Officer Danny Simpson, Principal Auditor Nigel Chilcott, Audit Manager Sian Kunert, Head of Pensions Russell Wood, Pensions Investments Manager Paul Punter, Head of Pensions Administration Martin Jenks, Senior Democratic Services Adviser Ian Colvin, Hymans Robertson Robert McInroy, Hymans Robertson

39 MINUTES

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

40 APOLOGIES FOR ABSENCE

40.1 There were no apologies for absence.

41 DISCLOSURE OF INTERESTS

41.1 There were no disclosures of interest.

42 URGENT ITEMS

42.1 There were no urgent items.

43 PENSION BOARD MEMBER UPDATES

43.1. The Board considered a verbal update on Pension Board activities.

43.2. The Chair said he had attended the Pensions and Lifetime Savings Association (PLSA) annual conference, which had taken place online for the first time. The speakers had been well versed in the issues they were discussing, however, the chat rooms had not worked as well as in-person socialising. Lynda Walker (LW) had also attended and agreed with this assessment.

43.3. Diana Pogson (DP) said she had signed up for the Cyber Security training course by Aon that was offered to Board members.

44 PENSION COMMITTEE AGENDA

44.1. The Board considered a report containing the draft agenda of the Pension Committee meeting for 30th November 2020.

44.2. The Chair asked whether there was anything to update in regards to pension investments.

44.3. Sian Kunert (SK) said that there would be updates at the next Pension Committee meeting on the progress with implementing the Committee's decision in September to reduce exposure to passive equities in favour of 2 active impact managers, 1 smart beta passive like manager and 1 infrastructure equity manager. Due to the ongoing nature of the trades involved, however, the Committee will be recommended to consider the report as an exempt item under the Local Government Act 1972.

44.4. The Board RESOLVED to note the report.

45 INDEPENDENT AUDITORS REPORT ON THE PENSION FUND ACCOUNT AND ANNUAL REPORT AND ACCOUNTS 2019/20

45.1. The Board considered a report containing both the draft Independent Auditor's (Grant Thornton) report to those charged with governance on Pension Fund Annual Report 2019/20 and the draft Pension Fund Annual Report.

45.2. Stephen Osborn (SO) asked when the Annual report and accounts will be published, as the University of Brighton's external auditors had asked for a copy.

45.3. SK clarified that the statutory deadline is 1st December 2020 and the draft will be agreed by the Pension Committee on 30th November 2020. A copy of the draft would be available from 20th November 2020 (the date of publication of the Pension Committee agenda and papers) that could be shared with the auditors provided there is the caveat that it is a draft and not yet signed off.

45.4. The Chair asked whether the number of primary pension contributions received late in the financial year 2019/20 was typical, or worse than normal.

45.5. Russell Wood (RW) said the number was similar to previous years and included some of the same employers who crop up year on year. The majority of employers, however, pay on time. SK reminded the Board that the issue of employer contributions would become a standing item on the Board's agenda from February 2021.

45.6. The Chair asked whether the Pension Fund Annual Report was usually this lengthy.

45.7. SK explained that Chartered Institute of Public Finance and Accountancy (CIPFA) guidance was introduced from mid-2019 setting out exactly what must, should and may be included in an annual report. Prior to then, it was at the discretion of administering authorities as to what they included. The CIPFA guidance includes a requirement to have the Funding Strategy Statement and other policies included in full, whereas before there was only a link, resulting in this year's report being longer than previously. SK advised next years' report could be longer still, as the team will review the report with the intention of ensuring they have satisfied the "should" and "may" actions from the CIPFA guidance.

45.8. The Chair asked if any members of the East Sussex Pension Fund (ESPF) had asked for copies.

45.9. SK said she was not aware as normally people would access it via the website, but a copy would be provided on request.

45.10. The Board RESOLVED to note the report.

46 GOVERNANCE AND EMPLOYER ENGAGEMENT

46.1. The Board considered a report providing an update on various governance and employer engagement work completed and changes affecting Local Government Pension Scheme (LGPS) generally and the ESPF in particular.

46.2. The Chair asked whether the four new investment managers identified to manage the assets taken out of the passive equity fund would be part of the ACCESS pool.

46.3. SK confirmed they are outside of ACCESS because there are no Environmental, Social and Governance (ESG) focussed sub-funds within ACCESS to invest in. The Fund will write to Ministry of Housing Communities and Local Government (MHCLG) advising them of this fact but noting the intention to move them back into ACCESS when a suitable sub-fund is available.

46.4. The Chair asked how the Conflict of Interest Policy applied to Members of the Board.

46.5. SK explained that the Policy described existing codes of conduct within the East Sussex County Council constitution rather than make any changes. The terms of reference of the Board states that the code of conduct for elected members of the Council applies to the Board Members. This includes the requirement to fill out a register of interests that is updated annually (even if with a nil return).

46.6. Councillor Tom Druitt (TD) asked how the Board would know if they had any personal interests relating to the companies the ESPF invests in.

46.7. SK said that a list of the investment managers and the companies that they invest in on behalf of the Council could be provided to Board members.

46.8. The Chair clarified that the Board has no control over who the Fund invests in, as this is done via investment managers, so it is unlikely Members would have a personal interest and it would almost certainly not be considered a prejudicial interest.

46.9. With regard to the ill-health insurance proposal, SO said he was concerned that providing employers in Group 2 the option to opt-out may encourage them to do so for the incremental saving they would make in not paying the ill health insurance premium, but in doing so would expose them and the rest of the Fund to substantial risk in the event of an ill health claim. He said it is vital that the administering authority communicates to employers the importance of signing up to ill health insurance.

46.10. Rory McInroy (RM) clarified that the employers would not pay an additional amount for the ill health insurance compared to what they do now, as it would be around 1% of their own contribution rate and replace the current 1% per annum of employer contributions they pay towards the pooled ill health fund. He added that it was a very complex area that employers are not clear about, which is why smaller employers will be compelled to pay it. Hymans Robertson will also assist with the communications plan.

46.11. SO asked why have the option for any employers to opt-out if an ill health payment was such a high risk issue.

46.12. RM clarified that some employers may have their members spread over several different pension schemes, such as the teachers' pension scheme, or another LGPS. Consequently, they may already have ill health insurance arrangements in place.

46.13. TD asked why the maximum strain costs of ill health retirement were so high.

46.14. RM explained that if someone retired through Tier 1 ill health at the age of 40, they would immediately receive their pension enhancement up to the level it would be at normal retirement age and the employer would need to pay the deficit. This would be a considerable cost to the employer that would currently be paid first out of the pooled ill health fund and then out of the employer's reserves, whereas in future the cost would be covered by the insurer.

46.15. With regard to the Employer Forum, DP asked how many employers will be participating.

46.16. SK said that there will be a full list of attendees after the event and it will be conducted as a live event on Microsoft Teams and recorded. The recording will then be sent to any employers who were unable to attend and wish to view it.

46.17. With regard to the review of communications, the Chair asked whether the communications review is being led by someone not directly impacted by it, i.e., someone outside of the Pensions Team.

46.18. SK confirmed that the Head of Communications at East Sussex County Council is leading on the review.

46.19. The Board RESOLVED To:

1) note the report;

2) thank Hymans Robertson for their work as both the Fund's Investment Consultant and Actuary; and

3) recommend that, in regards to the ill health insurance policy, Group 2 employers should have up to 200 active members so that, except for the very largest all Academy Schools would be treated similarly.

47 PENSIONS ADMINISTRATION

47.1. The Board considered a report providing an update on matters relating to Pension Administration Team (PAT).

47.2. The Chair asked for clarification as to why the Key Performance Indicator (KPI) "Employer estimates provided" was at 49% during July 2020.

47.3. Paul Punter (PP) explained that this was a resourcing issue. During that month there was a number of staff who were on holiday; there were two vacancies; there was a backlog of work accrued during lockdown; there was an unusually high number of complex calculations; and it is a time of year where – due to teacher retirements and the issuing of Annual Benefit Statements (ABS) – there is more contact from scheme members than normal.

47.4. The Chair asked whether there is a plan to retain the shared Orbis help desk after the PAT is bought back in-house.

47.5. PP said a number of options are being explored, including retaining the help desk but with an expectation of an improved contractual service. An alternative would be to bring customer calls in-house, which would require the hiring of an additional 3-4 members of staff to the PAT. He clarified that the help desk had only been in place two years and currently picks up calls for all pension funds administered by Orbis.

47.6. The Chair asked whether 12 deaths or suspensions from the 478 overseas pensioners was high and whether there were any pensions that had continued following the deaths for a long time.

47.7. PP said that the deaths may have just coincided with the mortality exercise and would have been reported anyway, as they were only a few months old. The size of the exercise also means that more cases have been picked up, as it included all overseas pensioners, not just those in ill health or over 70. Due to Covid-19, it is more difficult to get a signature of a professional witness in English for some of the overseas pensioners. As a result, the pensioners have been given extra time to respond and they are allowed to send it electronically.

47.8. With regards to the new £95k exit cap LW asked how members will be affected by this in future.

47.9. PP confirmed that there would be an effect on scheme members who will take redundancy or voluntary severance termination packages after the new Exit Payment Regulations become law on 4th November, as the LGPS Compensation Regulations have not yet been updated. The conflict is that the LGPS regulations say a member over age 55 who exits on a termination package must have an unreduced pension, but the exit cap regulations may restrict the employer's ability to pay the full strain cost. The administering authority will continue to make payments as normal for those retiring after 55 and who do not breach the cap. A decision, however, is needed around what to pay those who retire early in the interim. The PAT is keen to ensure some kind of payment is made rather than defer the calculation until the Compensation Regulations come into force, but it is not clear how it should be calculated and what factors should be included. He added that multiple judicial reviews of the Exit Payment Regulations could mean that the legislation could end up being quashed.

47.10. LW added that the unions feel that making a payment is the position administering authorities should be in and is preferable to deferring payments until the regulations come into force. She added it was very disappointing how the legislation has been implemented during Covid-19 and without supporting regulations in place.

47.11. The Board RESOLVED to note the report.

48 INTERNAL AUDIT REPORT: PENSION FUND: GOVERNANCE, STRATEGY AND INVESTMENTS 2019/20

48.1. The Board considered a report on the outcome of an Internal Audit review of the Pension Fund: Governance, Strategy and Investments 2019/20.

48.2. The Chair asked whether controls were now in place to prevent the transfer of funds between the ESPF and East Sussex County Council bank accounts.

48.3. Ian Gutsell (IG) confirmed that SK and RW now have bank mandates for the Fund's account and so the ESCC Treasury Management team will not be able to loan money to the County Council from the ESPF account in future.

48.4. DP asked why lending money in this manner was not seen by Internal Audit as a major risk.

48.5. Danny Simpson (DS) said that the ESCC Treasury Management Team's access to the Pension Fund bank account was an historical arrangement and access to process transactions in the future was being withdrawn. Councillor Gerard Fox (GF) said he had seen the report and was satisfied that it was a medium risk, as it had happen only twice, rather than being a pattern of behaviour, and had resulted in a modest gain to the Fund, even if it had been against regulations. He welcomed that it had been picked up by Internal Audit and that controls had been put in place. TD added he was in favour of the actions taken.

48.6. TD asked when the Governance Manual on the management of fund managers would be approved by the ACCESS pool.

48.7. GF explained that it was progressing but had been paused whilst the Inter Authority Agreement, which sits above it, was revised and agreed by each administering authority. There is a chance it will be ready by the time of the February Board and Committee meetings.

48.8. TD asked for clarity on the arrangements of the Investment Working Group.

48.9. GF clarified that the Investment Working Group was set up to oversee the implementation of decisions taken by the Pension Committee in relation to investments (which is a function delegated in the Council's constitution to the Chief Finance Officer, rather than a Committee function). It comprises officers, the Independent Advisor to the Fund (William Bourne), and the Chair of the Pension Committee. A decision has been taken to merge it with the ESG Working Group, due to the importance of ESG to investment decisions.

48.10. GF clarified that the PIRC recommendation that it have published agenda and minutes was advisory. He said that for it to become a formal, decision making sub-committee with an agenda and minutes it would require a decision from the County Council as it would involve amending the constitution. The advantage of it being informal was that it allowed greater flexibility and discussion of issues. GF was open to reviewing the purpose of the Investment Working Group in the future and offered to discuss it more with TD outside the Board meeting.

48.11. SK added that the Investment Working Group will have an agenda at future meetings. The Working Group's actions and any recommendations are reported back to the Pension Committee at each meeting. The Committee is recommended to consider these updates following the exclusion of the public and press due to the report of the Working Group containing information that is the Committee is advised is exempt under the Local Government Act 1972.

48.12. The Board RESOLVED to note the report.

49 <u>EAST SUSSEX PENSION FUND 2020/21 BUDGET QUARTERLY REPORT</u>

49.1. The Board considered a report providing an update on the 2020/21 business plan at Quarter 2 for the ESPF.

49.2. The Chair asked why the cost of investment management fees for the four new investment managers was known and disclosed but was not for those in the ACCESS pool. The result of this was that the investment management fees appeared to increase substantially.

49.3. SK explained the Fund had decided it was more transparent to receive invoices for these managers rather than allow them to deduct their costs at source. This makes the process more transparent and makes it clear what the fund is paying for its investment management. ACCESS however deducts the investment management fees from the investment funds.

49.4. The Board RESOLVED to note the report.

50 ANNUAL TRAINING PLAN 2020/21

50.1. The Board considered the Annual Training Plan for the ESPF.

50.2. The Chair suggested that the Board might like to have single, hour-long training sessions at the rate of around three per quarter. This would ensure high turnout and engagement, which is more difficult when training sessions are all day or take place after a lengthy Board meeting. He suggested initial topics include the McCloud Judgement, £95k cap, and admissions and cessations policy, and he asked that they be recorded in case Members cannot attend.

50.3. The Board RESOLVED to:

1) note the report; and

2) agree to request training sessions are provided at hour-long events approximately three times per quarter.

51 PENSION FUND RISK REGISTER

51.1. The Board considered a report on the ESPF's Risk Register.

51.2. TD asked whether the risk of stranded assets (assets that cannot be sold by a Company in which the fund invests) caused by a failure to divest in good time should be added to the risk register, and asked whether there had been any evidence of success from the policy of engagement with carbon-intensive companies.

51.3. GF said that stranded companies were more of a risk than stranded assets, for example, a company with a stranded asset, like an oil company that own tar sands, may still be viable because of its other operations.

51.4. GF explained that the Committee is reducing the carbon footprint through both engagement and disinvestment.

51.5. In terms of engagement, the Fund works with The Institutional Investors' Group on Climate Change (IIGCC) and Climate Action 100+ to ensure investment managers, who are shareholders of companies on behalf of the Fund, lobby companies for action on climate change. The IIGCC engages with the 160 largest companies in the world and attempts to get them to commit to reporting their emissions in a transparent way against the IIGCC's carbon benchmark; committing to net zero carbon by 2050; and a 45% reduction from the 2010 baseline by 2030. The IIRCC is developing a Net Zero Investment Framework setting out how sectors should move towards this goal. The IIRCC encourages shareholders to file motions at company's Annual General Meetings (AGMs) to provide evidence they are moving in the desirable direction. BP's commitment earlier in the year towards decarbonisation is an example of the success the IIRCC has had.

51.6. GF said the Fund's biggest exposure to fossil fuels is via the assets invested in the passive equity funds. Passive equity funds simply track certain stock markets, meaning that investors will inevitably own stocks in companies listed on these stock markets that have a high carbon footprint.

51.7. The Committee has made the decision to reduce this exposure by moving £880m of its assets from the passive equity funds into two investment managers that deal in active investments, including increasing the share of the Fund held by Longview, which does not invest in companies that trade in commodities like oil; a smart-BETA manager tilted towards companies that are aligned to the 1.5C Paris Climate agreement; and an infrastructure equity manager.

51.8. GF said the Fund still needs income to pay pensions and carbon intensive companies tend to be established and so pay dividends to shareholders; therefore alternative sources of income need to be found in the long run as the fund matures. In addition, government guidance says Local Authority Funds should strongly consider investment in passive equity funds due to their low cost.

51.9. The Board RESOLVED to note the report

52 WORK PROGRAMME

52.1. The Board considered the ESPF's work programme.

52.2. The Board RESOLVED to agree its work programme subject to the addition of:

1. A report on the Communications Policy at the February 2021 meeting; and
2. Removal of the action relating to the KPI "Employer estimates provided" (as it had been resolved).

53 EXCLUSION OF THE PUBLIC AND PRESS

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

54 PENSION FUND BREACHES LOG

54.1. The Board considered an update on the ESPF Breaches Log.

54.2. The Board RESOLVED to note the report.

55 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

55.1. The Board considered the latest admissions and cessations of employers within the Fund.

55.2. The Board RESOLVED to note the report.

The meeting ended at 1.00 pm.

Ray Martin (Chair)

Report to:	**Pension Committee**
Date:	**30 November 2020**
By:	**Chief Financial Officer**
Title of report:	**Investment Report**
Purpose of report:	**This report provides Pension Committee with an update on the investment activities undertaken by the East Sussex Pension Fund.**

RECOMMENDATIONS

The Pension Committee is recommended 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) **agree the revised Investment Strategy Statement (appendix 4); and**
4) **note the content of this report**

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The 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 Hymans Robertson, the East Sussex Pension Fund's (ESPF or the Fund) Investment Consultant, has provided an Action Log and Investment Workplan which will act as a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered by the Committee 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 September 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 below table 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 to Cautious	Neutral
Liquid Sub-Investment Grade Credit	Neutral to Cautious	Neutral to Cautious
Private Lending	Neutral to Cautious	Neutral to Cautious
UK Property	Cautious	N/A*
Long Lease Property	Neutral to Cautious	N/A*
Gilts	Neutral to Cautious	Neutral to Cautious
Index-Linked Gilts	Neutral to Cautious	Neutral to Cautious

***** Hymans had suspended their ratings for property 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 £3.807bn as at 30 June 2020 to £3.851bn as at 30 September 2020 (an increase of £0.044bn); in the main driven by the absolute return mandates Equity and Private Equity also supported returns. The total return of the Fund of 1.1% was slightly ahead 0.4% of the benchmark 0.7% over the quarter to 30 September 2020.

4. Fossil Fuel Exposure

4.1 The Fund's fossil fuel exposure at 30 September 2020 stood at £134.6m or 3.5% (£152.2m or 4% at 30 June 2020) of assets under management, Table 2 below refers. The top five contributions come from the Fund's holding in the RAFI All World 3000 Equity (32.8% of the funds exposure), passive UK (20.2%), M&G Corporate Bonds (10.5%), M&G Alpha Opportunities (5.9%) and UBS Climate Aware (5.6%). 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	4.1	6.1	4.1	0.0	Passive
UBS - Europe	4.7	5.8	4.8	-0.1	Passive
UBS - Japan	4.9	0.9	4.9	-0.1	Passive
UBS - Pac ex Japan	9.2	1.6	9.3	-0.1	Passive
UBS - Fundamental Index	10.9	44.2	11.0	0.0	Passive
UBS - UK Equity	11.3	27.2	11.4	-0.1	Passive
UBS - Climate Aware	4.2	7.6	5.0	-0.7	Passive
UBS - Global EM Equity	8.7	3.1	8.9	-0.2	Passive
Longview - Global Equity	0.0	0.0	6.9	-6.9	Active
Harbourvest - Private Equity*	2.3	2.5	6.9	-4.6	Active
Adams Street - Private Equity*	1.9	2.4	6.9	-5.0	Active
Newton - Absolute Return*	1.1*	5.0	-	-	Active
Ruffer - Absolute Return*	1.4*	6.2	-	-	Active
Schroders - Property	0.0	0.0	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 Opportinities	3.0	7.9	9.7	-	Active
M&G - Corporate Bonds	8.8	14.1	9.4	-0.6	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	**3.5**	**134.6**	-	-	

*fossil fuel exposure as at 30 June 2020.
Source via Hymans - Investment Managers and LINK
Note the Actual Fossil Fuel Exposure % in the table above is % of that managers holdings and different to the % of total fund exposure holdings as per paragraph 4.1

4.2 Since the meeting of Committee in September 2020, the Fund has been working with its transition manager to implement the agreed changes to the Fund's pooled holdings in accordance with the Committee decision and is discussed in more detail in agenda item 17 in Part 2 of the agenda. As a result of the transition to implement the agreed changes the fund anticipates the fossil fuel exposure to fall significantly from its current level of 3.5%, to below 2%. The fossil fuel reduction results will not be recognised in Investment report until the 2020 Q4 reporting to Pension Committee in March 2021.

5. ACCESS update

ESG Adviser procurement

5.1 In recognition of the importance of Environmental, Social and Governance (ESG) /Responsible Investment (RI) to participating ACCESS Authorities, the Joint Committee at its meeting on 7 September noted:

- that responsibility for the determination of ESG/RI policy remains the province of each ACCESS Authority;
- references within all Authorities' ESG/RI policies to both the UK FRC Stewardship Code and United Nations Principles of Responsible Investment;
- that a statement would be included on the ACCESS website to highlight that
    - All 11 investment managers are signatories to the United Nations Principles of Responsible Investment;
    - All 10 investment managers based in the UK have stated the intention to become signatories to the revised FRC UK Stewardship Code;
    - 9 of the 10 investment managers based in the UK have been assessed as a Tier 1 Asset Manager under the UK Stewardship Code; and
    - currently 6 of the ACS investment managers measure the carbon footprint of their mandate against a carbon benchmark.
- An outline specification for the provision of specialist advice to develop ACCESS's ESG/RI guidelines;
- the intention to use Lot 5 of the LGPS Stewardship framework to procure this advice.

5.2 The JC agreed that Essex County Council would act as the Lead Authority for the purposes of procuring the ESG/RI advice, and this will be conducted in line with Essex County Council procurement arrangements. The final stage of the procurement will be a recommendation to the JC when it meets on 13 January 2021 on the appointment of a preferred provider. Essex County Council will then enter into a contract with the appointed adviser on behalf of the Authorities.

5.3 An Officer Task & Finish Group has been formed of Officers. This group has met on five occasions and drawn up a set of specifications for the adviser procurement. It has been put forward that the appointment panel comprises up to three Joint Committee Members, along with S151 and Officer Working Group representation.

Joint Committee

5.4 The Joint Committee met on 12 November 2020. The agenda has been included in Appendix 3 and public papers can be located on Kent County Council website here https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=898&MId=8685&Ver=4.

5.5 After the meeting the Joint Committee received a presentation from Hymans Robertson on the current pooling solutions that have been implemented by LGPS Pools. To help the Joint committee set criteria to evaluate these models when reviewing the future direction of ACCESS.

Sub Fund Progress

5.6 As reported previously to the Committee, Link on behalf of ACCESS Authorities, are launching a series of sub-funds representing those mandates which met criteria set by the Joint Committee relating to scale, commitment and value for money. The table below shows the progress made:

Tranche / Asset class	T1	T2	T3	T3a	T4	T5a	T4a	T5b	T6	On hold	Total
Global equities	1	5	1	1		4	1		1		14
UK equities		2				1				1	4
EM Equities									1		1
Fixed income			1		1		1	3	1	1	8
Diversified growth					3						3
Total	1	7	2	1	4	5	2	3	3	2	30

5.7 Tranches 1 – 4 are live as ACCESS pooled funds. Tranche 5a was due to launch during November and Tranche 4a in early December, East Sussex do not have any assets within the tranches currently transitioning.

6. Investment Strategy Statement

6.1 As a result of the decisions made at Pensions Committee in June 2020 and September 2020 on the changes to its equity holdings and the approval of the Funds Statement of Responsible Investment Principles, officers were requested to bring a revised Investment Strategy Statement to this Pension Committee reflecting the changes.

6.2 Appendix 4 to this report includes the revised Investment Strategy Statement (ISS) taking into account the requested changes at the 21 September 2020 Pension Committee.

7. Conclusion and reasons for recommendation

7.1 Investments are regularly monitored to ensure that the Fund's strategic asset allocation set out in the Fund's 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

Contact Officer: Sian Kunert, Head of Pensions
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Email: Sian.kunert@eastsussex.gov.uk

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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 November Committee meeting.

Prepared by:-

Ben Fox, Investment Consultant
Mark Tighe, Investment Analyst

November 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
Implement the manager changes agreed at the September Committee meeting; investments to be made with WHEB, Wellington, Storebrand and Atlas, funded from equity and index-linked gilt holdings at UBS.	Officers		Due diligence reviews taken place by Eversheds and a transition plan has been agreed for the transition of assets
Review the Fund's private equity allocation	Hymans Robertson / New Investment Advisor		Hymans Robertson provided a summary of the Fund's private equity portfolio for the November Committee meeting. Any future recommendation to be provided by the new investment advisor
Prepare recommendation for a 2% unlisted infrastructure allocation, including a recommendation on whether to fund from Newton or M&G credit	Working Group / New Investment Advisor		To be considered by the new investment advisor
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 / New Investment Advisor		New investment Advisor will provide reporting that can be reviewed
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

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	• 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	• Recommend funds for future commitments • Meet capital call requests as they are made	• New investment advisor • Officers	Q4 20 Committee meeting for private equity summary Ongoing
Currency Hedging	• Establish a policy on approach to currency hedging	• Discuss within the Investment Working Party and prepare a recommended policy	• New investment advisor in conjunction with Working Party	H1 2021
Structure				
Rebalancing	• Protection allocation in breach of upper limit • Alternatives allocation in breach of lower limit	• No action proposed at this time • Drawdowns into infrastructure and real-estate debt will increase alternatives allocation	n/a	n/a
Equity Structure	• Implement new equity structure	• Transition assets from UBS equities to newly appointed equity managers	• Transition manager appointed	Q4 20

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			• Officers to lead with support from Hymans	
Listed infrastructure	• Invest in listed infrastructure fund	• Transition assets from UBS Index-Linked Gilts to the newly appointed listed infrastructure manager	• Officers to lead with support from Hymans	Q4 20
Corporate Bond exposure	• Uncertain outlook for credit investment in current environment	• Review current investments in conjunction with M&G, as part of the recommendation for funding the 2% unlisted infrastructure allocation	• New investment advisor in conjunction with Working Party	H1 2021
Private equity programme	• Periodic review of private equity strategy is recommended	• Carry out detailed review of objectives against current programme	• Hymans Robertson / New investment advisor	Q4 2020 for private equity summary Recommendation to follow by new advisor
ESG				
UK Stewardship Code	• Consider the Fund becoming a signatory to the revised UK Stewardship Code	• Understand the requirements under the UK Stewardship Code with a view to the Fund signing up	• Officers to consider requirements	Q1 2021
Transition Pathway Analysis	• Understand the Fund's equity resilience to a transition to a low carbon economy	• Conduct the transition pathway analysis on the Fund's equity holdings	• Officers to consider once new mandates in place	Q1 2021

2 Market Outlook

Core Asset Class Views: Summary

Unprecedented policy support has, for the moment at least, eased the worst fears about the scale and duration of the economic downturn and goes some way to explaining the sustained revival in investor sentiment. However, the surprisingly strong short-term economic bounce has already lost steam and the risks remain high while COVID-19 remains endemic in much of the world. It is increasingly difficult to justify prices if factoring in the uncertainty associated with the full range of scenarios that may play out. With this in mind:

- We retain our cautious view on equities: not only does the outlook for earnings remain highly uncertain, but valuations are once again beginning to look a little stretched.
- A challenging fundamental backdrop and demanding valuations also lead us to hold a cautious view on property.
- With investment-grade spreads moving below long-term median levels, we are now more neutral between investment- and speculative-grade in corporate credit markets and have a modest bias within investment-grade portfolios towards asset-backed securities.
- Given our overall cautious assessment of risk assets, we continue to advocate holding more cash than required by strategic considerations.
- For those reluctant to hold cash within growth portfolios, non-directional assets – such as insurance-linked securities, macro hedge funds and absolute return diversified growth funds – may offer an attractive alternative, though these assets will require conviction in active manager skill.

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

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	Global equity markets continued their momentum from Q2 through Q3, boosted by improving investor sentiment as rapid growth was realised following the easing in lockdowns in major economies. While data has improved and analysts' earnings forecasts have stabilised, much uncertainty remains over the recovery and the longer-term trajectory of corporate earnings, particularly in light of the recent return of restrictions in many countries. Valuations are highly disparate by region and sector, but when viewed in aggregate are considered a little stretched and may not be fully reflective of the current downside risks to the outlook
Sterling Investment Grade Credit	Spreads have moved in-line with long-term median levels amid ongoing support from central banks and a recovery in market sentiment. The less sensitive nature of the investment-grade credit market to the fundamental backdrop is being reflected in spreads. Sterling investment grade spreads have fallen below long-term median levels and the premium relative to equivalent global credit is low relative to history. The structural protection inherent in ABS and high stress resilience does offer some additional protection relative to unsecured corporate markets where spreads have compressed further.
Liquid Sub-Investment Grade Credit	Recent spread tightening means that speculative grade spreads are just above long-term median levels. While expectations for the peak default rate have improved since the end of Q1, reflecting an improvement in financial conditions resulting from significant policy stimulus and a recovery in market sentiment, the outlook for earnings and defaults has still deteriorated significantly since the start of the year.
Private Lending	Though the fundamental backdrop has deteriorated since the beginning of 2020 and remains uncertain, senior secured corporate lending offers the opportunity to originate new debt with better terms and potentially more attractive fundamentals versus outstanding debt in the public markets. The illiquidity premium we would typically expect remains slightly compressed given recent weakness in the public markets. More affected outstanding debt in public and private markets may create opportunities for new stressed/distressed and special situations financing strategies.
UK Property	While there is greater certainty around the accuracy of valuation data and some moderation in the stress facing the UK commercial property market, weak fundamentals demonstrate further downside risk over the coming months.
Long Lease Property	On an absolute basis, valuations appear less attractive than the wider property market, but they are supported by stronger fundamental and technical drivers.
Gilts	Gilt yields remain near record lows amid slumping forecasts for growth and inflation and ultra-accommodative monetary policy. Yields may remain subdued for some time as major central banks maintain QE programs to provide liquidity to the global financial system, potentially pushing the normalisation of interest rates beyond the horizon of our medium-term views.
Index-Linked Gilts	Implied inflation is no longer cheap versus forecast and target inflation. The ongoing consultation in to RPI as an inflation measure remains a lingering upside risk for real

	yields. Forecasts for UK growth and inflation in 2020 provide fundamental support for gilt markets.
Cash Strategies	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

Appendix 2

Q3 2020 Investment Monitoring Report

Paul Potter, Partner
Ben Fox, Investment Consultant
Mark Tighe, Investment Analyst

HYMANS ROBERTSON

Market Background

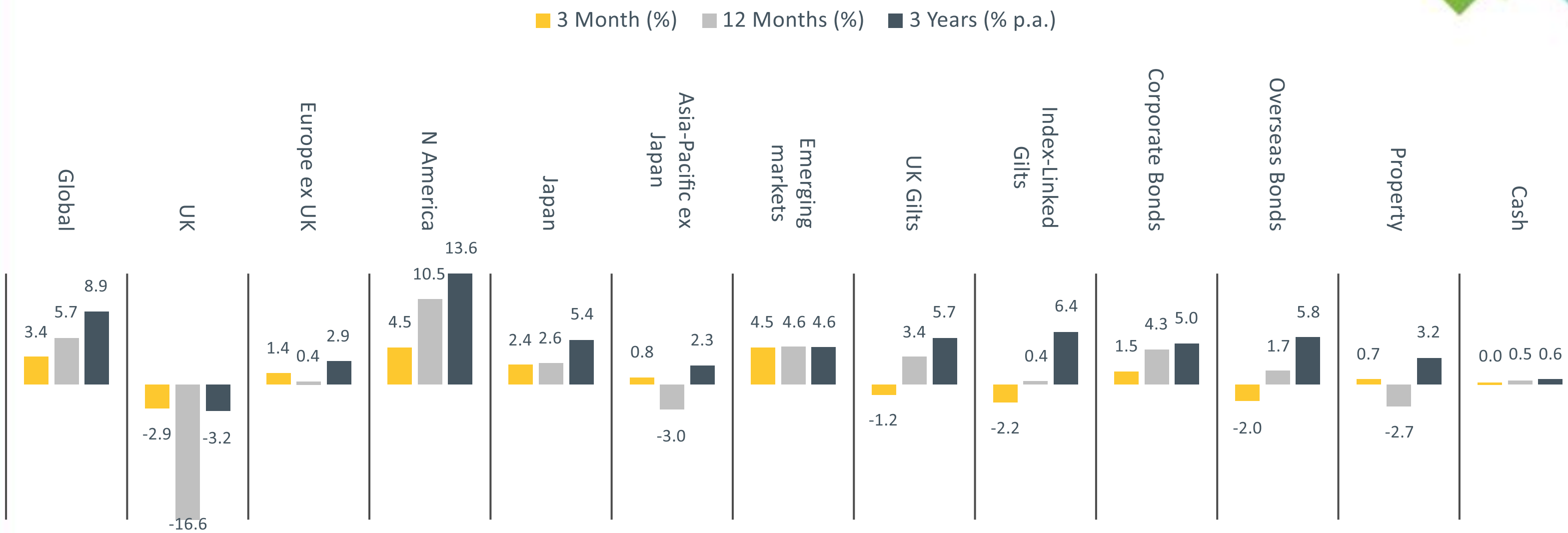
Q3 GDP data will likely reveal record-breaking growth rates for many economies, following Q2's record-breaking declines. Despite signs of a recovery, there is evidence to suggest the pace of improvement in major advanced economies slowed markedly towards the end of Q3. Monthly UK GDP releases show the pattern of growth experienced by the major advanced economies - April marked the nadir of the downturn with the economy returning to month-on month growth in May. Although above longer-term trend growth, the monthly pace of growth slowed from 6.4% in July to 2.1% in August. Purchasing Managers' Indices for both services and manufacturing in the major western economies signalled that the recovery in global activity continued in September.

Sterling partially reversed some of its losses in the first half of 2020, rising 1.7% in trade-weighted terms since the end of June, though weakness returned as trade talks faltered in September. Even allowing for September's gains, the US dollar fell 2.8% in trade-weighted terms in Q3.

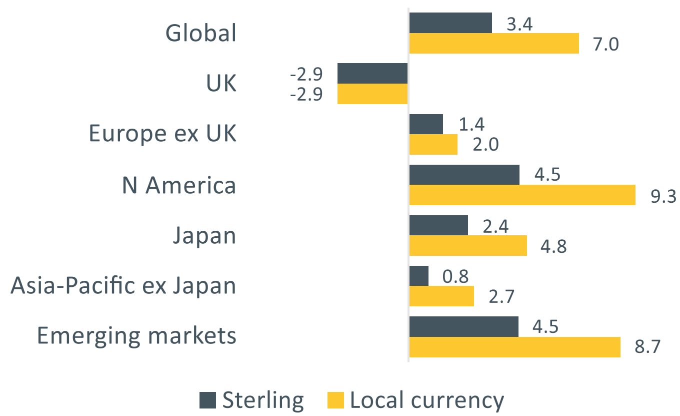
Globally, every major economy has seen its core inflation rate fall since end-2019. Having risen to 1.0% in July, headline UK CPI inflation fell to 0.2% in August, its lowest level since December 2015.

The Fed's shift to "flexible" average inflation targeting over Q3 likely means interest rate rises are even further away than previously envisaged. The Bank of England continues to send mixed messages on the potential use of negative interest rates, but an operational review is ongoing and market pricing, at least, suggests negative interest rates may be introduced in 2021.

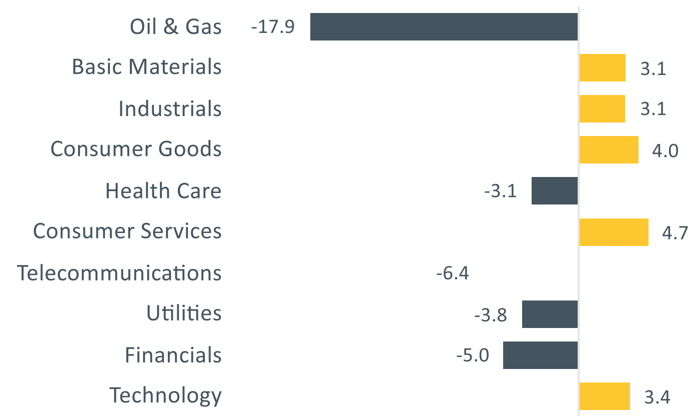
Historic returns for world markets [1]



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 1.1% over the quarter, which was driven mostly by the DGF allocation
- The equity and private equity allocations also supported returns

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.

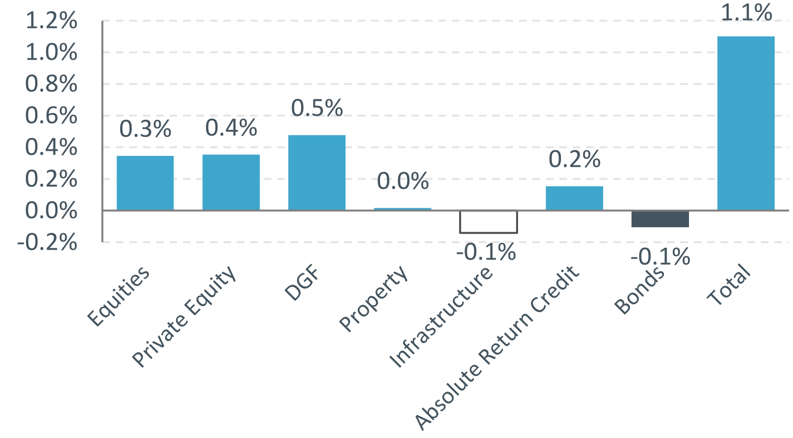
Asset Allocation

- Allocation to alternatives underweight. Further drawdowns into infrastructure and real estate debt will address this over time.
- Protection still overweight, following the market crash at the start of the year.

Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Total	1.1	-0.7	4.6	8.5
Benchmark	0.7	-0.9	4.1	7.7
Relative	0.4	0.3	0.5	0.7

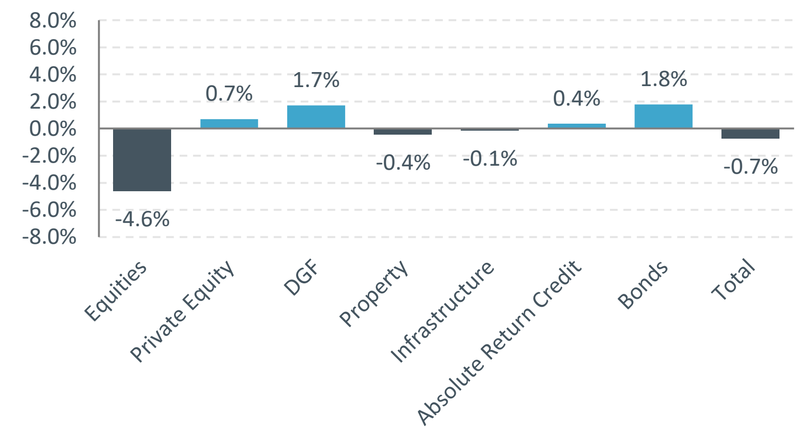
3 Month Performance Attribution*



Asset Allocation

GrIP	Actual	Benchmark	Relative	Rebalancing Range
Growth	46.8%	45.5%	1.3%	41.0% - 50.0%
Alternatives	30.9%	35.5%	-4.6%	32.0% - 39.0%
Protection	21.4%	19.0%	2.4%	17.0% - 21.0%

12 Month Performance Attribution*



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

Key actions agreed previously

- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which is expected to fully draw down over the next c12-18 months
- Fund has committed c£235m to infrastructure, which is expected to draw down over the next 3-4 years.

Allocation comment

- Newton absolute return mandate in breach of upper limit, but expected to fund draw downs into infrastructure and private debt over time
- No other mandates in breach of rebalancing ranges.

Asset Allocation

Manager	Valuation (£m) Q2 2020	Valuation (£m) Q3 2020	Actual Proportion	Benchmark	Relative	Rebalancing Ranges
UBS - Regional Equities	368.9	309.2	8.0%	8.0%	0.0%	36.0% - 44.0%
UBS - Fundamental Index	424.7	404.0	10.5%	11.5%	-1.0%	
UBS - UK Equity	247.0	240.6	6.2%	7.0%	-0.8%	
UBS - Climate Aware	191.6	179.1	4.7%	5.0%	-0.3%	
UBS - Global EM Equity	42.9	35.9	0.9%	1.5%	-0.6%	
Longview - Global Equity	272.6	391.8	10.2%	7.0%	3.2%	
Harbourvest - Private Equity	107.6	114.2	3.0%	2.8%	0.2%	3.5% - 7.5%
Adams Street - Private Equity	121.9	128.2	3.3%	2.8%	0.6%	
Total Growth	**1777.3**	**1802.9**	**46.8%**	**45.5%**	**1.3%**	**41.0% - 50.0%**
Newton - Absolute Return	447.0	462.9	12.0%	10.5%	1.5%	9.5% - 11.5%
Schroders - Property	344.0	342.9	8.9%	10.0%	-1.1%	8.0% - 12.0%
UBS - Infrastructure	16.3	22.1	0.6%	1.0%	-0.4%	2.0% - 6.0%
Pantheon - Infrastructure	33.6	25.7	0.7%	2.0%	-1.3%	
M&G - Infrastructure	21.6	25.6	0.7%	1.0%	-0.3%	
M&G - Private Debt	36.5	42.0	1.1%	3.0%	-1.9%	1.0% - 5.0%
M&G - UK Financing Fund	0.0	0.0	0.0%	0.0%	0.0%	
M&G - Alpha Opportinities	261.7	268.4	7.0%	8.0%	-1.0%	7.0% - 9.0%
Total Alternatives	**1160.7**	**1189.5**	**30.9%**	**35.5%**	**-4.6%**	**32.0% - 39.0%**
Ruffer - Absolute Return	449.5	441.7	11.5%	10.5%	1.0%	9.5% - 11.5%
M&G - Corporate Bonds	160.5	161.7	4.2%	3.5%	0.7%	2.5% - 4.5%
UBS - Over 5 Year IL Gilt Fund	236.8	219.5	5.7%	5.0%	0.7%	4.0% - 6.0%
Total Protection	**846.8**	**822.9**	**21.4%**	**19.0%**	**2.4%**	**17.0% - 21.0%**
Cash	22.4	35.2	0.9%	0.0%	0.9%	0.0% - 2.0%
Total Scheme	**3,807.1**	**3,850.5**	**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*

- 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 an overweight position to financials and stock selection within consumer staples.
- Newton and Ruffer outperformed their cash-plus benchmark as risk markets continued their recovery from the COVID-19 driven falls seen in Q1 2020.

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
Growth												
UBS - Regional Equities	3.1	3.0	**0.0**	5.4	5.3	**0.1**				6.7	6.7	**0.1**
UBS - Fundamental Index	-0.6	-0.6	**0.0**	-9.9	-10.2	**0.3**				0.6	0.5	**0.1**
UBS - UK Equity	-2.9	-2.9	**0.0**	-16.5	-16.5	**0.0**				-5.2	-5.3	**0.0**
UBS - Climate Aware	3.4	3.3	**0.1**	5.4	5.7	**-0.3**				7.5	7.7	**-0.2**
UBS - Global EM Equity	4.2	4.4	**-0.2**	4.1	4.5	**-0.3**				1.4	1.7	**-0.3**
Longview - Global Equity	1.7	3.2	**-1.4**	-7.2	5.6	**-12.1**	5.2	8.5	**-3.1**	12.2	10.8	**1.3**
Alternatives												
Newton - Absolute Return	3.6	0.6	**2.9**	3.5	3.0	**0.5**	4.7	3.1	**1.5**	4.1	3.0	**1.1**
Schroders - Property	0.2	0.2	**0.0**	-3.8	-2.8	**-1.0**	2.2	2.7	**-0.4**	6.8	6.5	**0.3**
M&G - Absolute Return Credit	2.5	0.8	**1.7**	4.3	3.4	**0.9**	3.0	3.5	**-0.6**	4.1	3.5	**0.5**
Protection												
Ruffer - Absolute Return	0.9	0.6	**0.2**	8.6	3.0	**5.5**	4.0	3.1	**0.9**	4.0	3.0	**1.0**
M&G - Corporate Bonds	0.8	0.8	**0.0**	7.7	4.8	**2.8**	7.4	6.2	**1.2**	8.0	8.0	**0.0**
UBS - Over 5 Year IL Gilt Fund	-2.4	-2.5	**0.1**	21.6	21.2	**0.3**				15.9	15.9	**0.0**
Total	1.1	0.7	**0.4**	-0.7	-0.9	**0.3**	4.6	4.1	**0.5**			

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.

- This page includes manager/RI ratings and any relevant updates over the period.
- There were no manager rating changes over the quarter.

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	Adequate
Schroders - Property	Suitable	-
UBS - Infrastructure	Suitable	Good
Pantheon - Infrastructure	Preferred	Good
M&G - Infrastructure	Positive	-
M&G - Private Debt	Preferred	Good
M&G - Absolute Return Credit	Preferred	Adequate
M&G - Corporate Bonds	Preferred	Adequate
UBS - Over 5 Year IL Gilt Fund	Preferred	-

Ruffer business update

Over the quarter, Ruffer announced that Jonathan Ruffer formally stepped down from the businesses Executive Committee, which is responsible for the day-to-day management of the firm, his investment responsibilities remain unchanged.

Newton business update

Newton announced over the quarter that Andrew Downs will become interim CEO of Newton which became effective at the start of October and is a result of former CEO Hanneke Smits' promotion to CEO of BNY Mellon IM. Andrew has 26 years' experience at Newton and is a member of the firm's board and executive management committee. Newton are still searching for a permanent CEO.

In relation to the Global Income strategy, over the quarter Rob Hay moved to the equity income team as a portfolio manager from the global concentrated strategy. This follows a number of departures within the income strategy over recent quarters.

Schroders business update

Schroders has announced that Duncan Owen, its Global Head of Real Estate, has resigned and will be leaving the firm on 31 December 2020. Owen will remain a Special Advisor to Schroders. Sophie van Oosterom will join the firm in January 2021 as new Global Head of Real Estate and joins from CBRE Global Investors where she was CEO and CIO of its EMEA division.

Source: Investment Managers

UBS Equities

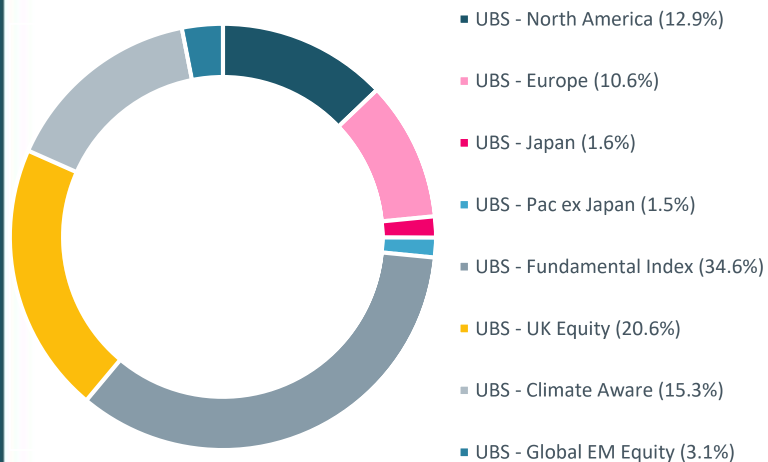
- Benchmark: Various regional indices
- Target: Match benchmark over all time periods
- UBS have successfully tracked underlying benchmarks to date

Fund performance vs benchmark

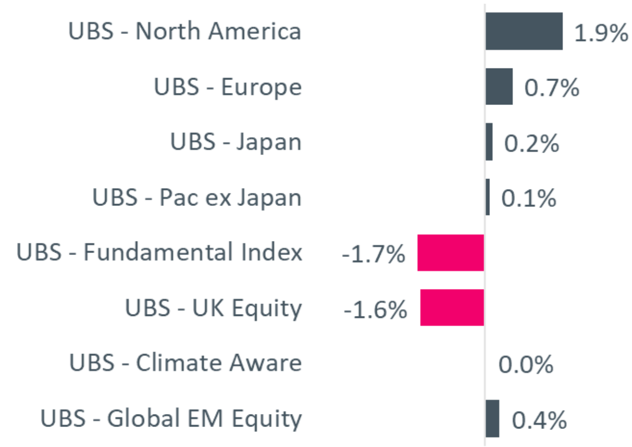
UBS Performance Table

	Last 3 months (%)	B'mark	Relative	Last 12 months (%)	B'mark	Relative
UBS - North America	4.6	4.5	0.1	10.7	10.4	0.2
UBS - Europe	1.5	1.5	0.0	0.5	0.6	-0.1
UBS - Japan	2.3	2.4	-0.1	2.5	2.5	0.0
UBS - Pac ex Japan	0.8	0.8	0.0	-3.0	-3.1	0.1
UBS - Fundamental Index	-0.6	-0.6	0.0	-9.9	-10.2	0.3
UBS - UK Equity	-2.9	-2.9	0.0	-16.5	-16.5	0.0
UBS - Climate Aware	3.4	3.3	0.1	5.4	5.7	-0.3
UBS - Global EM Equity	4.2	4.4	-0.2	4.1	4.5	-0.3

Fund Allocation



Fund Allocation Relative to Target



Source: Investment Manager

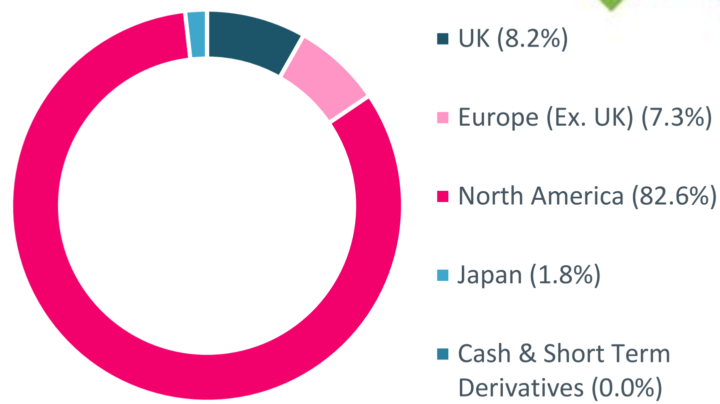
Longview Global Equities

- Benchmark: MSCI ACWI
- Target: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods
- Performance behind benchmark over recent time periods, but ahead over five years.
- 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.

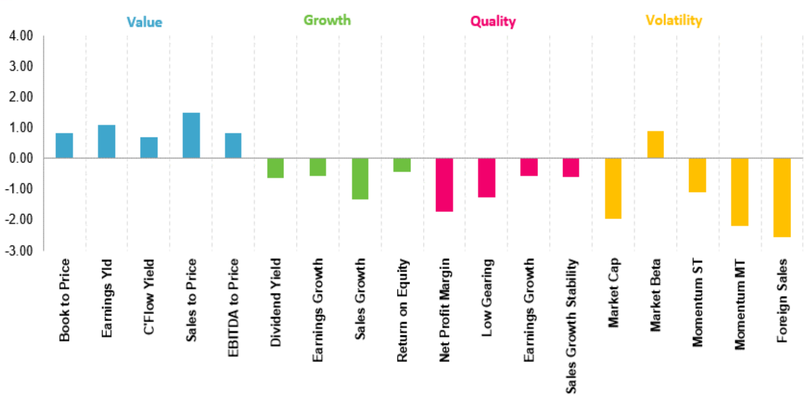
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Longview - Global Equity	1.8	-6.5	5.8	11.9
Benchmark	3.2	5.6	8.5	13.9
Relative	-1.3	-11.5	-2.5	-1.7
Target (%)	3.9	8.6	11.5	16.9
Relative to Target (%)	-2.0	-13.9	-5.1	-4.2

Country Allocation



Pooled Fund Skyline (as at 30 September 2020)



Performance attribution – Top/Bottom 3 Sectors

	Beginning Weight			Outperformance Source		
	Fund (%)	Index (%)	Difference (%)	Selection (%)	Allocation (%)	Total (%)
Healthcare	23.9	13.8	10.1	1.5	-0.3	1.2
Energy	0.0	2.9	-2.9	0.0	0.8	0.8
Consumer Staples	9.8	8.2	1.6	0.3	0.0	0.3
IT	13.2	21.5	-8.3	-0.3	-0.4	-0.7
Consumer Discret.	6.3	11.5	-5.3	-0.7	-0.4	-1.1
Financials	24.3	12.4	12.0	-0.7	-0.8	-1.5

Source: Investment Manager

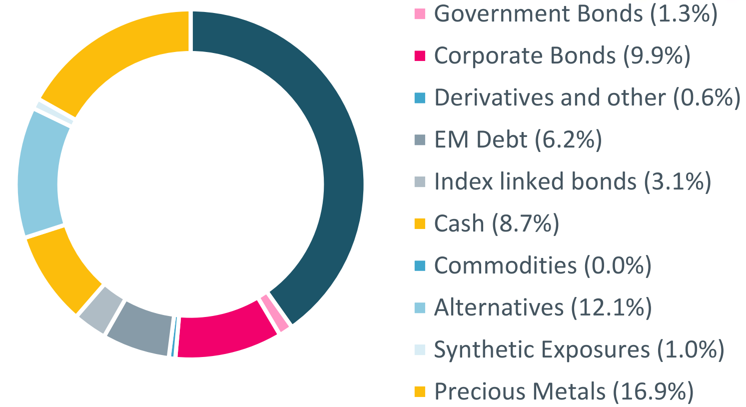
Newton Real Return Fund

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

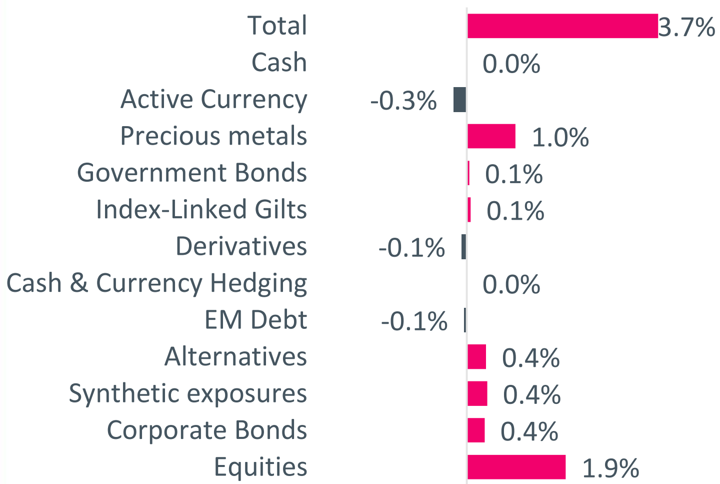
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Newton - Absolute Return	3.7	4.1	5.3	4.9
Benchmark	0.6	3.0	3.1	3.0
Relative	3.1	1.1	2.1	1.9
Target (%)	1.0	4.5	4.6	4.5
Relative to Target (%)	2.7	-0.4	0.7	0.4

Asset Allocation



Performance Attribution



Performance attribution explanation

The Fund's equity allocation was the primary driver of performance over the quarter as equity markets continued to rise. Within equities, technology stocks in particular were amongst the top contributors.

In addition, exposure to precious metals also boosted performance as the prices bounced back sharply from the lows seen earlier in the year.

Derivative contracts designed to hedge against falls in equity and credit markets detracted from returns. These did however help protect against market falls in September.

Source: Investment Manager

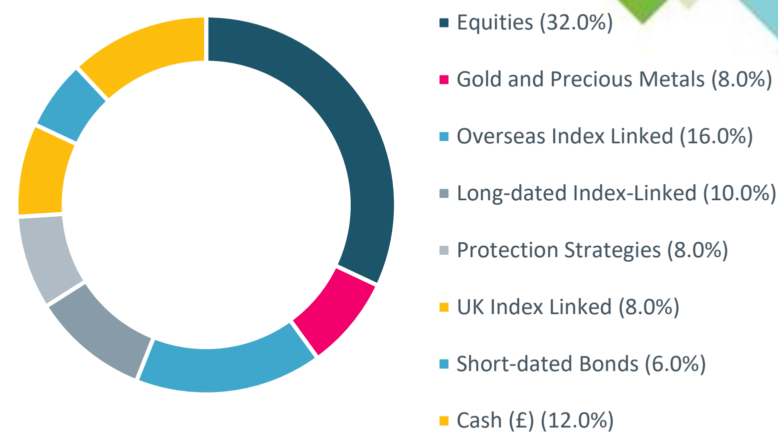
Ruffer Absolute Return Fund

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

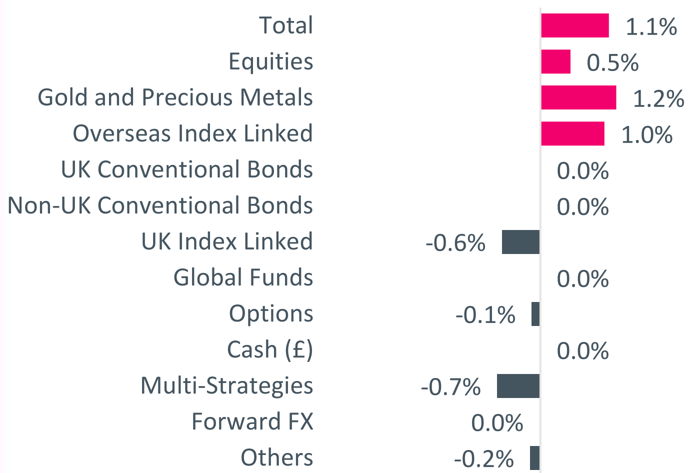
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Ruffer - Absolute Return	1.1	9.4	4.8	4.8
Benchmark	0.6	3.0	3.1	3.0
Relative	0.4	6.3	1.7	1.8
Target (%)	1.0	4.5	4.6	4.5
Relative to Target (%)	0.0	4.7	0.2	0.3

Asset Allocation



Performance attribution



Performance attribution explanation

Ruffer continued to outperform over the quarter, adding to what has been a very impressive 12 month period for the fund.

The primary contributors to performance were the fund's gold holdings which rose sharply in response to falling US real yields and a declining US dollar. In addition, also helped by falling real yields, was the fund's US inflation linked bonds allocation.

The largest detractor from performance was the fund's multi-strategy credit protection funds. The multi strategy funds hedge against turmoil in credit markets and therefore fell in value over the quarter as credit spreads tightened as investors' risk appetite increased.

Source: Investment Manager

HYMANS ROBERTSON

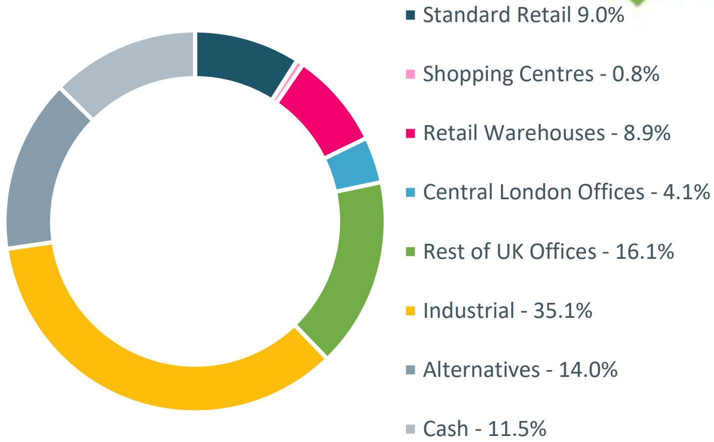
Schroders Property Fund

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

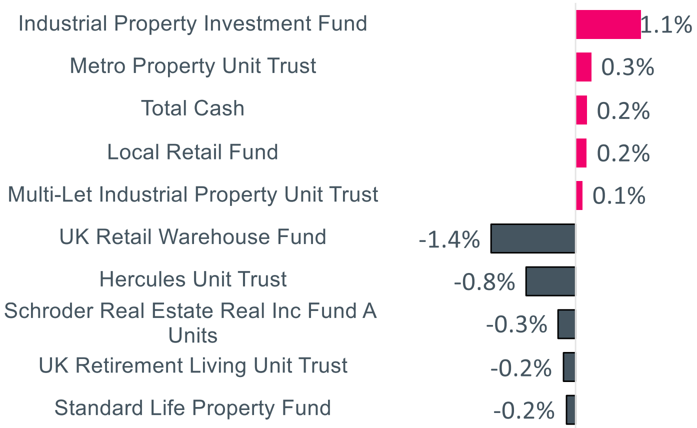
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Schroders - Property	0.2	-3.8	2.2	3.8
Benchmark	0.2	-2.8	2.7	4.1
Relative	0.0	-1.0	-0.4	-0.2
Target (%)	0.4	-2.0	3.4	4.3
Relative to Target (%)	-0.2	-1.8	-1.1	-0.4

Sector Allocation



Top 5/Bottom 5 Contributors (12 months)



Performance attribution explanation

The Schroders Property fund matched its benchmark over 3 months but remains behind over 1 year.

The material uncertainty clause applied to the fund as a result of valuers being unable to properly assess property valuations has now been lifted.

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 c.11.5% of the portfolio was being held as cash.

Rent collection over the quarter was strongest in the office and industrial sectors.

Source: Investment Manager

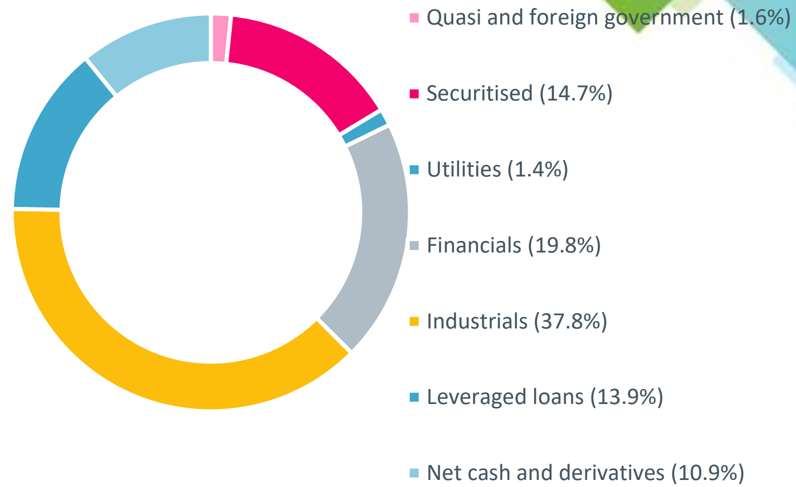
M&G Alpha Opportunities Fund

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

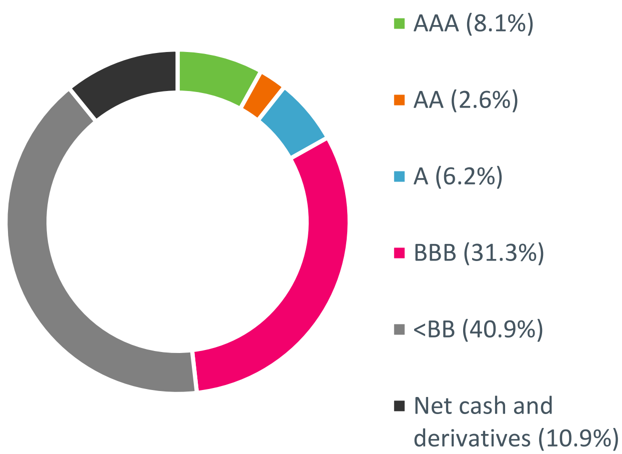
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
M&G - Absolute Return	2.6	4.7	3.3	4.4
Benchmark	0.8	3.4	3.5	3.5
Relative	1.8	1.3	-0.2	0.9
Target (%)	5.0	5.4	5.5	5.5
Relative to Target (%)	-2.3	-0.6	-2.1	-1.0

Sector Allocation



Credit Ratings



Performance attribution explanation

The largest contributor to the relative returns were corporate bonds as credit spreads continued to tighten over the quarter.

Credit selection in the industrial and financial sectors was particularly beneficial to the performance. Returns were also boosted by the leveraged loans holdings. The cash holding slightly detracted from performance.

At the start of the quarter the manager reduced the fund's exposure to credit. Some of the profits were reinvested into AAA UK Residential Mortgage Backed Securities. The manager continued to decrease the fund's credit risk in August. The manager is retaining cash to deploy it should attractive opportunities arise.

Source: Investment Manager

HYMANS ROBERTSON

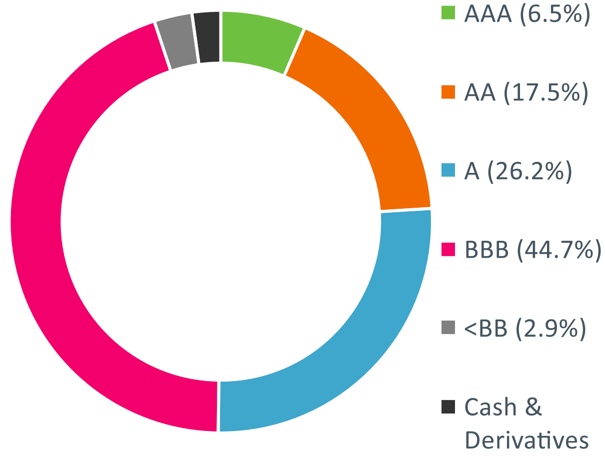
M&G Corporate Bonds Fund

- 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

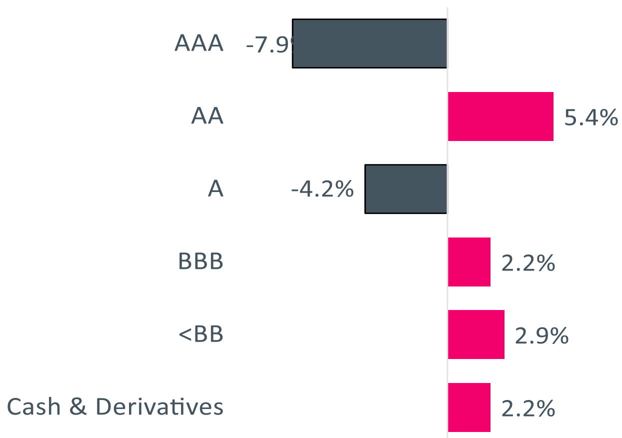
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
M&G - Corporate Bonds	0.9	8.1	7.7	8.8
Benchmark	0.8	4.8	6.2	7.2
Relative	0.1	3.2	1.5	1.5
Target (%)	1.0	5.6	7.0	7.4
Relative to Target (%)	-0.1	2.4	0.7	1.3

Credit Ratings



Credit rating allocation relative to benchmark



Performance attribution relative to benchmark

Sector	Outperformance Source: Sector Selection (%)	Stock Selection (%)	Total (%)
Financial	0.3	0.2	**0.5**
Utility	-0.2	0.1	**0.0**
Quasi & Foreign Government	-0.1	0.0	**-0.1**
Industrial	0.4	0.2	**0.6**
Sovereign	0.0	0.0	**0.0**
Covered	0.0	0.0	**0.0**
Securitised	0.1	0.0	**0.0**

Source: Investment Manager

UBS Index-Linked Gilts Fund

- Benchmark: FTSE Index-Linked Gilts Over 5 Years
- Target: Match benchmark
- Performance broadly matched benchmark since inception
- Real yields rose over the quarter resulting in negative 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	-2.4	21.6	15.9
Benchmark	-2.5	21.2	15.8
Relative	0.1	0.3	0.1

Source: Investment Manager

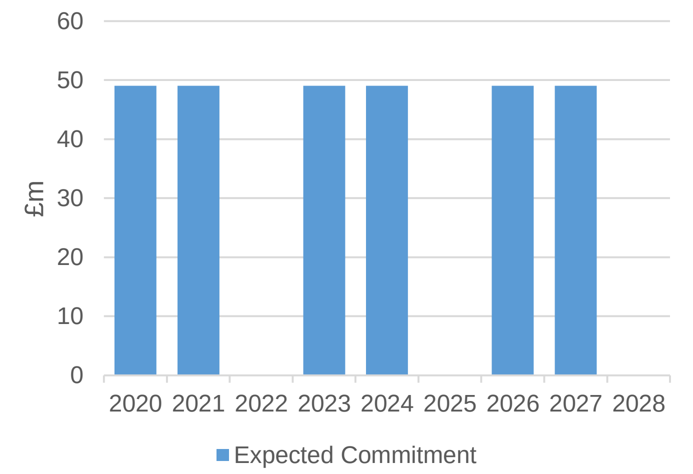
HarbourVest and Adams Street Private Equity

- Note: Starting valuations are as at 30 June 2020 for Adams Street and 31 March 2020 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	0.3	-	-	0.4
HARBOURVEST INTL PEP V - CAYMAN PSHP FD	2.3	-	0.4	2.2
HARBOURVEST INTL PEP VI - CAYMAN PSHP FUND	16.9	-	1.1	17.3
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND I	11.6	-	0.3	11.3
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND II	19.6	-	-	19.8
HARBOURVEST PARTNERS IX CAYMAN CREDIT OPPORTUNITIES FUND	1.6	-	-	1.7
HARBOURVEST PARTNERS IX CAYMAN VENTURE FUND	9.8	-	0.5	10.2
HARBOURVEST PARTNERS IX-CAYMAN BUYOUT FUND	12.3		0.4	12.7
HARBOURVEST PARTNERS VII - CAYMAN MEZZANINE FUND	0.0	-	-	0.4
HARBOURVEST PARTNERS XI AIF LP	8.0	1.3	0.1	9.8
HARBOURVEST PTRS VII - CAYMAN VENTURE FUND	1.0	-	0.1	1.6
HARBOURVEST PTRS VIII - CAYMAN BUYOUT FUND	2.0	-	-	2.2
HARBOURVEST PTRS VIII - CAYMAN MEZZANINEAND DISTRESSED DEBT FD	0.1	-	-	0.1
HARBOURVEST PTRS VIII - CAYMAN VENTURE FUND	1.5	-	0.1	1.0
HIPEP IV SUPPLEMENTAL EUROPEAN COMPANIONFUND	1.0	-	-	1.0
HIPEP VII (AIF) PARTNERSHIP FUND LP	12.6	-		13.3
HIPEP VIII (AIF) PARTNERSHIP FUND LP	7.5	1.4	-	9.4

Projected Future commitments to maintain target allocations*

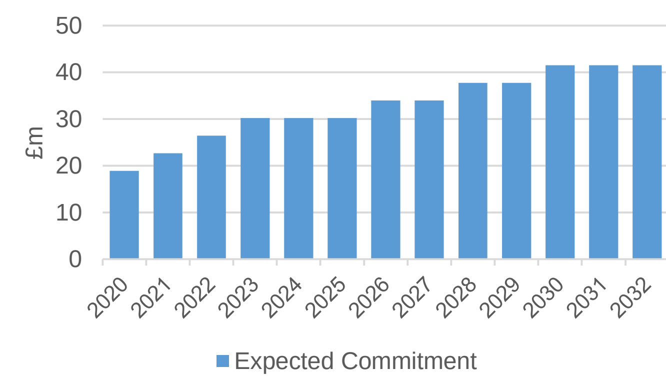


*Provided by HarbourVest. 2020 commitments have been suspended pending the outcome of the strategy review

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	4.7	-	1.2	4.8
ADAMS STREET CO-INVESTMENT FUND II	1.4	-	0.1	1.4
ADAMS STREET GLOBAL FUNDS 2014 - 2019	48.2	-	0.0	51.2
ADAMS STREET PSHP FUNDS	25.1	-	0.3	21.2
ADAMS STREET FEEDER FUNDS	20.6	-	0.7	21.0
ADAMS STREET OFFSHORE COMPANY LIMITED FUNDS	23.4	-	0.7	22.6

Projected Future commitments to maintain target allocation*



*Provided by Adams Street. 2020 commitments have been suspended pending the outcome of the strategy review

Market value and cashflow source: Northern Trust

Infrastructure

- Benchmark: CPI+2%
- Target: CPI+3%
- UBS Fund I is now winding down and paying capital back to investors. UBS Fund III purchased its first asset over the quarter.
- The Pantheon fund is currently in ramp-up mode and 33% drawn as at quarter end.
- The InfraCapital Brownfield III fund is currently in ramp-up mode and 63% 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	11.5
Distributions ($m)	23.2	0.0
Outstanding Commitment ($m)	1.7	38.5
Market Value (£m)	21.3	0.0

InfraCapital Commitment and distributions

InfraCapital	Brownfield III	Greenfield II
Total Commitment (£m)	42.0	20.0
Commitment Drawn (£m)	26.3	0.0
Distributions (£m)	0.7	0.0
Outstanding Commitment (£m)	15.7	20.0
Market Value (£m)	25.4	0.0

Pantheon Commitment and distributions

Pantheon	
Total Commitment ($m)	117.0
Commitment Drawn ($m)	39.2
Distributions ($m)	4.4
Outstanding Commitment ($m)	77.8
Market Value (£m)	23.3

Source: Northern Trust

M&G Real Estate Debt Fund

- Benchmark: 3m LIBOR +4%
- Objective: 3m LIBOR +5%
- The M&G REDF VI Fund is currently in ramp-up mode and c57% drawn at quarter end.

Commitment and distributions

	M&G
Total Commitment (£m)	60.0
Commitment Drawn (£m)	52.4
Distributions (£m)	18.8
Outstanding Commitment (£m)	26.4
Market Value (£m)	33.7

Source: Investment Manager

Fossil Fuel Exposure

- The table shows the Fund's fossil fuel exposure at 30 September
- 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
- The Committee has agreed to amend the Fund's equity portfolio, which will result in the Fund's fossil fuel exposure falling materially

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS - North America	4.1	6.1	4.1	0.0	Passive
UBS - Europe	4.7	5.8	4.8	-0.1	Passive
UBS - Japan	4.9	0.9	4.9	-0.1	Passive
UBS - Pac ex Japan	9.2	1.6	9.3	-0.1	Passive
UBS - Fundamental Index	10.9	44.2	11.0	0.0	Passive
UBS - UK Equity	11.3	27.2	11.4	-0.1	Passive
UBS - Climate Aware	4.2	7.6	5.0	-0.7	Passive
UBS - Global EM Equity	8.7	3.1	8.9	-0.2	Passive
Longview - Global Equity	0.0	0.0	6.9	-6.9	Active
Harbourvest - Private Equity*	2.3	2.5	6.9	-4.6	Active
Adams Street - Private Equity*	1.9	2.4	6.9	-5.0	Active
Newton - Absolute Return*	1.1*	5.0	-	-	Active
Ruffer - Absolute Return*	1.4*	6.2	-	-	Active
Schroders - Property	0.0	0.0	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 Opportinities	3.0	7.9	9.7	-	Active
M&G - Corporate Bonds	8.8	14.1	9.4	-0.6	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	**3.5**	**134.6**	-	-	

**Fossil fuel allocations as at 30 June 2020*
Source: Investment Managers and LINK

HYMANS ROBERTSON

US 10-year treasury yields were little changed, ending the quarter at 0.68% p.a. Equivalent UK yields rose 0.06% p.a. to 0.23% p.a. while German bund yields drifted 0.07% p.a. lower to -0.52% p.a. Equivalent index-linked gilt yields fell, resulting in a rise in 10-year implied inflation to 3.3% p.a.

Despite rising towards the end of Q3, global investment-grade credit spreads fell from 1.6% p.a. to 1.4% p.a. and global speculative-grade spreads fell from 6.4% p.a. to 5.6% p.a. Defaults continued to rise but have been contained in the troubled US energy and retail sectors.

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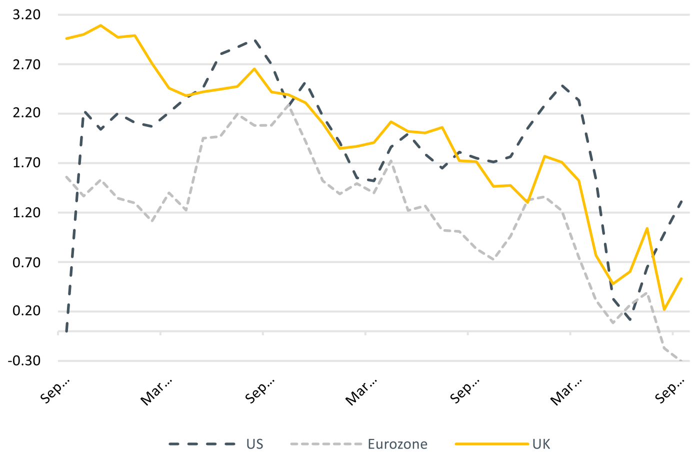
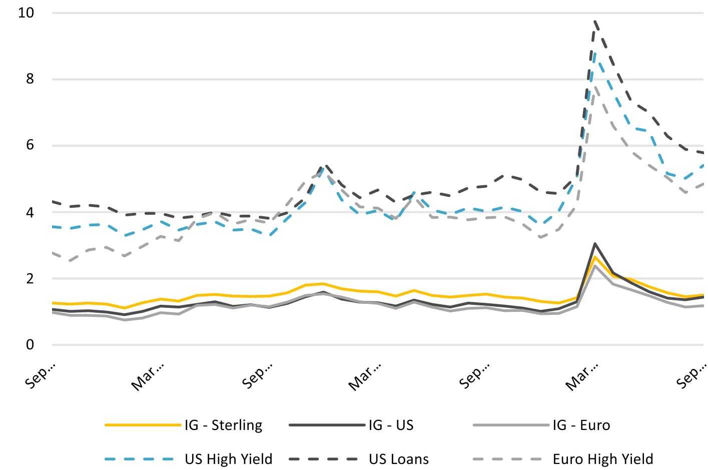
Global equity indices produced a total return of 7% in local currency terms, despite a return of volatility towards the end of Q3. Recent regional trends continued with the US outperforming and the UK underperforming. From a sector perspective technology extended its large year-to-date lead at the top of the performance rankings while oil & gas massively underperformed, cementing its place at the bottom.

The rolling 12-month performance of the MSCI UK Monthly Property Index continues to fall and is now -2.7% to the end of September. Capital values are, in aggregate, 7.8% lower over the same period. This is mainly due to an 18.6% fall in capital values in the retail sector over year, but values in other sectors have also fallen.

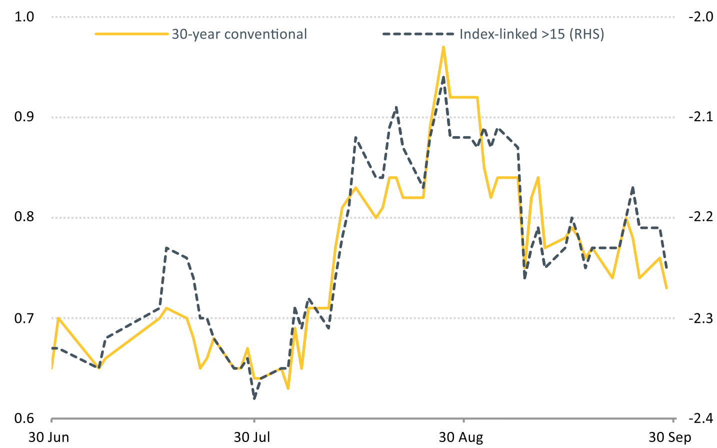
Annual CPI Inflation (% p.a.)



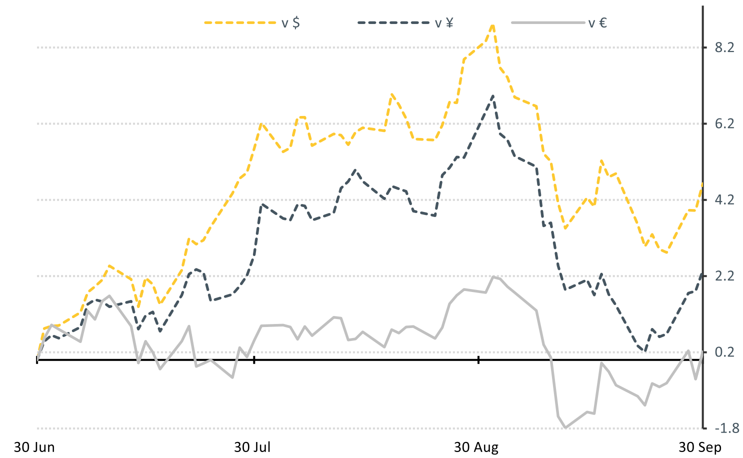
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: Reuters

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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	Adequate
Schroders - Property	Suitable	-
UBS - Infrastructure	Suitable	Good
Pantheon - Infrastructure	Preferred	Good
M&G - Infrastructure	Positive	-
M&G - Private Debt	Preferred	Good
M&G - Absolute Return Credit	Preferred	Adequate
M&G - Corporate Bonds	Preferred	Adequate
UBS - Over 5 Year IL Gilt Fund	Preferred	-

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.

Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

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.

AGENDA

ACCESS JOINT COMMITTEE

Thursday, 12th November, 2020, at 10.00 am Ask for: **Joel Cook**

Virtual Telephone **03000 416892**

In response to COVID-19, the Government has legislated to permit remote attendance by Elected Members at formal meetings. This is conditional on other Elected Members and the public being able to hear those participating in the meeting. This meeting will be accessible online and can be watched via the Media link on the Webpage for this meeting.

Membership
Chair: Cllr Mark Kemp-Gee (Hampshire CC), **Vice-Chair: Cllr Susan Barker** (Essex CC), **Cllr Adrian Axford** (Isle of Wight),), **Cllr Jonathan Ekins** (Northamptonshire CC), **Cllr Gerard Fox** (East Sussex CC), **Cllr Jeremy Hunt** (West Sussex CC), **Cllr Judy Oliver** (Norfolk CC, **Cllr Terry Rogers** (Cambridgeshire CC), **Cllr Ralph Sangster** (Hertfordshire), **Cllr Charlie Simkins** (Kent CC) and **Cllr Karen Soons** (Suffolk CC)

UNRESTRICTED ITEMS
During these items the meeting is likely to be open to the public

1. Apologies/Substitutes

2. Declaration of interests in items on the agenda

3. Chair's remarks

4. Minutes of the meeting held on 7 September 2020 (Pages 1 - 6)

5. Business Plan (Pages 7 - 12)

6. Communications (Pages 13 - 16)

7. ESG / RI Position Statement (Pages 17 - 26)

8. Motion to Exclude the Press and Public

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

<u>EXEMPT ITEMS</u>

During these items the meeting is likely to not be open to the public

9.	Contract Management	(Pages 27 - 56)
10.	Sub-fund Implementation	(Pages 57 - 62)
11.	ACCESS illiquid asset pooling approach	(Pages 63 - 78)
12.	Fiduciary Duties - Q&A update	(Pages 79 - 86)

Joel Cook
Clerk to the Joint Committee
03000 416892

Wednesday, 4 November 2020

eastsussex.gov.uk

East Sussex
Pension Fund

Investment Strategy Statement

November 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 30 November 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.

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	40.0	44.0	Growth Assets
Absolute Return	21.0	24.0**	Part Growth Assets, Part Protection
Private Equity	5.5	7.5	Growth Assets
Property	10.0	13.0	Income Assets
Infrastructure	6.0	6.0	Income Assets
Private Debt	3.0	5.0	Income Assets
Absolute Return Bonds	8.0	9.0	Income Assets
Index-Linked Gilts	3.0	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 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 2019 valuation 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
Active Sustainable Equity and ESG tilted passive equity	WHEB /Wellington / Storebrand	20.0%	MSCI All Countries World	Currently, there are no funds available through the ACCESS funds platform that satisfy the funds Responsible Investment requirements for active sustainable equity and systematic ESG/Carbon tilted portfolio. These will be held outside the pool temporarily until the pool is able to launch RI investment options.
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.

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 Managment
- Ruffer LLP
- Schroder Investment Manangment Limited
- M & G Investment Managment
- 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 – Statement of Responsible Investment Principles

eastsussex.gov.uk

East Sussex Pension Fund

Rebalancing Policy

November 2020

East Sussex Pension Fund

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 (%)
Listed Equities	40.0	36.0 – 44.0
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	6.0	4.0 – 8.0
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	3.0	2.0 – 4.0
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.

Agenda Item 7

Report to:	**Pension Committee**
Date:	**30 November 2020**
By:	**Chief Financial Officer**
Title of report:	**Independent Auditor's Report to those charged with governance and Annual Report 2019/20**
Purpose of report:	**To present the Independent Auditor (Grant Thornton) report to those charged with governance, and to report on anticipated unqualified audit opinion on the 2019/20 Pension Fund Annual Report**

RECOMMENDATIONS

The Committee is recommended to:

1. **note the draft Independent Auditor's (Grant Thornton - GT) report to those charged with governance on Pension Fund Annual Report 2019/20 (Appendix 1); and**
2. **approve the draft Pension Fund Annual Report for publication (Appendix 2).**

1. Background

1.1 This report summarises the key findings arising from Grant Thornton's (GT) final audit work in relation to the Pension Fund Financial Statements for 2019/20 within the Annual Report and Accounts.

1.2 Accounting Requirements - The Pension Fund financial statements should be prepared in accordance with proper accounting practices set out in the Code of practice on local authority accounting in the UK (the Code). The Code requires authorities to account for pension funds in accordance with IAS26 Retirement benefit plans. IAS26 provides guidance on the form and content of the financial statements prepared by pension funds. It compliments IAS19 Employee Benefits, which deals with the determination of the costs of retirement benefits in the financial statement of employers.

1.3 Annual Report Requirements - Local authorities responsible for administering a pension fund (scheme manager) forming part of the Local Government Pension Scheme (LGPS) are required by the LGPS Regulations to publish a pension fund annual report. The publication of the annual report is separate from the authorities own statutory accounts and contains financials statements in respect of pension fund. Authorities are required to publish the annual report by 1 December 2020. The Annual report has been prepared in line with CIPFA's Preparing the Annual Report Guidance for Local Government Pension Scheme (LGPS) Funds 2019.

1.4 GT is obliged to produce a report to those charged with governance on the Pension Fund Financial Statements and provide an opinion on the additional information contained within the Pension Fund Annual Report and Accounts as materially consistent with the audited statements. Appendix 1 formally reports on the outcome of the final audit of the financial statements.

2. Supporting information

2019/20 Pension Fund Audit

2.1 Subject to any issues being identified by GT between the issuance of this report and the meeting, the auditors propose to issue an unqualified "true and fair" audit opinion. As the Pension Fund Accounts form an essential part of the Statement of Accounts of the Administering Authority, the Pension Fund Accounts were presented to the East Sussex County Council (ESCC) Audit Committee on 6 November 2020 and Governance Committee on 10 November 2020 where the ESCC Statement of Accounts were approved.

2.2 GT started the audit of the Pension Fund in July 2020. Draft financial statements were provided to the audit team on the 9th July 2020. An updated set of statements (the statements which were published for inspection) were subsequently provided on 6th August 2020.

2.3 The audit work was completed remotely during July – October. GT findings are summarised on pages 5-11 of their report in Appendix 1. GT have identified one adjustment to the financial statements that resulted in an adjustment (reduction) of £0.65m to the Pension Fund's closing net assets reported financial position.

2.4 GT have raised two areas considered for improvement as a result of their audit work which have been discussed and responses included on page 13 of the GT report as follows:

- *Material Uncertainty around Investment Valuations:* during the testing of the valuation of investments, GT challenged investment managers as to their approaches taken; out of this came the material uncertainty, set out in 2.4. GT would expect that with these "difficult-to- value" investments the Fund Team would undertake independent challenge of the process of investment valuation, particularly in a COVID-19 climate. In responding to this, management has reflected that the Pension Fund Team has been through a period of restructure and recruitment is underway to roles that will be able to provide the challenge recommended by GT.

- *Investment valuation movements not posted to the accounting system during the year*: during testing it was identified that movements in investments, provided by investment managers on a quarterly basis, were not reflected in the general ledger until the year end. In order, to improve management oversight, movements should be posted to the general ledger during the year. In responding to this, management has reflected that the Pension Fund Team has been through a period of restructure and recruitment is underway to roles that will be able to ensure more timely input into the general ledger of investment movements.

2.5 The revised annual report is attached at Appendix 2.

3. Conclusion and reasons for recommendation

3.1 The Annual Report sets out the activities and performance of the East Sussex Pension Fund during the 2019/20 financial year. The Pension Committee is recommended to note the Independent Auditors (GT) report to those charged with governance; and approve the 2019/20 Pension Fund Annual Report for publication.

IAN GUTSELL
Chief Finance Officer

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The Audit Findings for East Sussex Pension Fund

Year ended 31 March 2020

6 November 2020

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for the Audit Committee as those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund and has impacted the Finance Team who like many other employees have had to adapt to working from home at short notice. Agile working had been established successfully at the Council for several years, and therefore teams were well prepared to adapt smoothly into working from home. Senior pension fund officers have also had to manage additional risk to investment value due to uncertainties in global financial markets, although the impact of this will largely be felt after the year end which is currently being reported on due to when the Covid-19 pandemic impacts really started to be felt by the markets. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We reported our audit risk assessment including the impact of the pandemic on our audit in our audit plan reported to you on 30 April 2020, and to the Pension Fund Committee on the 22 June 2020. In our plan we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6. Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in close contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer). The above has proved more time consuming than carrying out an audit under normal circumstances. There have been challenges for both the audit team and the Council's team to conduct the audit virtually during the pandemic with additional complexity that both teams had to face and address within a short space of time. However, we have worked together to overcome these issues to meet a tight audit timeframe. We started the audit in July 2020. Draft financial statements were provided to the audit team on the 9th July 2020. An updated set of statements (the statements which were published for inspection) were subsequently provided on 6th August 2020. There were some key working papers that we required for our audit work to progress efficiently which were not available at the start of the audit, and some audit samples and evidence responses took some time to turn around due to internal capacity issues. These issues did delay audit progress at the start of the agreed timeframe.

Headlines (continued)

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:

- give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during July-October . Our findings are summarised on pages 6-11. We have identified one adjustment to the financial statements that resulted in an adjustment (reduction) of £0.65m to the Pension Fund's closing net assets reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- Closing minor queries coming out of our audit sample testing;
- Completion of our valuations testing of Pension Fund investments, including closing some of our valuation queries with investment managers and the custodian;
- Completion of our work in agreeing certain non-material disclosures and agreeing disclosures relating to Covid-19 are sufficient;
- Consideration of adequacy of going concern disclosures in the accounts;
- Finalising quality reviews of the audit file which could potentially raise additional audit queries;
- receipt of management representation letter;
- review of the Annual Report; and
- review of the final set of financial statements.

Our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to a pooled investment fund as discussed on page 6.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 30 April 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding matters on page 4 being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 6 November 2020, as detailed in (Appendix E).

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements	£36n	We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.
Performance materiality	£27m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	£1.8m	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 Risk description unchanged from that reported in our audit plan.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 9th July 2020; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations and management's fair value hierarchy disclosure; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, in our testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. As a result of our additional inquiries, one of the investment managers for the Pension Fund, Schroders has declared a material valuation uncertainty around a pooled property fund. These investments were valued at 31 March 2020 at £325.92m. The total value of the fund assets at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets. We discussed this with the finance team and it was agreed that this material uncertainty should be disclosed in the accounts within Note 5 Assumptions made about the future and other major sources of estimation uncertainty. This has been added to disclosure changes agreed during the audit Appendix C. Subject to completion of the work on page 4, our work against this risk has not raised further issues.
Improper revenue recognition Risk description unchanged from that reported in our audit plan.	As documented in the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including East Sussex County Council as the Administering Authority of East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable.

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Significant audit risks (continued)

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Risk description unchanged from that reported in our audit plan.	We have: • evaluated the design effectiveness of management controls over journals; • obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals; • tested unusual journals recorded during the year and post year end for appropriateness and corroboration; • considered the reasonableness of significant accounting estimates and critical judgements made by management; and • evaluated the rationale for any changes in accounting policies or significant transactions. Our work against this risk has not raised and issues with respect to management override of controls.
The valuation of Level 3 investments is incorrect Risk description unchanged from that reported in our audit plan.	**Auditor commentary** We have: • gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls; • reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments, against the requirements of the Code; • independently requested year-end confirmations from investment managers and custodian; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period; • in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert; • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Due to the additional uncertainty around investments caused by the Covid-19 pandemic we made further challenge and inquiries to the investment managers about their assumptions made in relation to movements in the intervening period between the latest audited accounts date for individual investments and the year end. In particular we established where property was the asset underlying the investment and where this was the case we challenged the investment managers to provide further explanation and corroboration as to the investment valuations given that particular types of property (retail and office for instance) would be likely to decline in value. This line of inquiry and challenge resulted in one of the investment managers disclosing a material uncertainty. See page 6 for further information. We have made a control recommendation in relation to management's processes in challenging themselves the investment valuations at year end, see Appendix A. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section. Subject to completion of the work on page 4, our work against this risk has not raised any further issues.

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Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process Management have assessed that the Fund has sufficient resources to meet its liabilities as they fall due for the foreseeable future. The Pension Fund undertakes a valuation of the Pension Fund's assets and liabilities using management's expert actuary. The fund is fully valued on a triannual basis and interim year valuations are prepared on the roll forward assumption basis. This is used to assess the size of the Fund's current and future liabilities against the Fund's assets, and then set the employer contribution to the Fund for each participating employer for the following three year period to ensure that the Pension Fund remains funded. Management annually prepare a business plan and budget for the Pension Fund which primarily sets out anticipated costs for pensions administration, oversight and governance and investment management. Management, with oversight from the Pension Fund Committee, assess the level of assets and liabilities annually and also at very regular intervals during the year to monitor any significant variances.	We are satisfied regarding the appropriateness of management's process for formulating their going concern assessment. We have considered the financial position of the Fund and undertaken a review to identify any possible indicators of any circumstances or events that could indicate that the Fund is no longer a going concern. Given the market uncertainties, our view was that although assessment process was sufficient, given the potential impact of Covid-19 on the economy and financial markets, it would be appropriate to expand going concern disclosures to explain why this is satisfied rather than the existing disclosure in the accounts that simply stated the assumption. We are still in discussion with management about the agreed wording of this disclosure. **Conclusion** We have not identified any events or conditions in the course of the audit that we consider may cast significant doubt on the pension fund's ability to continue as a going concern. We plan to issue an unmodified audit report in respect of going concern, subject to completion of the work on page 3.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in equities, pooled property investment and private equity that in total are valued on the balance sheet as at 31 March 2020 at £640m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management place reliance on the valuation provided by their fund managers. The value of the investment has increased/decreased by £22m in 2019/20, due to both changes in market value but also due to movements in sales/purchases in the year.	We have: • Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 3 investments. Management's experts are the investment managers; • assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; • We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; • agreed level 3 investments to year-end confirmations from investment managers of the valuations at the year end together with a statement of transactions for the period; and • Tested a sample of investments obtaining and reviewing the audited accounts (confirming the expertise of the auditor) at latest date for individual investments and agreeing these to the investment manager reports at that date. Where there was a gap between the accounting period end for the audited accounts and the Pension Fund year end/investment valuation date, we reconciled the difference in value to known movements in the intervening period to confirm the difference was reasonable.	● (green)

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Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2 investments	The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2019 at £2,540m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management place reliance on the valuation provided by both their investment managers and custodian. The value of the investment has decreased by £238m in 2019/20 due to both changes in market value but also due to movements in sales/purchases in the year.	We have: • Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 2 investments. Management's experts are both the investment managers and the custodian (who value the investments independently of the investment managers); • assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; • We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; and • agreed level 2 investments to year-end confirmations from investment managers and the custodian of the valuations at the year end together with a statement of transactions for the period.	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the management and the Audit Committee. We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, with the exception of Newton and UBS asset management. We are continuing to chase these confirmations requests with assistance from your officers and in the meanwhile will undertake alternative procedures to verify whether these balances are materially fairly stated as at 31 March 2020.
Disclosures	Our review found no material omissions in the financial statements. We agreed some amendments to existing disclosures which are detailed in Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report subsequent to the signing and issue of our auditor's report.

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Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified which were charged from the beginning of the financial year to November 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	£5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £27,487 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

Action plan

We have identified two recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Material Uncertainty around Investment Valuations** As discussed on page, in our testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. This led to the disclosure by the investment manager that some funds underlying the pooled investment had been suspended at 31 March 2020, and that there was a material valuation uncertainty over the full pooled investment at that date. This was not known to the Pension Fund finance team. We would expect that particularly around Level 3 investments, management should undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties. The need for this check is particularly acute in the Covid-19 climate, but would also be a reasonable control in less uncertain years.	We would recommend that to gain their own assurance that the investments are materially correctly stated, management undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties. **Management response** A restructure of the Pension Fund Team was approved and started over the summer. Recruitment to this new structure is underway and once in place will provide an increased capacity within the team to provide further challenge to the processes of investment valuations by making set enquiries at the year-end relating to market uncertainties.
Medium	**Investment valuation movements not posted to the accounting system during the year** During our analytical review testing of investment movements during the year, it became apparent that although the Pension Fund receives investment manager reports quarterly, these are not posted to the general ledger until the year end. Our view is that to aid and evidence management oversight/control of investments, these quarterly reports of investment valuation movements/purchases/sales should be posted to the general ledger.	We would recommend that the quarterly investment manager report movements in investments are posted to the general ledger. **Management response** A restructure of the Pension Fund Team was approved and started over the summer. Recruitment to this new structure is underway and once in place will provide an increased capacity within the team to ensure the quarterly investment manager movements in investments are posted to the general ledger.

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of East Sussex County Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. *We have followed up on the implementation of our recommendations and the actions taken by management are as follows:*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Access to client maintenance functionalities (SCC4) (SAP access providing virtually full system rights)** 13 users with firefighter ID's have access to using SCC4. Improper execution of client administration transactions could result in a loss of entire client (SAP system), including information, data and configured functionalities.	We recommended that the profile should be reserved for use within an emergency and the number of firefighter type ID should be monitored with access being regularly reviewed. We have confirmed that users are being regularly reviewed and have been reduced to 3 at the March 2020 year end. We regard this as being a reasonable number of this type of profile.
✓	**Journals with no descriptions** We identified journal entries being prepared and recorded with no descriptions, increasing the potential for erroneous or fraudulent posting to go unnoticed.	We recommended that management should consider running exception reports to identify and review journal entries with no narrative included As part of our testing of journals for 2019/20 we have run an extraction report from the full listing of journals for any with no description. There were none reported, so we were satisfied that this is not an issue for the 2019/20 year.

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Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Pension Fund Account £'000	Restatement of opening Net Asset Statement £' 000	Impact on total net assets £'000
Correction of the brought forward unfunded benefits and unfunded contributions. This related to a sum of income of £9,008k and expenditure of £8,358k which should have been treated accounted for as an agent/principal relationship transaction under the Code and therefore accounted for on the balance sheet only. These amounts were not income and expenditure of the Pension Fund. This brings the 2018/19 accounting treatment into line with how the Pension Fund has treated these amounts in 2019/20 for consistency. Associated disclosures of the reason for the restatement were updated and the comparative column headings were updated to make clear the values are restated.	Nil	DR 2018/19 Current liabilities £9,008 CR 2018/19 Current assets (£8,358)	Nil
Overall impact	**Nil**	**CR (reduction)opening net assets (£650)**	**Nil**

Audit adjustments (continued)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Pooled investment fund material valuation uncertainty	The investment manager has a material uncertainty over the pooled investment fund valuation due to uncertainties in the property market caused by the Covid-19 pandemic.	We recommended that Note 5 Assumptions made about the future and other major sources of estimation uncertainty was updated to include the disclosure of the material uncertainty declared by the investment manager, and in line with Code guidance to include some information as to the sensitivity of the estimate, so users of the accounts could further understand the level of uncertainty. **Management response** This was amended in the accounts.	✓
Fee payable to auditor in respect of other services	This fee omitted the fee payable for the audit related services of £5k as shown on page 12.	We recommended the fee was updated so that the fee disclosures per the accounts agree to our Audit Plan and Audit Findings report. **Management response** This was amended in the accounts.	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services:

Audit fees	Proposed fee	Final fee
Pension Fund	27,487	TBC
Total audit fees (excluding VAT)	**£27,487**	**TBC**

There is additional work which was necessary to be carried out during the audit work due to the added complexities of the impact of Covid-19. We are still completing this work and the extent of this fee will be discussed and proposed to the Chief Finance Officer.

Non-audit fees for other services	Proposed fee	Final fee
Provision of IAS 19 Assurances to Scheme Employer auditors	5,000	5,000
Total non- audit fees (excluding VAT)	**£**5,000	**£**5,000

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We have not yet completed the work for these other services. We do not expect the final fees to differ from the proposed fees based on our estimate of the amount and complexity of the work involved.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report:

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Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements of the Pension Fund Annual Report

Opinion

We have audited the financial statements of East Sussex Pension Fund (the 'pension fund') administered by East Sussex County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom

2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 5 to the financial statements, as a result of the coronavirus impact, the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports in respect of the pooled property investments. Our opinion is not modified in respect of this matter.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

Audit opinion

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Chief Finance Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Darren Wells, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

eastsussex.gov.uk

East Sussex Pension Fund Annual Report and Accounts

2019-2020

Contents

1. Chairmans report

Welcome to the East Sussex Pension Fund Annual Report for 2019/20

As Chairman of the East Sussex Pension Fund (ESPF) Committee, I have the pleasure in introducing the Pension Fund's Annual Report and Accounts for 2019/20. I cannot do so without reflecting on the continuing COVID-19 pandemic that is having a devastating impact nationally and globally. The accounts focus on the financial implications of activity in 2019/20 and beyond, but the impact on humanity is truly beyond anything we have all experienced. I send my thoughts to all who have been affected by the pandemic.

The membership of the ESPF at March 2020 was 76,792 people (active – 23,835, deferred – 31,622 and pensioners – 21,335) and in the region of 130 employer organisations, with £3.496bn funds under management at 31 March 2020 to meet the accrued benefits.

This year saw the latest triennial actuarial valuation for the Fund. Hymans Robertson calculated the Fund's assets at 31 March 2019 at £3.6bn. When compared to the projected liabilities of the Fund at £3.4bn, this represented a 107% funding level, indicating a strong solvency position, and reflecting strong investment returns. COVID-19 has negatively impacted on the Fund's valuation, as the global economy struggles to understand and respond to the pandemic. However, the long-term 20-year assumptions within the valuation put the Fund in a strong position to weather the current uncertainties.

The Pension Committee is responsible for managing the Fund, with the assistance of the Pension Board, East Sussex County Council officers, external advisors and fund managers. In responding to the national review of Good Governance, undertaken by Hymans Robertson, reporting to the Scheme Advisory Board and the Ministry of Housing, Communities and Local Government, the Committee, during 2019, established programme to work to review its own governance arrangements. The Committee has subsequently approved revised terms of reference for the Pension Board and itself, together with refreshing a range of policies and strategies, including Communication and Administration. The review also recognised that the number of officers supporting the Fund needed to be expanded; a new structure has been approved and recruitment is underway to fill new roles. All these actions place the ESPF in a great position to move forward and tackle the challenges ahead.

The ESPF has experienced some stakeholder and external pressures to divest from companies involved in the production of fossil fuels. The Pension Committee's Investment and Environmental, Social and Governance (ESG) Working Group, together with Hymans Robertson, have undertaken a review of the Fund's Investment Strategy. This has reflected on the impact of the pandemic and helped to explore and frame the Fund's approach to better aligning its investments with the risks and opportunities presented by sustainability and the energy transition. As a consequence, the Fund has made a number of substantial changes to its investment approach, raising its commitment to infrastructure assets, including renewable assets, acquiring exposure to Impact Funds who invest in companies addressing some of the world's major challenges, and adopting an approach to passive index funds better aligned with the goals of the Paris Agreement. The Committee has also updated its investment beliefs, which are set out in its Investment Strategy Statement, and more fully articulated its Responsible Investment Policy.

The Committee believes in applying long-term thinking in pursuit of long-term sustainable returns from well governed assets; while using evidence based long-term investment appraisal to inform decision making in the implementation of its responsible investment principles, consistent with its fiduciary responsibilities. It will continue to evaluate and manage the Fund's carbon exposure in order to mitigate risks associated with Climate Change, while seeking to 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.

ESPF continues to favour engagement with companies and sectors over blanket divestment as it believes that this is the most effective strategy for promoting change and protecting its long run investment interests. However, the extent of its exposure to them will reflect an ongoing assessment of progress in engaging with the energy transition, and the associated risks and rewards of holding these assets in the Fund. The Fund does not own stocks directly but seeks to influence company and sector policies via its chosen investment managers. Its Climate engagement is broadly aligned with that of the Institutional Investor Group on Climate Change (IIGCC), representing over $33 trillion in assets, of which it is a member.

East Sussex has continued to be an active member in the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool, together with 10 partner LGPS Funds. By the end of 2019/20 a total of £21.4bn (49%) was invested on the ACCESS platform, in the following assets:

	£ billion
Passive investments*	10.5
UK Equity Funds	1.6
Global Equity Funds	7.2
UK Fixed Income	0.8
Diversifed Growth	1.3
Total Pooled Investments	**21.4**

*The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

The Pension Committee and Pension Board have worked tirelessly to transform the ESPF landscape. I would like to take this opportunity to express my thanks for all the support and input provided by Committee and Board members and officers. I look forward to continuing to work with members and officers in the new financial year as the Fund seeks to meet the challenges of an ever-changing national and global environment.

In presenting the Annual Report, I hope you find it helpful in underspending the Fund.

Councillor Gerard Fox

Chairman of the East Sussex Pension Fund

September 2020

2. Independent adviser's report

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is primarily to act as a separate source of insight to Officers and Committee members. Our collective objective is, of course, to invest the Fund's assets to pay members' pensions in full and on time. I am additionally able to provide stakeholders with some independent assurance that the Fund is being appropriately and properly managed.

Last year I ended my report by saying that the fund was in a good position financially, but that the Fund's increasing maturity makes it likely that net cashflow will deteriorate over time and this would require increasing attention. At March 2019 the actuarial valuation found that the Fund's assets were well in excess of its liabilities, which is undoubtedly a healthy position. On the other hand, member and employers' contributions were slightly less than pension pay-outs and the gap was made up by investment income. I make further comments on this below.

I said last year that the onus for maintaining economic prosperity would for political reasons increasingly fall on fiscal rather than monetary policy. I expected interest rates to stay ultra-low and I viewed the combination as a positive fundamental background for financial assets. I commented that valuations were historically high and that the risk of unpleasant surprises remained, but I thought damage from these sources would be limited by the US Federal Reserve's willingness to keep monetary policy loose.

In 2019 this played out as expected and, by the end of January this year, markets were reaching new highs. In the last few months of the financial year the decision by the authorities in many countries to slow the spread of COVID-19 by enforcing social isolation has precipitated both a sudden recession and also significant stress in financial markets. It has been exacerbated by the halving of the oil price at the same time as a result of the collapse of the OPEC-led oil cartel. Your Fund was not immune from these events, which will have had an adverse impact on the Fund's funding level, but I should emphasise that it still stands at a high level.

Authorities round the world reacted swiftly to mitigate the economic risks of this policy by announcing a rise in spending of an order not seen since the Second World War. At the same time, where possible, central banks reduced interest rates to almost zero in order to protect the financial system. However, there is little more they can do on this front and so economic recovery is now largely dependent on how quickly the fiscal measures take effect.

Looking forward, at the time of writing it is not clear how or when recovery will take place. Whatever happens, the Fund will suffer a significant and immediate reduction in investment income from dividend cuts and real estate rents as companies struggle to conserve cash. As the Fund's funding position can be considered solvent, there is no cause for immediate alarm, but the need for careful cashflow planning has become paramount.

It is too early to give definitive views what this means in the longer term. It looks as if government will play a substantially larger role in society and there may be some retreat from globalisation. This probably means higher inflation and higher bond yields, though that has not happened yet and it may take some years to come through. From the Fund's perspective there will be winners and losers, which underlines the importance of investing in a genuinely diversified portfolio.

I commented in my last report on governance matters, both internally and in respect of shared service providers such as the ACCESS investment implementation pool and the administration service provider, Orbis. Over the last year both the Pension Committee and Pension Board have spent considerable time on this, culminating in two governance reviews, one to bring the Fund's procedures into line with the LGPS Scheme Advisory Board's 2019 recommendations on good governance, and the second focused more narrowly on investment governance. Internal Audit have also, in a separate report, identified a number of internal shortcomings requiring improvement.

These are all important reviews, because the Fund depends heavily on these shared service providers to administer the Fund on your behalf. It is good to see progress, but it is also important that the recommendations made in these three reviews are implemented as fully as possible. Good governance costs money but the value of having well thought-out processes in place is shown when, like now, times are turbulent. It is the best assurance you can have that the Committee and Officers will continue to make good decisions even when events are trying to throw them off course.

I attend every Committee meeting and I see that the Committee members, supported by Officers, consider in detail possible courses of action. In this year in particular they have spent substantial time outside meetings on the sometimes very complex issues before them. In my view they are performing their duties carefully and conscientiously in circumstances which are far from easy.

William Bourne

Independent Advisor

3. Introduction

Local Government Pension Scheme

The LGPS is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and, since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire fighters and police, who have their own separate schemes. It is also open to employees of other employers specified within the legislation.

The LGPS is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 meaning that members receive tax relief on contributions. The Scheme complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004.

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund's assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund's current and future liabilities against the Fund's assets, and then set the employer contribution to the Fund for each participating employer for the following three-year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The funding level at this at this valuation is 107%.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with East Sussex County Council, as administering authority for the East Sussex Pension Fund. This has been delegated to the East Sussex Pension Committee supported by the East Sussex Pension Board.

4. Overall Fund Management

Scheme management and advisers

Responsibility for the East Sussex Pension Fund is delegated to the County Council's Pension Committee Members with support from the East Sussex Pension Board. The Pension Board comprises members representing employers and members in the Fund with an Independent Chairman. The Pension Committee receives advice from the County Council's Chief Finance Officer, Actuary, Investment Consultants and an independent Investment Advisor.

2019/20 PENSION COMMITTEE MEMBERS		
EAST SUSSEX COUNTY COUNCILLORS:	Gerard Fox (Chairman)	Conservative
	Simon Elford	Conservative
	Nigel Enever	Conservative
	David Tutt	Liberal Democrates
	Trevor Webb	Labour
2019/20 PENSION BOARD MEMBERS		
INDEPENDENT CHAIRMAN:	Ray Martin	
EMPLOYER REPRESENTATIVES:	Councillor Carmen Appich	Brighton & Hove City Council
	Councillor Chris Collier	Districts & Borough Councils
	Stephen Osborn	Educational Bodies
MEMBER REPRESENTATIVES:	Niki Palermo	Active & Deferred
	Diana Pogson	Pensioners
	Lynda Walker	Active & Deferred
SCHEME ADMINISTRATOR:	East Sussex County Council	
ADMINISTRATION PROVIDER:	Orbis Business Operations	
BANKERS TO THE FUND:	NatWest Bank	
AUDITOR:	Grant Thornton	
PENSION FUND OFFICERS		
TREASURER:	Ian Gutsell Chief Finance Officer (Section 151 Officer) East Sussex County Council	
HEAD OF PENSION FUND:	Michelle King (Interim)	Michelle.King@eastsussex.gov.uk
HEAD OF INVESTMENTS:	Russell Wood	Russell.Wood@eastsussex.gov.uk
LGPS GOVERNANCE AND STATUTORY COMPLIANCE:	Michelle King (Interim)	Michelle.King@eastsussex.gov.uk
PENSION ADMINSTRATOR:	Paul Punter	Paul.Punter@eastsussex.gov.uk

ADVISORS TO THE FUND

ACTUARY:	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB
LEGAL ADVISORS:	Appointed from National LGPS Framework for Legal Services
INVESTMENT ADVISER:	Hymans Robertson
INDEPENDENT ADVISER:	William Bourne
ASSET POOL:	ACCESS Pool
ASSET POOL OPERATOR:	Link Funds Solution
FUND MANAGERS:	Adams Street Partners Harbourvest Longview Partners* M&G** Newton* Pantheon Ruffer* Schroders UBS
CUSTODIAN:	Northern Trust
AVC PROVIDER:	Prudential

BODIES TO WHICH THE FUND IS MEMBER, SUBSCRIBER OR SIGNATORY:

Pensions and Lifetime Savings Association
Local Authorities Pension Fund Forum
CIPFA Pensions Network
Club Vita
Local Government Association (LGPC)
Local Government Pension Scheme National Framework:

- Passive Investments,
- Legal Services,
- Actuarial and,
- Investment Consultants
- Stewardship Advisory Services

Principles for Responsible Investing
Institutional Investors Group on Climate Change
Climate Action 100+

* Appointed through the ACCESS Pool operator
** Coporate Bonds mandate appointed through ACCESS other mandates directly appointed.

Risk management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. The Administering Authority has an active risk management programme in place. The Fund's approach is to manage risk rather than eliminate it entirely.

Risk is identified and managed as follows:

Covid 19 Risk – The onset of Coronavirus and Covid19 is placing significant pressures on both Employers to the Fund and the Pension Administration Service. The increased demand for Pension Administration Services may increase the likelihood of breaching service performance targets and presents resourcing constraints since staff may be subject to the illness themselves. In addition, the migration to remote working has seen an increase in the likelihood of Cyber Scams and Data Protection.

The Pension Regulator issued a notice on the 2 April 2020 to Scheme Managers of Public Service Pension Schemes to carry out a risk assessment of their Pension Administrator in relation to Covid 19. The Scheme Manager is required to assess whether the ESPF business continuity plan is still adequate and to establish from the Pension Administrator what contingency plan is in place to mitigate their impact of increases in work volumes or unavailable staff.

A collaborative approach is required to work with your administrators to make sure they deliver critical processes: reducing the burden by limiting any non-critical demands and queries; and, confirm the priorities of activities to be carried out, in the order set out below:

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these
- any processes needed to ensure benefits are accurate

This includes the agreement of changes in operating procedures such as allowing electronic signatures and documents and encouraging other third-party providers to do the same. The legal validity of electronic signatures has been endorsed in a recent statement from government.

The Chancellor, Rishi Sunak, in his March Statement advised a suite of financial relief measures to alleviate economic duress arising from the global lockdown and the corresponding liquidity squeeze. It is clear that despite attempts by the Government to prevent a permanent structural impact, a number of companies that existed prior to the lockdown will not exist after the lockdown due to the severity of this economic shock. It follows that the ESPF has seen an increase in employers advising they need to defer the payment of employer contributions to the Fund, noting that employee contributions are legally prohibited from deferral. The Fund is working on a policy on the deferral of employer contributions and has managed the early requests on a case by case basis.

In managing the economic consequence of a global lockdown and the increasing need to build up cash reserves has given rise to dividend retention. This impacts the cashflow balances of pension funds which are required to service pension promises. The ESPF has therefore commenced cashflow modelling to ensure it can manage within its cash envelope and to mitigate against forced sales of assets to service pension promises.

Covid 19 has also impacted the progress of the Data Improvement Programme and the Annual Benefit Statement exercise for 2019/20. It has been difficult to make contact with employers in lockdown and those staff are generally redirected to business critical tasks of the employer.

In summary, the Covid 19 Risk is a global risk affecting a number of risk indicators, so it has been necessary to rebalance both the pre-mitigation and post mitigation response as set out in summary in the table below.

Management Risk - A significant risk is the potential insolvency of scheme employers, leaving outstanding liabilities in the Fund. To this end the Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. In the monitoring of employers, consideration is given to the Funding Strategy Statement (FSS), which outlines the Fund's approach to how employer liabilities are measured, and one of the aims of the FSS is to reduce the risk from employers defaulting on its pension obligations. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise. Some funding risks can be mitigated by the Investment Strategy and the funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

This risk can manifest itself in several ways:

- Failure to process pensions
- Failure to collect contributions
- Failure to have proper business continuity plans in place
- Fraud or misappropriation
- Failure to maintain up-to-date and accurate data and hold it securely
- Failure to maintain expertise or over-reliance on key staff

- Failure to communicate effectively with members and employers
- Failure to provide the service in accordance with sound equality principles

Benefits Administration Risk- Relates mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. These could include non- or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations and the failure to comply with Freedom of Information Act requests or Disclosure of Information requirements

All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks.

Internal Control Framework - Internal controls and processes are in place to manage administration, financial and other operational risks. The East Sussex County Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place.

Financial/Funding Risk - This is essentially the risk that the funding level drops and/or contribution rates must rise due to one or more of the following factors:

- Investment Risk – This is the risk that the investment assets underperform the level assumed in the Triennial Actuarial Valuation. This can occur due to poor economic/market conditions, the wrong investment strategy or poor selection of investment managers. Investment risk is regularly considered by Members and Officers, advised by the East Sussex Pension Fund (ESPF) Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility.
- Liability Risk – This is the risk that there is a fall in the so-called "risk free" returns on Government bonds, which form the basis of assumptions about future investment returns. The assumed future investment return is used to "discount" future liabilities (i.e. over the next 0-80 years) back to today's values (net present value). Therefore, falling bond yields means higher liabilities.
- Inflation Risk – Notwithstanding other factors, Pension Fund liabilities increase in line with inflation, because the CPI is applied to pensions annually. Therefore, rising inflation causes the liabilities to increase.
- Insufficient Funds Risk - This is the risk that there is insufficient money in the Fund to pay out pensions as they become due.

The ESPF Investment Strategy Statement (see page 69), sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12-month period under review.

Demographic Risk - This is the risk of that the pensioners live longer and therefore the liabilities of the Fund increase.

Regulatory Risk - This risk could manifest itself in several ways. For example, it could be the risk that the liabilities will increase due to the introduction of an improved benefits package, or that investment returns will fall due to tighter regulation being placed on what can be invested in. It could also arise through a failure to comply with LGPS or other regulations.

Governance Risk - This is the risk that governance arrangements of the Fund are sub-optimal. For example, this could arise through a lack of expertise on the Committee arising from insufficient training. Another possibility is that potential conflicts of interest between the Fund and the Council are not managed sufficiently well.

Employer Risk - This is the risk that an employer is unable to meet its financial obligations to the Fund, either during its membership of the Fund, or at its ceasing when the last contributing member leaves. Where a guarantor is in place they will pick up the cost of any default, but where there is not one, the cost must be spread across all employers in the Fund.

Third Party Risk - Contribution payments are monitored closely for accuracy and timeliness. A reporting process is in place to escalate any late/inaccurate payments to ensure all payments are received.

A Risk Register has been formally adopted by the East Sussex Pension Committee and a report of the key highlights is reported to the Pension Board at each quarterly meeting.

Some of the risks highlighted are shown in the table below - please note that this is not an exhaustive list. The full risk register can be seen within the quarterly Pensions Committee papers.

EAST SUSSEX PENSION FUND - RISK REGISTER – SNAPSHOT OF KEY RISKS								
Reference	**Risk**	**Pre Mitigation**			**Risk Control / Response**	**Post Mitigation**		
		Impact	**Likelihood**	**Risk Score**		**Impact**	**Likelihood**	**Risk Score**
Pensions Administration								
1	**Pension contributions:** ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS102/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● 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
2	**Poor or inadequate delivery of Pensions Administration by service provider** ● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman) ● Data interruption from system changeover	4	3	12	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance ● Procurement of new Pension Administration System to replace Heywoods ● Project managers being sourced risk not yet mitigated.	4	3	12
Pensions Investment and Governance								
3	**Coronavirus and Covid 19** ● 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	● 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
4	**2019 Triennial actuarial valuation outcome** ● An increase in liabilities, which is higher than the previous actuarial valuation estimate. ● The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities. ● Significant rises in employer contributions due to increases in liabilities or fall in assets.	3	2	6	● The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. ● The Committee receiving training on understanding liabilities ● Hymans Robertson commission to produce an Asset Liabilities Model. ● Life expectancy assumptions are reviewed at each valuation. ● Reviewing of the each triennial valuation assumptions and challenge actuary as required. ● Funding Strategy Statement and Investment Strategy Statement updated and approved,	3	1	3

EAST SUSSEX PENSION FUND - RISK REGISTER – SNAPSHOT OF KEY RISKS								
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
					● 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;			
LGPS Pooling - ACCESS Pool								
5	**LGPS Investment Pooling & Sub Fund Issues** ● Increase in investment risk taken to access higher returns ● There can be size restrictions on certain investments. ● 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.	3	3	9	● 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 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	3	2	6
6	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.	3	3	9	• 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

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The risk scores are calculated using the risk matrix below:

LIKELIHOOD					
	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

5. Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on pages 16 to 22.

	Restated 2018/19 £000	2019/20 £000
Fund Account		
Net (Contributions)/withdrawals	(2,218)	(4,452)
Management Expenses	14,038	17,333
Return on Investments	(260,652)	140,238
Net Increase in Fund	**(248,832)**	**153,119**

	Restated 2018/19 £000	2019/20 £000
Net Asset Statement		
Bonds	499,750	212,331
Equities	153,695	-
Pooled Funds	2,825,479	3,189,335
Cash	149,156	63,715
Other	(4,870)	(135)
Total Investment Assets	**3,623,210**	**3,465,246**
Non-Investment Assets	9,002	13,848
Net assets of the fund available to fund benefits at the year end.	**3,632,212**	**3,479,094**

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2019/20.

Month	Payments Due	Payments Received Late
April	127	5
May	127	6
June	126	4
July	126	3
August	126	3
September	124	6
October	123	6
November	122	4
December	123	9
January	122	3
February	121	5
March	120	13

No interest was charged on any of the late payments.

Forecasts

The following tables show the forecasts and outturn for the Fund Account and the Net Asset Statement.

Fund Account	Restated 2018/19 Forecast £000	Restated 2018/19 Actual £000	2019/20 Forecast £000	2019/20 Actual £000	2020/21 Forecast £000
Contributions	(136,900)	(127,810)	(141,600)	(138,719)	(118,600)
Payments	133,200	125,592	137,600	134,267	134,700
Administration expenses	1,086	916	940	1,106	1,080
Oversight and governance costs	733	740	709	1,208	1,365
Investment expenses:					
fees invoiced to the fund	4,650	6,138	5,100	4.370	1,350
fees deduced at source	-	6,244	-	10,649	-
Net investment income	(39,300)	(25,919)	(27,000)	(26,487)	(27,200)
Change in market value	(231,700)	(234,733)	(206,300)	166,725	(134,600)
Net increase in the Fund	**(268,231)**	**(248,832)**	**(230,551)**	**153,119**	**(141,953)**

Contributions and payments are based on current expectations; the administration and investment management expenses are based on current budgets; and the net investment income and change in market value are based on the long-term forecast returns for each asset class.

Net Asset Statement	2018/19 Forecast £000	2018/19 Actual £000	2019/20 Forecast £000	2019/20 Actual £000	2020/21 Forecast £000
Equities	2,341,400	2,134,847	2,273,600	1,332,597	1,403,200
Bonds	530,800	751,032	781,100	595,691	611,600
Property	373,000	339,442	356,400	318,129	329,600
Alternatives	222,700	245,135	265,200	321,996	341,000
Cash	135,800	149,156	195,200	63,715	43,900
Other	3,800	3,598	3,800	833,118	869.700
Total Investment Assets	**3,607,500**	**3,623,210**	**3,875,300**	**3,465,246**	**3,599,000**

The forecasts for total investment assets are based on the underlying assets within the pooled funds multiplied by the historic long-term returns for each asset class used. Net contributions, less administration and investment management expenses and oversight and governance costs, are added to the Cash figure to reflect new money into the Fund. The forecasts do not take into account potential additions or disposals of investments within these asset classes during the period as potential changes are not known with any degree of certainty.

Management Expenses

	2018/19		2019/20		2020/21
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Orbis Finance Support Services	51	69	45	40	-
Orbis Business Operations Support Services	935	809	854	952	935
Supplies and Services	100	38	41	114	145
Administration total	**1,086**	**916**	**940**	**1,106**	**1,080**
Oversight and governance costs					
Orbis Finance Support Services	263	210	234	267	385
Supplies and Services	470	529	475	941	980
Third Party Payments	150	100	130	97	150
Other Income	(150)	(98)	(130)	(97)	(150)
Oversight and governance total	**733**	**741**	**709**	**1,208**	**1,365**
Investment Management					
Investment expenses:					
fees invoiced to the fund	4,650	6,138	5,100	4.370	1,350
fees deduced at source*	-	6,244	-	10,649	-
Investment Management Total	**4,650**	**12,382**	**5,100**	**15,019**	**1,350**
Management Expenses Total	**6,469**	**14,038**	**6,749**	**17,333**	**3,795**

* During the year, the Pension Fund incurred management fees which were deducted at source for 2019/20 of £3.7m (£2.3m in 2018/19) on its private equity investments, fees of £1.3m (£1.3m in 2018/19) on its infrastructure investments, fees of £2.6m (£0.0m in 2018/19) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2018/19) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

Pension overpayments

When an overpayment of pension benefits has been identified the recovery of this debt needs to be persued. The details of the debt is collated and an invoice is raised to the relevant party for payment. The Fund follows the East Sussex County Councils procedure for recovering income which has escalation points set if the debt remains unpaid with the final stage this is passed on to the East Sussex legal team to persue. The table below shows the pension overpayments and recovieries for the past 5 years:

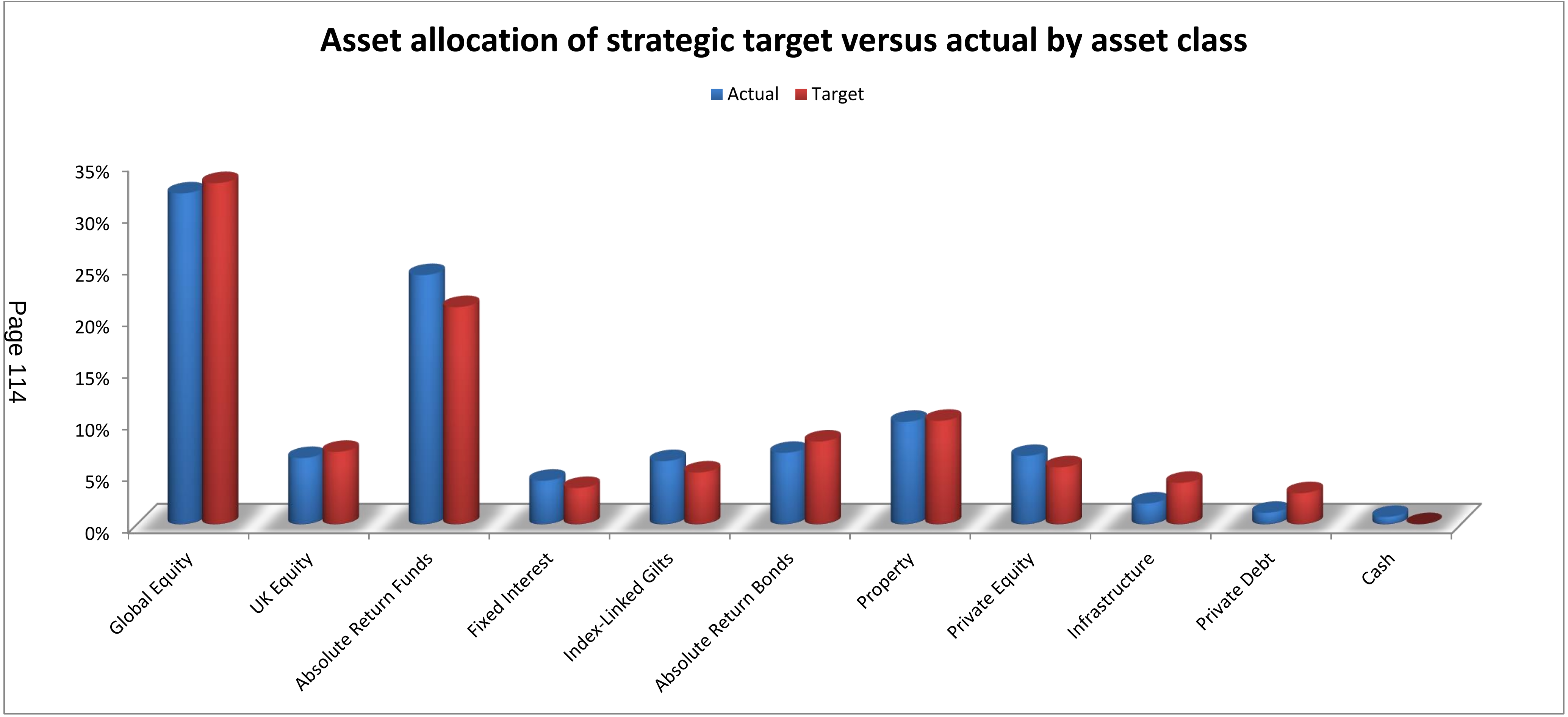
Year		Overpaid Pensioners	Recoveries	Write Off	Outstanding
2019/20	Number	10	8	0	2
	Value £000	6	4	0	2
2018/19	Number	30	21	1	8
	Value £000	70	59	6	5
2017/18	Number	52	41	3	8
	Value £000	52	42	1	9
2016/17	Number	73	45	2	26
	Value £000	61	30	4	27
2015/16	Number	44	38	-	6
	Value £000	34	23	-	11

The Fund's administrator this year introduced mortality screening of the active pensioners each month and this has reduced the number of overpayments significantly over the year. Recently the tell us once initiative has also been implemented with the aim to further reduce the overpayments made by the Fund.

6. Investment policy and performance

Investment Policy

The Fund's strategic asset allocation was unchanged during the year to 31 March 2020, set out below, strategic target and actual allocations, at the end of the 2019/20 financial year.



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During the year, the Committee agreed to commit £40m to the UBS Archmore International Infrastructure Fund and £20m to the M&G InfraCapital Greenfield Partners II LP. These commitments were made to enable the Fund to meet its 4% target allocation to infrastructure.

Mandate	Value (£m) Q1 2019	Proportion (%) Actual	Proportion (%) Target	Value (£m) Q1 2020	Proportion (%) Actual	Proportion (%) Target
Investments in the ACCESS Pool						
ACCESS - Global Equity (Longview)	275.0	7.6%	7.0%	238.8	6.9%	7.0%
ACCESS - Absolute Return (Ruffer)	-	-	-	418.5	12.0%	10.5%
ACCESS - Real Return (Newton)	-	-	-	414.8	11.9%	10.5%
ACCESS - Corporate Debt (M&G)	-	-	-	144.3	4.1%	3.5%
Total Investments held in ACCESS	**275.0**	**7.6%**	**7.0%**	**1216.4**	**35.2%**	**31.5%**
Investments held directly						
Equities						
Passive						
UBS - Fundamental Indexation	429.4	11.9%	11.5%	363.2	10.4%	11.5%
UBS - Global Emerging Markets	41.7	1.2%	1.5%	36.2	1.0%	1.5%
UBS - Regional Equities	331.2	9.2%	8.0%	312.4	9.0%	8.0%
UBS - UK Equities	271.3	7.5%	7.0%	221.9	6.4%	7.0%
UBS - Climate Aware	169.7	4.7%	5.0%	160.0	4.6%	5.0%
Total Equities	**1,243.3**	**34.5%**	**33.0%**	**1093.7**	**31.5%**	**33.0%**
Absolute Return						
Newton	422.0	11.6%	10.5%	-	-	-
Ruffer	402.2	11.1%	10.5%	-	-	-
Total Absolute Return	**824.2**	**22.7%**	**21.0%**	**-**	**-**	**-**
Bonds						
UBS - 5yr ILG	207.5	5.7%	5.0%	212.3	6.1%	5.0%
M&G - Corporate Bonds	137.7	3.8%	3.5%	-	-	-
M&G - Absolute Return	251.3	6.9%	8.0%	239.1	6.9%	8.0%
Total Bonds	**596.5**	**16.4%**	**16.5%**	**451.4**	**13.0%**	**13.0%**
Other Investments						
Schroder - Property	360.4	9.9%	10.0%	343.7	9.9%	10.0%
M&G - Infrastructure Fund	2.0	0.1%	1.0%	20.7	0.6%	1.0%
Pantheon - Infrastructure Fund	14.8	0.4%	2.0%	30.1	0.9%	2.0%
UBS - Infrastructure	19.5	0.5%	1.0%	16.7	0.5%	1.0%
Adams Street - Private Equity	115.2	3.2%	2.8%	122.9	3.5%	2.8%
HarbourVest - Private Equity	98.1	2.7%	2.7%	106.2	3.1%	2.7%
M&G Real Estate Debt VI	-	-	-	38.8	1.1%	3.0%
M&G - UK Financing Fund	0.7	0.0%	3.0%	-	-	-
Cash account	73.5	2.0%	0.0%	24.6	0.7%	0.0%
Total Other Investments	**684.2**	**18.8%**	**22.5%**	**703.7**	**20.3%**	**22.5%**
Total	**3,623.2**	**100.0%**	**100.0%**	**3,465.2**	**100.0%**	**100.0%**

An analysis of fund assets as at the reporting date

	UK £m	Non-UK £m	Global £m	Total £m
Equities	222	472	638	1,332
Bonds	357	-	239	596
Property (direct holdings)	-	-	-	-
Alternatives	349	-	291	640
Cash and cash equivalents	41	23	-	64
Other	-	-	833	833
Total	**969**	**495**	**2,001**	**3,465**

An analysis of investment income accrued during the reporting period

	UK £000	Non-UK £000	Global £000	Total £000
Equities	4,344	1,145	-	5,489
Bonds	32	376	6,425	6,833
Property (direct holdings)	-	-	-	-
Alternatives	11,973	-	1,531	13,504
Cash and cash equivalents	455	218	-	673
Other	-	-	47	47
Total	**16,804**	**1,739**	**8,003**	**26,546**

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In the above tables:

'Alternatives' are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds and derivatives.

'Other' denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

'Global' holdings are those that include an element of both overseas and UK listed assets.

Investments in pooled funds have been allocated to categories based on the nature and domicile of the underlying assets.

Responsible Invesment

The Fund understands the urgency of the need to address climate change following the release of the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming in 2019[1]. This sets out the likely consequences of global warming of 1.5ºC and the additional damage that global warming of 2ºC could cause. Following the publication of this report there is understandable interest in what pension funds and other financial market participants are doing to uphold their responsibility to help reduce carbon emissions.

In order to provide a general framework for investment decision-making, the Pensions Committee has developed a set of investment beliefs. These are set out in the Fund's ISS and are reviewed by the Committee on a regular basis. A number of these beliefs – set out below - apply specifically to the consideration of ESG issues and Responsible Investment (RI) in its wider sense.

We will apply long-term thinking to deliver long-term sustainable returns.

We will seek sustainable returns from well-governed assets.

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.

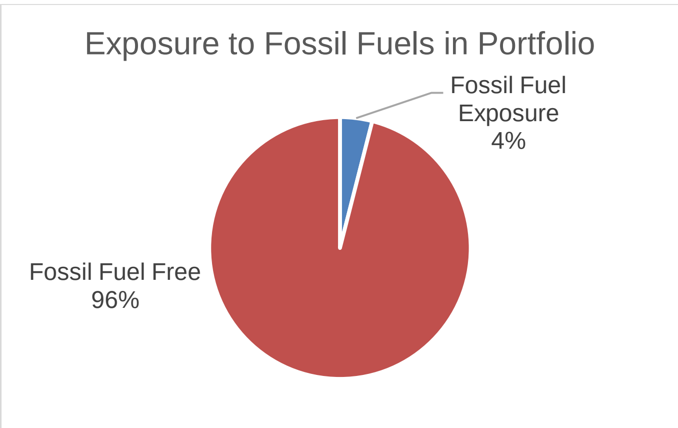
We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.

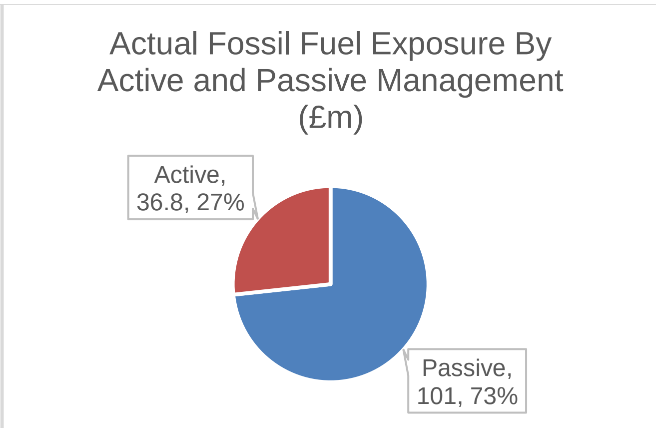
In light of these beliefs, and given the legal, regulatory, and practical constraints noted above, the Committee with its advisers has considered a number of possible routes to reduce carbon exposure within the Fund, including divestment, engagement, the use of low carbon indices and allocating to actively managed 'sustainable' funds.

The Committee currently regards full divestment from fossil fuels as an inferior option, as it is only possible as a one-off action and is likely to have limited effect. When shares in the relevant companies are sold, the Fund loses its ability to influence the company to change its business model, and the new shareholders are likely to be less interested in putting pressure on the company.

While the Fund is actively looking to reduce the carbon exposure from its passive investments, it will only do so when it is able to evaluate all the risks involved from partial or total exclusions. It continues actively to engage with fossil fuel companies collaboratively with other investors, and is considering a search for an active sustainable mandate in the expectation of making some positive financial return from climate change.

At the end of 2019/20 the ESPF had 4% of it holdings exposed to fossil fuel companies, the fund expects to reduce this exposure through its work programmes in the next financial year as part of its work on Responsible investment.





[1] https://www.ipcc.ch/sr15/

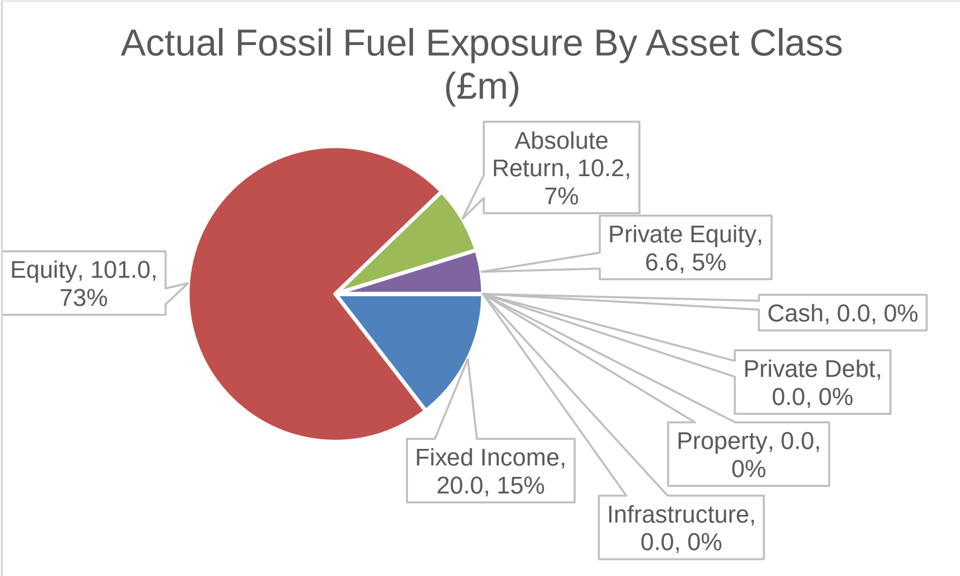


Table 1: Fund's Fossil Fuel exposure

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure* (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS – North America	4.9	7.7	5.0	-	Passive
UBS – Europe (ex UK)	5.9	7.1	6.0	(0.1)	Passive
UBS – Japan	5.4	1.0	5.4	-	Passive
UBS – Asia Pacific (ex Japan)	9.5	1.6	9.9	(0.4)	Passive
UBS – Emerging Markets	9.7	3.5	9.8	(0.2)	Passive
UBS – UK	13.9	30.8	14.5	(0.1)	Passive
UBS – RAFI	11.4	41.3	11.5	(0.2)	Passive
UBS – Climate Aware	5.0	8.0	6.0	(1.1)	Passive
Longview - Global Equity	-	-	6.9	(6.9)	Active
Harbourvest - Private Equity	3.3	3.6	6.9	(3.6)	Active
Adams Street - Private Equity	2.2	3.0	6.9	(4.7)	Active
Newton - Absolute Return	1.2	5.1	-	-	Active
Ruffer - Absolute Return	1.2	5.1	-	-	Active
Schroders - Property	-	-	-	-	Active
UBS - Infrastructure	-	-	-	-	Active
Pantheon - Infrastructure	-	-	-	-	Active
M&G (InfraCapital) - Infrastructure	-	-	-	-	Active
M&G – Real Estate Debt	-	-	-	-	Active
M&G - UK Financing Fund	-	-	-	-	Active
M&G - Absolute Return Credit	2.6	6.1	10.3	(7.7)	Active
M&G - Corporate Bonds	9.6	13.9	-	9.6	Active
UBS - Over 5 Year IL Gilt Fund	-	-	-	-	Passive
Cash	-	-	-	-	Active
Total Fund	4.0	137.8	-	-	-

ESPF Asset Managers

The Fund employs a number of managers with differing styles and management approaches. This is a deliberate policy to avoid over-dependence on the fortunes of a single manager and to concentrate on managers' particular areas of expertise. All managers are expected to maintain well diversified portfolios. The Fund's structure is broadly as follows:

- UBS are the Fund's largest single equity manager; all assets are managed passively against UK and Global equity market benchmarks. The allocation to the UBS All World Equity Fundamentally Weighted Index Fund offers additional diversification from the market capitalisation based passive management approach. In addition, the Fund invests in the UBS Climate Aware Fund which tracks an index with a climate change overlay.
- The Fund has one active global equity manager (Longview). The Committee maintains the belief that a blend of active and passive management of equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund's other mandates, due to their flexible, unconstrained management approach and wide range of underlying assets.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.
- Corporate bonds and absolute return credit assets are managed by M&G. Index-linked bonds are managed passively by UBS.
- The Fund's allocations to infrastructure and unquoted equities are currently divided between five managers, three within infrastructure and two within unquoted equities.
- M&G has been appointed to manage a real estate debt investment and starting drawing capital during the year.

Custodian

A specialist provider of Custodian Services, Northern Trust, is employed by the East Sussex Pension Fund.

The responsibilities of the Custodian are:

- Collection of investment income.
- Arranging for the custody of the schemes assets in compliance with the custody agreement.
- Providing quarterly valuations of the schemes assets, details of all transactions and investment accounting.
- Responsibility for cash management and investing the daily cash balances in a "Triple A" rated cash pool.

Investment Performance

Actual and benchmark performance for each of the Fund's mandates is provided in the table below, over 12 months 3 years and 5 years[1]. Results are considered by the Pension Committee on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year			3 year (p.a.)			5 year (p.a.)		
	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*
ACCESS Pool									
Equities									
Longview – Global	(13.2)%	(6.7)%	(6.4)%	(9.8)%	(2.6)%	(7.2)%	-	-	-
Absolute Return									
Newton	(10.3)%	0.7%	(11.0)%	-	-	-	-	-	-
Ruffer	1.9%	1.1%	0.7%	-	-	-	-	-	-
Bonds									
M&G – Corporate	(7.5)%	(8.1)%	0.6%	-	-	-	-	-	-
Equities									
UBS – UK Equity	(18.2)%	(18.5)%	0.3%	(9.1)	(9.1)%	(0.1)%			
UBS – Regional	(6.5)%	(6.5)%	(0.1)%	(0.2)%	(0.2)%	0.0%	-	-	-
UBS - Fundamental Indexation	(15.4)%	(14.8)%	(0.6)%	(5.8)%	(5.2)%	(0.5)%	-	-	-
UBS – Climate Aware	(5.7)%	(5.4)%	(0.3)%	(1.5)%	(1.5)%	(0.1)%	-	-	-
Bonds									
UBS - 5yr ILG	2.3%	2.4%	(0.1)%	6.3%	6.3%	0.0%	-	-	-
M&G - Absolute Return	(4.9)%	4.0%	(8.8)%	(0.4)%	2.4%	(2.8)%	1.1%	1.7%	(0.3)%
Other Investments									
Schroder – Property	(1.3)%	0.0%	(1.3)%	4.8%	4.9%	(0.1)%	5.5%	6.0%	(0.4)%
M&G – Infrastructure	3.2%	3.5%	(0.3)%	7.0%	3.3%	3.6%	-	-	-
Pantheon – Infrastructure	8.2%	3.5%	4.7%	6.1%	3.5%	2.6%	-	-	-
UBS – Infrastructure	5.8%	3.5%	2.3%	3.7%	2.0%	1.7%	5.4%	1.4%	3.9%
Adams Street - Private Equity	9.5%	(5.5)%	15.0%	12.2%	2.5%	9.6%	13.6%	6.5%	7.1%
HarbourVest - Private Equity	11.8%	(5.5)%	17.3%	13.7%	2.5%	11.2%	15.2%	7.2%	8.0%
M&G – Real Estate Debt VI	0.9%	4.8%	(3.9)%	-	-	-	-	-	-
Cash account	0.3%	0.6%	(0.4)%	(1.9)%	0.5%	(2.3)%	(1.4)%	0.4%	(1.8)%

*Relative performance is calculated on a geometric basis as opposed to the simpler arithmetic method the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.

[1] The table shows since inception returns in place of one year, three year and five-year performance for some of the managers, if the mandate has been in place for a shorter period.

5. Scheme Administration

Service Delivery

East Sussex County Council as Administering Authority for the East Sussex Pension Fund undertake the day to day pensions administration through Orbis, which is a shared services partnership currently covering the three councils of East Sussex, Surrey and Brighton and Hove.

The Orbis pensions administration team are responsible for

- administering the LGPS Scheme on behalf of the ESPF scheme employers in accordance with relevant legislation and Pension Committee decisions, also provision of services in connection with the uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the LGPS and provision of early retirement estimates;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- administration of new starters, including transfers in;
- administration and calculations relating to leavers;
- payment of pensions and other entitlements.

Communication to employers and members of administration is carried out where possible through access to the MyPensionsPortal for members to view their Annual benefit statements, nominations, personal details and carry out benefit calculations. The Orbis team also send annual newsletters to scheme member and employers.

The Pension Fund website www.eastsussexpensionfund.org provides scheme members and employers access to up to date information on the LGPS. Alongside this website, the East Sussex County Council also provides information on their website around how the Pension Fund is governed www.eastsussex.gov.uk/yourcouncil/pensions/governance/

Administration of the pensions fund is discussed quarterly at Pensions Committee to ensure the service is managed and governed well and key performance indictors reviewed at each meeting. In addition, Pensions Board consider the activities of the Pensions Administration team at each meeting. During 2019/20 ESPF set up an annual benefit working group as part of its Data Improvement Programme to deliver cleansing of employer common and specific data to ensure complete and accurate membership records. The ESPF looks to achieve value for money in the administration of the Fund by providing the service in a cost effective and efficient manner utilising technology appropriately. Achievement of KPIs and high services levels helps the fund monitor the effectiveness of the fund.

Internal Dispute Resolution Procedure

The LGPS is required by statute to make arrangements for the formal resolution of any disagreements on matters in relation to the scheme that may arise between, the managers of the Scheme and the, active, deferred and pensioner members of their representatives.

There is access to a two-stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer to consider the matter. If the complainant is still dissatisfied with the decision, they then have the right to refer the matter to the County Council to consider the matter under dispute. The person appointed for this role in the East Sussex Pension Fund is the Assistant Chief Executive.

In addition to the dispute procedure, the Social Security Act 1990 and the Pensions Act 1995 have created a framework of national organisations to control occupational and personal pension schemes, to which LGPS members have access.

The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

	2019/20
First Stage	5
Upheld	4
Declined	1
Ongoing	-
Second Stage	-
Upheld	-
Declined	-
Ongoing	-

Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Death notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	100%
Award dependent benefits (Death Grants)	High	within 5 days	95%	98%
Retirement notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	97%
Payment of lump sum made	High	within 5 days	95%	98%
Calculation of spouses benefits	Medium	within 5 days	90%	99%
Transfers In - Quote (Values)	Low	within 10 days	90%	98%
Transfers In - Payments	Low	within 10 days	90%	99%
Transfers Out - Quote	Low	within 25 days	90%	99%
Transfers Out - Payments	Low	within 25 days	90%	98%
Employer estimates provided	Medium	within 7 days	95%	90%
Employee projections provided	Low	within 10 days	95%	93%
Refunds	Low	within 10 days	95%	99%
Deferred benefit notifications	Low	within 25 days	95%	100%

	2018/19	2019/20
Number Of Complaints	9	5

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund 2018/19 £	East Sussex Pension Fund 2019/20 £	Benchmark Unit Costs £
Excluding investment management expenses	22.09	30.07	38.69
Including investment management expenses	187.26	225.65	228.26

Key staffing indicators

At 31 March 2019, staffing numbers within Pension Administration were 17.6 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,363.

With an average cases per member of staff of 1:499

Membership

The East Sussex Pension Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admitted Bodies. Admitted Bodies are those which are able to apply for membership of the Scheme under the Regulations. If the Pension Fund Committee agrees to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Note 28 to the accounts provide a list of all organisations currently contributing to the Fund. It includes their contribution rates, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

	Active	Ceased	Total
Scheduled body	95	13	108
Admitted body	33	21	54
Total	**128**	**34**	**162**

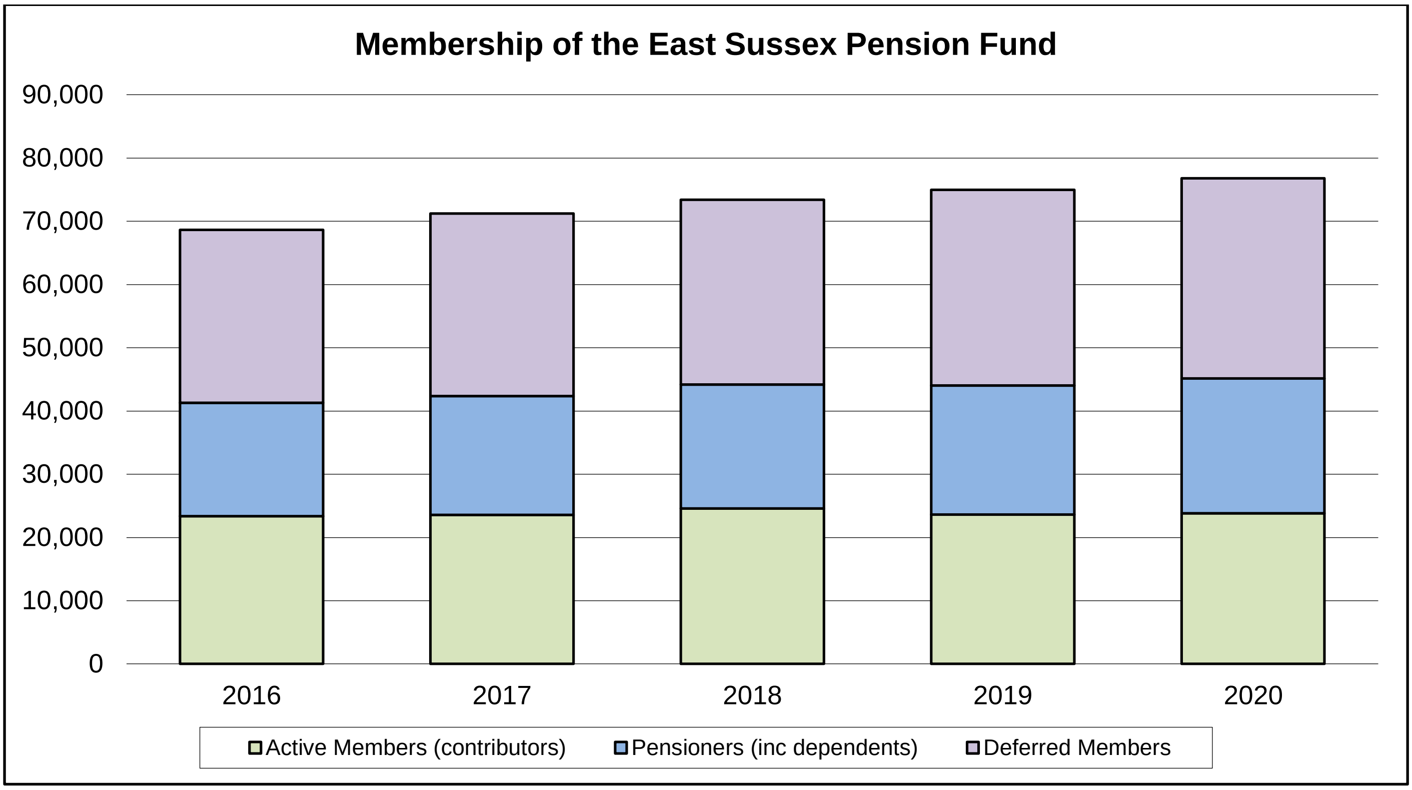
During 2019/20 the number of contributing members within the Pension Fund increased by 0.8% from 23,646 to 23,835. In summary, the number of members contributing to the Scheme is:

	2018/19	2019/20
East Sussex County Council	7,978	7,980
Scheduled Bodies	15,332	15,561
Admitted Bodies	336	294
Total	**23,646**	**23,835**

The number of pensioners in receipt of payments from the Fund increased from 20,403 to 21,335 (or 4.6%).

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years:

	March 2016	March 2017	March 2018	March 2019	March 2020
Active Members (contributors)	23,367	23,567	24,570	23,646	23,835
Pensioners (inc dependents)	17,942	18,812	19,597	20,403	21,335
Deferred Members	27,344	28,853	29,253	30,916	31,622
Total	**68,653**	**71,232**	**73,420**	**74,965**	**76,792**

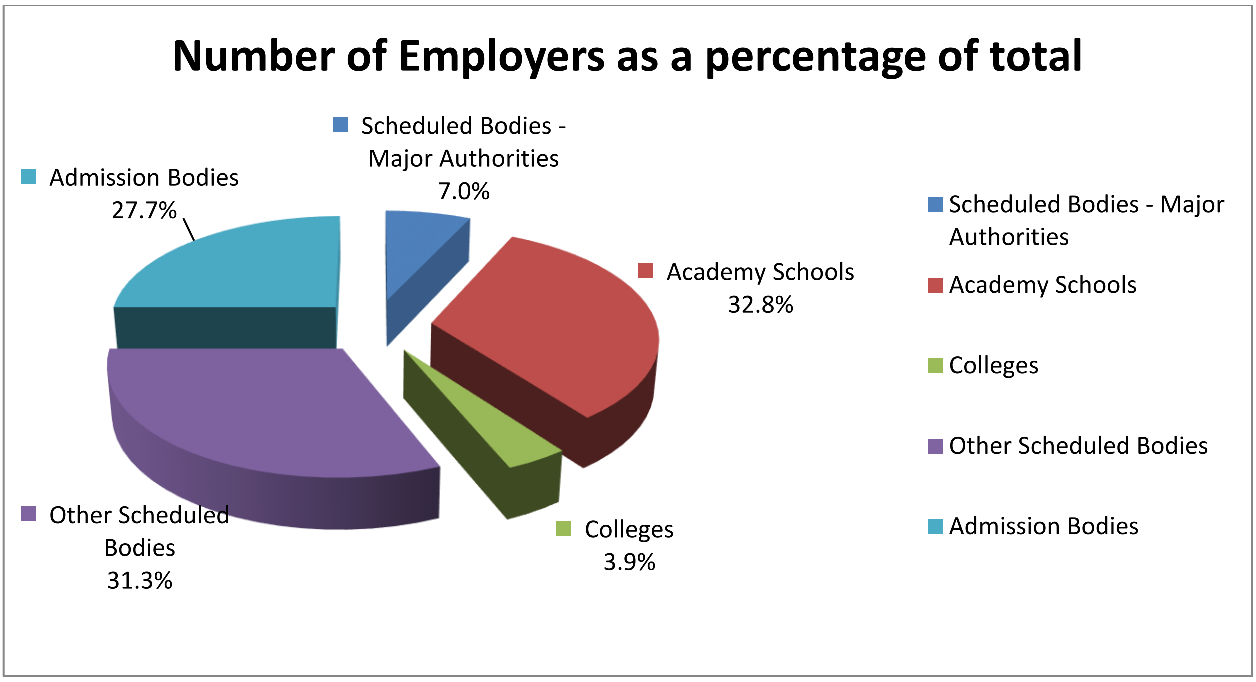


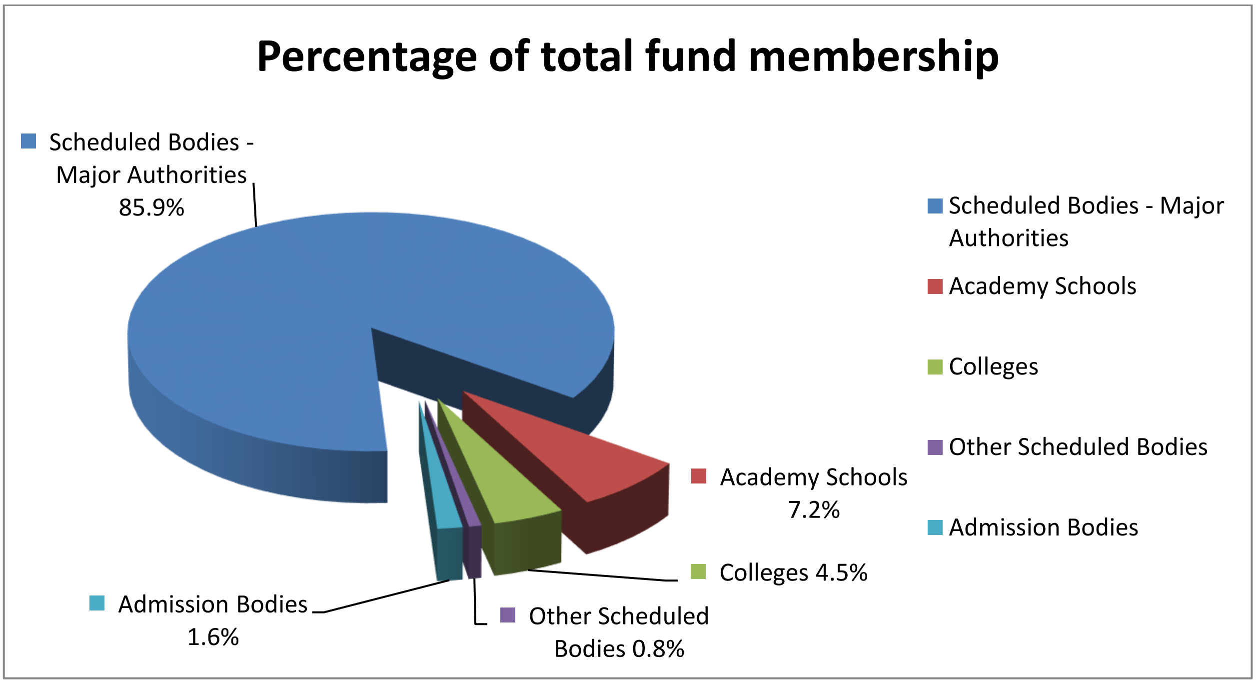
Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 76,000 individuals employed by 128 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

Employer statistics by Employer type

Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies - Major Authorities	7.0%	85.9%	9
Academy Schools	32.8%	7.2%	42
Colleges	3.9%	4.5%	5
Other Scheduled Bodies	31.3%	0.8%	40
Admission Bodies	25.0%	1.6%	32

Note - all percentages have been rounded to the nearest one decimal place





New pensioners by pensioner type

New pensioner type	Number of new pensioner in group
Normal Retirments	452
Redundancies	141
Ill Helath	57
Employee’s Choice of Early Pensnsion	616
Total New Pensioners	1,266

6. Actuarial report on funds

The East Sussex County Council ("the Administering Authority") carried out an actuarial valuation of the East Sussex Pension Fund. ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

The actuarial valuation is a risk management exercise with the purpose of reviewing the current funding plans and setting contribution rates for the Fund's participating employers for the period from 1 April 2020 to 31 March 2023. The report can be downloaded here which summarises the outcomes of the valuation and the underlying advice provided to the Administering Authority throughout the valuation process.

For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.

The resulting funding position is as follows:

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	994	1,061
Deferred Pensioners	604	736
Pensioners	1,414	1,588
Total Liabilities	**3,012**	**3,386**
Assets	**2,771**	**3,633**
Surplus / (Deficit)	**(240)**	**247**
Funding Level	**92%**	**107%**

There has been an improvement in the reported funding level since 31 March 2016 from 92% to 107% and a change in the funding deficit from £240m to a surplus of £247m.

A breakdown of the key factors that have influenced the reported funding position from 31 March 2016 to 31 March 2019 are detailed below.

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	**2,771**	**3,012**	**(240)**
Cashflows			
Employer contributions paid in	290		290
Employee contributions paid in	86		86
Benefits paid out	(376)	(376)	0
Net transfers into / out of the Fund*	(23)		(23)
Other cashflows (e.g. Fund expenses)	(5)		(5)
Expected changes in membership			
Interest on benefits already accrued		376	(376)
Accrual of new benefits		339	(339)
Membership experience vs expectations			
Salary increases greater than expected		21	(21)
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	0	12	(12)
Ill health retirement gain		(5)	5
Early leavers greater than expected		0	0
Pensions ceasing greater than expected		(1)	1
Commutation less than expected		10	(10)
Other membership experience		10	(10)
Changes in market conditions			
Investment returns on the Fund's assets	890		890
Changes in future inflation expectations		95	(95)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(5)	5
Change in longevity assumptions		(94)	94
Change in salary increase assumption		(18)	18
Change in discount rate		12	(12)
This valuation at 31 March 2019	**3,633**	**3,386**	**247**

7. Governance

Pensions Committee

East Sussex County Council (Scheme Manager) operates a Pensions Committee (the "Pensions Committee") for the purposes of facilitating the administration of the East Sussex Pension Fund, i.e. the Local Government Pension Scheme that it administers. Members of the Pensions Committee owe an independent fiduciary duty to the beneficiaries of the Pension Fund. Such members are therefore required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

Pension Board

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role.

ACCESS Pool Joint Committee

The ACCESS Pool operates a Joint Committee which has been set up through an Inter Authority Agreement (IAA) which was formalised and executed by each Individual Authority between May and June 2017 and came into effect on the 31 July 2017 at the first formal Joint Committee meeting. The role of the ACCESS Joint Committee, which has one representative from each Fund is to:

- Ensure pool delivers value for money;
- Appointment and termination of the Operator;
- Ensures pool meets needs of individual funds e.g. sub-funds the operator must provide to support individual fund strategies;
- Set pool level policies e.g. sharing of costs;
- Monitor Operator performance against KPIs;
- Monitor investment performance;

Committee membership and attendance

During the year ended 31 March 2020 there were 5 meetings of the Pension Committee, 3 meetings of the Pension Board and one annual employers forum.

Member attendance at committee meetings during 2019/20

2019/20 Pension Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox (Chairman)	5/5
	Simon Elford	3/5
	Nigel Enever	5/5
	David Tutt	3/5
	Trevor Webb	2/5

Member attendance at Board meetings during 2019/20

2019/20 Pension Board Members		
		Nos. of meetings attended
Independent Chairman:	Ray Martin	3/3
Employer Representative:		
Brighton & Hove City Council	Councillor Carmen Appich	2/3
Districts & Borough Councils	Councillor Chris Collier*	1/1
	Councillor Doug Oliver*	1/1
Educational Bodies	Stephen Osborn	3/3
Employee Representative:		
Active & Deferred	Niki Palermo	3/3
Active & Deferred	Lynda Walker	3/3
Pensioners	Diana Pogson	3/3

*Councillor Doug Oliver was replaced by Concillor Chris Collier during the year, one meeting took place when this post was vacant.

Member attendance at ACCESS Pool joint committee meetings during 2019/20

2019/20 Joint Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox	3/4

The Knowledge and Skills Framework

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, 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 II, 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

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 the 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.

8. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

Restated 2018/19 £000	£000		Notes	2019/20 £000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(92,084)		From Employers		(99,018)	
(29,613)		From Members		(31,403)	
	(121,697)				(130,421)
	(6,113)	Transfers in from other pension funds	8		(8,298)
	(127,810)				**(138,719)**
	122,183	Benefits	9		125,670
	3,409	Payments to and on account of leavers	10		8,597
	125,592				**134,267**
	(2,218)	**Net (additions)/withdrawals from dealings with members**			**(4,452)**
	14,038	Management expenses	11		17,333
	11,820	**Net (additions)/withdrawals including fund management expenses**			**12,881**
		Returns on investments			
	(26,191)	Investment income	12		(26,546)
	272	Taxes on income	13a		59
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments	14a		166,725
	(260,652)	**Net return on investments**			**140,238**
	(248,832)	**Net (increase)/decrease in net assets available for benefits during the year**			**153,119**
	(3,383,380)	Opening net assets of the scheme			(3,632,212)
	(3,632,212)	**Closing net assets of the scheme**			**(3,479,093)**

b. Net Assets Statement for the year ended 31 March 2020

Restated 31 March 2019 £000		Notes	31 March 2020 £000
3,478,924	Investment assets	14	3,401,666
5,362	Other Investment balances	21	340
(10,232)	Investment liabilities	22	(475)
149,156	Cash deposits	14	63,715
3,623,210	**Total net investments**		**3,465,246**
12,153	Current assets	21	16,622
(3,151)	Current liabilities	22	(2,774)
3,632,212	**Net assets of the fund available to fund benefits at the year end.**		**3,479,094**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2020 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

XX September 2020

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2020

1: Description of fund

The East Sussex Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by East Sussex County Council. The County Council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by East Sussex County Council to provide pensions and other benefits for pensionable employees of East Sussex County Council, the district councils in East Sussex County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and Fire fighters are not included as they come within other national pension schemes.

It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The role of the Board is to assist the East Sussex Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in illiquid investments such as private equity, infrastructure and private debt. The Committee oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the East Sussex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 128 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	133	128
Number of employees		
County Council	7,978	7,980
Other employers	15,668	15,855
Total	**23,646**	**23,835**
Number of pensioners		
County Council	9,318	9,500
Other employers	11,085	11,835
Total	**20,403**	**21,335**
Deferred pensioners		
County Council	14,008	13,860
Other employers	16,908	17,762
Total	**30,916**	**31,622**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions, which are set, based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 0.0% to 49.2% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the East Sussex Pension Fund Website.

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code.

There were no amendments for 2019/20 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account he actuarial present value of promised retirement benefits The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Accounts have been prepared on a going concern basis.

The Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance Policy Statement, Communications Policy Statement, Employers Contributions, and Statements of Compliance. Copies can be obtained by contacting the Council's Pensions team or alternatively are available from - http://www.eastsussex.gov.uk

ACCESS pool – There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee, which has let the management of the asset pool to Link Fund Solutions Ltd, appointed to provide a pooled operator service. There is no direct investment in the third party, only a contractual arrangement to provide services, so no investment balance to carry forward in the net asset statement.

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

i) **Administrative expenses**

All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

ii) **Oversight and governance costs**

All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

iii) **Investment management expenses**

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019/20, £0.3m of fees is based on such estimates (2018/19: £0.2m).

Net assets statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement are the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

m) Additional voluntary contributions

East Sussex Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2015. The value of unquoted private equities at 31 March 2020 was £244.5 million (£206.8 million at 31 March 2019).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

The Fund uses financial instruments to manage its exposure to specific risks arising from its investments. In applying the accounting policies set out within the notes that accompany the financial statements the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the financial statements are based around determining a fair value for the alternative investments shown in the Net Asset Statement. It is important to recognise valuations for these types of investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. As a result of Coronavirus pandeminc there is a increase in the uncertainty around the mortalty provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: • A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). • A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). • A 0.25% change in mortality rates would increase the liability by approximately £22 million (0.7%).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £244.5 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Pooled Property Investments	As a result of the coronavirus impact, the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. An investment manager employed by the pension fund to provide investment valuations has declared a 'material valuation uncertainty' in respect of the Pooled Property Investments. These investments are valued at 31 March 2020 at £325.92m. The total value of the fund assets at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets.	Advice from the Fund Manager of the Pooled Property Portfolio is that the indicative effect of the Covid-19 pandemic on these valuations could result in a reduction of up to 10% in the reported value at year end which is £32.59m for the fund as a whole.

6: Events after the balance sheet date

The spread of Coronavirus pandemic had a significant impact on markets in the period prior to year-end and will continue to impact global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for Governments and their economies to navigate which may impact on the assets and / or liabilities of the Pension Fund.

There have been no events since 31 March 2020, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	Restated 2018/19 £000	2019/20 £000
By category		
Employee's contributions	29,613	31,403
Employer's contributions		
Normal contributions	74,626	80,302
Deficit recovery contributions	16,437	17,662
Augmentation contributions	1,021	1,054
Total	**121,697**	**130,421**
By authority		
Scheduled bodies	77,498	83,613
Admitted bodies	3,576	4,303
Administrative Authority	40,623	42,505
Total	**121,697**	**130,421**

8: Transfers in from other pension funds

	2018/19 £000	2019/20 £000
Group transfers	-	-
Individual transfers	6,113	8,298
Total	**6,113**	**8,298**

9: Benefits payable

	Restated 2018/19 £000	2019/20 £000
By category		
Pensions	99,457	104,544
Commutation and lump sum retirement benefits	19,722	18,555
Lump sum death benefits	3,004	2,571
Total	**122,183**	**125,670**
By authority		
Scheduled bodies	69,441	73,625
Admitted bodies	3,778	3,690
Administrative Authority	48,964	48,355
Total	**122,183**	**125,670**

10: Payments to and on account of leavers

	2018/19 £000	2019/20 £000
Refunds to members leaving service	412	389
Group transfers	-	-
Individual transfers	2,997	8,208
Total	**3,409**	**8,597**

11: Management expenses

	2018/19	2019/20
	£000	£000
Administrative costs	916	1,106
Investment management expenses	12,382	15,019
Oversight and governance costs	740	1,208
Total	**14,038**	**17,333**

11a: Investment management expenses

	2018/19	2019/20
	£000	£000
Management fees	11,750	14,746
Custody fees	124	54
Transaction costs*	508	219
Total	**12,382**	**15,019**

*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

During the year, the Pension Fund incurred management fees which were deducted at source for 2019/20 of £3.7m (£2.3m in 2018/19) on its private equity investments, fees of £1.3m (£1.3m in 2018/19) on its infrastructure investments, fees of £2.6m (£0.0m in 2018/19) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2018/19) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2018/19	2019/20
	£000	£000
Income from bonds	1,055	154
Income from equities	8,526	1,507
Private equity income	1,547	1,531
Pooled property investments	11,921	11,972
Pooled investments - unit trusts and other managed funds	2,266	10,705
Interest on cash deposits	856	673
Class Actions	20	4
Total	**26,191**	**26,546**

13: Other fund account disclosures

13a: Taxes on income

	2018/19	2019/20
	£000	£000
Withholding tax – equities	(177)	(59)
Withholding tax – pooled	(95)	-
Total	**(272)**	**(59)**

13b: External audit costs

	2018/19	2019/20
	£000	£000
Payable in respect of external audit for 2018/19	20	3*
Payable in respect of external audit for 2019/20	-	27
Payable in respect of other services	-	5
Total	**20**	**35**

*The final fee for 2018/19 was agreed after the audit opinion was received for 2018/19.

14: Investments

	2018/19 £000	2019/20 £000
Investment assets		
Bonds	499,750	212,331
Equities	153,695	-
Pooled Investments	2,232,435	2,579,793
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivative contracts:		
Forward Currency Contracts	425	-
	3,479,349	**3,401,666**
Cash deposits with Custodian	149,156	63,715
Other Investment balances (Note 21)	4,937	340
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivative contracts:		
Forward Currency Contracts	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2020 £000
Bonds	**499,750**	68,143	(379,592)	24,030	**212,331**
Equities	**153,695**	81,336	(244,125)	9,094	**-**
Pooled investments	**2,232,435**	1,055,608	(493,067)	(215,183)	**2,579,793**
Pooled property investments	**339,442**	10,551	(15,342)	(16,522)	**318,129**
Private equity/infrastructure	**245,135**	57,631	(41,228)	29,875	**291,413**
Commodities	**6,125**	992	(7,925)	808	**-**
Multi Asset	**2,342**	6,030	(7,534)	(838)	**-**
	3,478,924	**1,280,291**	**(1,188,813)**	**(168,736)**	**3,401,666**
Derivative contracts					
■ Forward currency contracts	**(415)**	12,995	(12,095)	(485)	**-**
	3,478,509	**1,293,286**	**(1,200,908)**	**(168,221)**	**3,401,666**
Other investment balances:					
■ Cash deposits	**149,156**			2,496	**63,715**
■ Other Investment Balances	**4,937**				**340**
■ Investment Liabilities	**(9,392)**				**(475)**
Net investment assets	**3,623,210**			**(166,725)**	**3,465,246**

	Market value 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£000	**£000**	**£000**	**£000**	**£000**
Bonds	**497,920**	226,590	(173,971)	(50,789)	**499,750**
Equities	**363,116**	132,273	(370,742)	29,048	**153,695**
Pooled investments	**1,828,109**	1,456,879	(1,262,282)	209,729	**2,232,435**
Pooled property investments	**344,411**	21,721	(33,705)	7,015	**339,442**
Private equity/infrastructure	**200,960**	43,126	(44,550)	45,599	**245,135**
Commodities	**4,487**	10,836	(9,211)	13	**6,125**
Multi Asset	**3,921**	7,763	-	(9,342)	**2,342**
	3,242,924	**1,899,188**	**(1,894,461)**	**231,273**	**3,478,924**
Derivative contracts					
■ Forward currency contracts	**480**	6,452	(8,160)	813	**(415)**
	3,243,404	**1,905,640**	**(1,902,621)**	**232,086**	**3,478,509**
Other investment balances:					
■ Cash deposits	**133,789**			2,647	**149,156**
■ Other Investment Balances	**1,777**				**4,937**
■ Investment Liabilities	**(3,198)**				**(9,392)**
Net investment assets	**3,375,772**			**234,733**	**3,623,210**

14b: Analysis of investments

	2018/19 £000	2019/20 £000
Bonds		
UK		
Corporate quoted	137,675	-
Public sector quoted	295,107	212,331
Overseas		
Public sector quoted	66,968	-
	499,750	**212,331**
Equities		
UK		
Quoted	23,830	-
Unquoted	-	-
Overseas		
Quoted	129,865	-
	153,695	**-**
Pooled funds - additional analysis		
UK		
Unit trusts	288,663	396,834
Overseas		
Unit trusts	1,943,772	2,182,959
	2,232,435	**2,579,793**
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivatives	425	-
	593,469	**609,542**
Cash deposits	149,156	63,715
Other investment balances (Note 21)	4,937	340
	154,093	**64,055**
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivatives	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

14c: Investments analysed by fund manager

	Market value 31 March 2019		Market value 31 March 2020	
	£000	**%**	**£000**	**%**
Investments in the ACCESS Pool				
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
ACCESS - Absolute Return (Ruffer)	-	-	418,469	12.1%
ACCESS - Real Return (Newton)	-	-	414,784	12.0%
ACCESS - Corporate Debt (M&G)	-	-	144,259	4.2%
	274,988	**7.6%**	**1,216,352**	**35.2%**
Investments held directly by the Fund				
Prudential M&G	137,680	3.8%	-	-
East Sussex Pension Fund Cash	73,289	2.0%	24,736	0.7%
UBS Infrastructure Fund	19,522	0.5%	16,720	0.5%
Prudential Infracapital	1,969	0.1%	20,676	0.6%
Pantheon	14,770	0.4%	30,109	0.9%
M&G UK Financing Fund	738	0.0%	-	-
Schroders Property*	360,424	9.9%	343,707	9.9%
Harbourvest Strategies	98,066	2.7%	106,192	3.1%
Adams St Partners	115,216	3.2%	122,874	3.5%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
Ruffer LLP**	402,202	11.1%	-	-
Newton Investment Management	422,002	11.7%	-	-
Longview Partners	349	0.0%	-	-
UBS Passive Funds	1,450,712	40.1%	1,305,987	37.6%
M&G Real Estate Debt VI	-	-	38,793	1.1%
	3,348,222	**92.4%**	**2,248,894**	**64.8%**
	3,623,210		**3,465,246**	

* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.
** Ruffer LLP managed a segregated mandate for East Sussex Pension Fund, the Fund was invested directly into the underlying assets which Ruffer were responsible for investing.

The following investments represent more than 5% of the investment assets of the scheme -

Security	Market Value 31 March 2019	% of total fund	Market value 31 March 2020	% of total fund
	£000		**£000**	
ACCESS - Absolute Return (Ruffer)	-	0.0%	418,469	12.0%
ACCESS - Real Return (Newton)	-	0.0%	414,784	11.9%
UBS Fundamental Index	429,415	11.9%	363,155	10.4%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
UBS UK Equity	271,296	7.5%	221,992	6.4%
UBS Over 5 year Index Gilt Linked	207,494	5.7%	212,331	6.1%
Newton Real Return (Pooled Fund)	422,001	11.6%	-	0.0%

14d: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13th October 2008.

15: Analysis of derivatives

Objectives and policies for holding derivatives

Derivatives can be used to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

a) Futures

The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. The fund can participate in forward currency contracts in order to reduce the volatility associated with fluctuating currency rates.

c) Options

The fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. The fund buys equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
	-	-	-	-	-	-
					-	-
Net forward currency contracts at 31 March 2020						**-**
Prior year comparative						
Open forward currency contracts at 31 March 2019					425	(840)
Net forward currency contracts at 31 March 2019						**(415)**

16: Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques, which represent the highest and best price available at the reporting date

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not Required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not Required	Not Required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not Required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not Required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required
Pooled investments – Equity and bonds Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.	Not Required
Pooled investments – Property Funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.	The significant inputs and assumptions are developed by the respective fund manager.	Valuations could be affected by the frequency of the independent valuations between the funds.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Unquoted equity – Private Equity / Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Observable inputs are subject to judgment by the respective manager, but are applied in accordance with the appropriate industry guidelines. Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Pooled Investment (a)	7%	30,583	32,759	28,407
Pooled property investments (b)	14%	318,129	362,031	274,227
Private Equity/Infrastructure (c)	27%	307,447	390,458	224,436
Total		**625,576**	**752,489**	**498,663**

(a) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 7% is caused by how this value is measured.

(b) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 14% is caused by how this value is measured.

(c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 27% is caused by how this profitability is measured.

16a: Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Within the East Sussex Pension Fund's investments those that meet this criterion are the Funds illiquid investments in Pooled property Funds, Private Equity/Infrastructure and some equity investments.

The pricing policies for these investments are set by the Fund's Investment Managers that has invested into these assets.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	222,079	2,539,802	640,125	3,402,006
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(475)	-	(475)
Net investment assets	**222,079**	**2,539,327**	**640,125**	**3,401,531**

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	554,112	2,311,927	618,247	3,484,286
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(10,232)	-	(10,232)
Net investment assets	**554,112**	**2,301,695**	**618,247**	**3,474,054**

16b: Transfers between levels 1 and 2

During 2019/20 the fund has not transferred any financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

Period 2019/20	**Market value 1 April 2019 £000**	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	**Market value 31 March 2020 £000**
Equities	**33,670**	-	-	4,344	(31,669)	8,716	(15,061)	**-**
Pooled investments	**-**	-	-	44,179	(14,239)	643	-	**30,583**
Pooled property investments	**339,442**	-	-	10,551	(15,342)	(22,256)	5,734	**318,129**
Private Equity/Infrastructure	**245,135**	-	-	57,631	(35,970)	1,863	22,754	**291.413**
Total	**618,247**	**-**	**-**	**116,705**	**(97,220)**	**(11,034)***	**13,427***	**640,125**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	**Change in market value during the year**
1 and 2	(269,121)	100,003	**(169,118)**
3	(11,034)	13,427	**2,393**
Total	**(280,155)**	**(113,430)**	**(166,725)**

Period 2018/19	Market value 1 April 2018 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31 March 2019 £000
Equities	**19,801**	-	-	20,073	-	(6,204)	-	**33,670**
Pooled property investments	**344,411**	-	-	8,621	(20,605)	(904)	7,919	**339,442**
Private Equity/Infrastructure	**201,918**	-	-	43,126	(40,978)	17,473	23,596	**245,135**
Total	**566,130**	**-**	**-**	**71,820**	**(61,583)**	**10,365***	**31,515***	**618,247**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
1 and 2	58,452	134,401	**192,853**
3	10,365	31,515	**41,880**
Total	**68,817**	**165,916**	**234,733**

17: Financial instruments

17a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (including cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

Restated 31 March 2019 Fair value through profit and loss	Restated 31 March 2019 Assets at amortised cost	Restated 31 March 2019 Liabilities at amortised cost		31 March 2020 Fair value through profit and loss	31 March 2020 Assets at amortised cost	31 March 2020 Liabilities at amortised cost
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
499,750	-	-	Bonds	212,331	-	-
153,695	-	-	Equities	-	-	-
2,232,435	-	-	Pooled investments	2,579,793	-	-
339,442	-	-	Pooled property investments	318,129	-	-
245,135	-	-	Private equity/infrastructure	291,413	-	-
6,125	-	-	Commodities	-	-	-
2,342	-	-	Multi Asset	-	-	-
425	-	-	Derivative contracts	-	-	-
-	149,156	-	Cash	-	63,715	-
-	499	-	Cash held by ESCC*	-	1,746	-
4,937	-	-	Other investment balances	340	-	-
-	11,654	-	Debtors *	-	14,876	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,402,006**	**80,337**	**-**
			Financial liabilities			
(840)	-	-	Derivative contracts	-	-	-
(9,392)	-	-	Other investment balances	(475)	-	-
-	-	-	Cash held by ESCC	-	-	-
-	-	(3,151)	Creditors	-	-	(2,774)
(10,232)	**-**	**(3,151)**	**Total Financial Liabilities**	**(475)**	**-**	**(2,774)**
3,474,054	**161,309**	**(3,151)**	**Total Financial Instruments**	**3,401,531**	**80,337**	**(2,774)**

*Reconciliation to Current Assets Note 21

	2018/19 £000	2019/20 £000
Cash held by ESCC	499	1,746
Debtors	11,654	15,481
Current Assets	**12,153**	**16,622**

17b: Net gains and losses on financial instruments

	31 March 2019 £000	31 March 2020 £000
Financial assets		
Fair value through profit and loss	225,623	(167,355)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	2,995	665
Financial liabilities		
Fair value through profit and loss	6,115	(35)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	**234,733**	**(150,691)**

18: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses form shares sold short is unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	7%
UK equities	28%
Global equities	28%
Absolute Return	14%
Pooled property investments	14%
Private Equity	28%
Infrastructure funds	20%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset Type	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Index Linked	212,331	231,441	193,221
Other Bonds	413,943	443,397	384,489
UK equities	221,992	284,150	159,834
Global equities	1,110,605	1,421,574	799,636
Absolute Return	833,253	949,908	716,598
Pooled property investments	318,129	362,031	274,227
Private Equity	228,472	292,444	164,500
Infrastructure funds	62,941	75,529	50,353
Net derivative assets	-	-	-
Total assets available to pay benefits	**3,401,666**	**4,060,474**	**2,742,858**

Asset Type	Values at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Index Linked	207,489	226,163	188,815
Other Bonds	388,958	412,279	365,637
UK equities	272,028	318,273	225,783
Global equities	1,247,034	1,459,030	1,035,038
Absolute Return	779,575	880,920	678,230
Pooled property investments	339,442	386,964	291,920
Private Equity	211,928	271,268	152,588
Infrastructure funds	32,469	38,963	25,975
Net derivative assets	(414)	(414)	(414)
Total assets available to pay benefits	**3,478,509**	**3,993,446**	**2,963,572**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	**Carrying amount as at 31 March 2020**	**Impact of 1% increase**	**Impact of 1% decrease**
	£000	**£000**	**£000**
Cash and cash equivalents	63,715	63,715	63,715
Cash balances	1,746	1,746	1,746
Fixed interest securities	413,943	418,082	409,804
Index linked securities	212,331	212,331	212,331
Total change in assets available	**691,735**	**695,874**	**687,596**

Asset type	**Carrying amount as at 31 March 2019**	**Impact of 1% increase**	**Impact of 1% decrease**
	£000	**£000**	**£000**
Cash and cash equivalents	149,156	149,156	149,156
Cash balances	499	499	499
Fixed interest securities	404,890	408,939	400,841
Index linked securities	346,143	346,143	346,143
Total change in assets available	**900,688**	**904,737**	**896,639**

Income Source	**Interest receivable 2019/20**	**Value on 1% increase**	**Value on 1% decrease**
	£000	**£000**	**£000**
Cash deposits/cash and cash equivalents	673	1,328	18
Fixed interest securities	6,665	6,665	6,665
Index linked securities	169	2,292	(1,954)
Total change in assets available	**7,507**	**10,285**	**4,729**

Income Source	**Interest receivable 2018/19**	**Value on 1% increase**	**Value on 1% decrease**
	£000	**£000**	**£000**
Cash deposits/cash and cash equivalents	856	2,353	(641)
Fixed interest securities	2,605	2,605	2,605
Index linked securities	700	4,161	(2,761)
Total change in assets available	**4,161**	**9,119**	**(797)**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements not more than 13%. A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	**Values at 31 March 2020 £000**	**Potential Market movement £000**	**Value on increase £000**	**Value on decrease £000**
Overseas unit trusts	2,182,959	218,296	2,401,255	1,964,663
Total change in assets available	**2,182,959**	**218,296**	**2,401,255**	**1,964,663**

Currency exposure - asset type	**Values at 31 March 2019 £000**	**Potential Market movement £000**	**Value on increase £000**	**Value on decrease £000**
Overseas index linked	51,036	6,635	57,671	44,401
Overseas fixed interest	15,932	2,071	18,003	13,861
Overseas quoted securities	129,865	16,882	146,747	112,983
Overseas unit trusts	1,675,160	217,771	1,892,931	1,457,389
Total change in assets available	**1,871,993**	**243,359**	**2,115,352**	**1,628,634**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence, the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in recent years.

Summary	**Asset value as at 31 March 2019 £000**	**Asset value as at 31 March 2020 £000**
UK Treasury bills	86	86
Bank current accounts		
NT custody cash accounts	149,070	63,629
Total overseas assets	**149,156**	**63,715**

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The fund has immediate access to its pension fund cash holdings and the fund also has access to an overdraft facility for short-term cash needs. This facility is only used to meet timing differences on pension payments. As these borrowings are of a limited short-term nature, the fund's exposure to liquidity risk is considered negligible.

All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2019. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund, which together with investment growth will be sufficient to meet the fund's future liabilities. The 2019 valuation shows the fund has a past service deficit, being 107% funded in respect of past liabilities. This compares with 92% funded at the 2016 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 71% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £3,633 million, were sufficient to meet 107% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £247 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method, which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Figures assume members aged 45 as at the 2019 valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

20: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of Promised Retirement Benefits

Year ended	31 March 2019	31 March 2020
Active members (£m)	2,277	1,634
Deferred pensions (£m)	1,039	1,023
Pensioners (£m)	1,552	1,721
Total	**4,868**	**4,378**

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £449m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £125m.

Financial assumptions

Year ended	31 Mar 2019 % p.a.	31 Mar 2020 % p.a.
Pension Increase Rate	2.5%	1.9%
Salary Increase rate	2.9%	1.9%
Discount Rate	2.4%	2.3%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2019.

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	9%	384
0.5% increase in salary increase rate	1%	33
0.5% decrease in discount rate	10%	420

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1-year increase in life expectancy would approximately increase the liabilities by around 3-5%.

21: Current assets

	31 March 2019 £000	31 March 2020 £000
Other Investment Balances		
Sales inc Currency	3,313	-
Investment Income Due	1,704	193
Recoverable Taxes	345	147
Total	**5,362**	**340**

	31 March 2019 £000	31 March 2020 £000
Current Assets		
Contributions receivable from employers and employees	10,167	13,436
Sundry Debtors	1,487	1,440
Cash	499	1,746
Total	**12,153**	**16,622**

22: Current liabilities

	31 March 2019 £000	31 March 2020 £000
Investment Liabilities		
Purchases including currency	(8,893)	-
Managers Fees	(1,339)	(475)
Total	**(10,232)**	**(475)**

	Restated 31 March 2019 £000	31 March 2020 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(574)	(264)
Cash	-	-
Professional Fees	(55)	(434)
Administration Recharge	(1,046)	(1,194)
Sundry Creditors	(1,476)	(882)
Total	**(3,151)**	**(2,774)**

23: Additional voluntary contributions

	Market value 31 March 2019 £000	Market value 31 March 2020 £000
Prudential	16,821	21,221

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2019/20 some members of the pension scheme paid voluntary contributions and transfers in of £2.277m (£2.580m 2018/19) to Prudential to buy extra pension benefits when they retire. £3.050m was disinvested from the AVC provider in 2019/20 (£2.303m 2018/19). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

24: Agency Services

The East Sussex Pension Fund pays discretionary awards to former employees on behalf of some employers in the Fund. The amounts paid are provided as a service and are fully reclaimed from the employer bodies. The sums are disclosed below.

	2018/19 £000	2019/20 £000
East Sussex County Council	4,905	4,899
Brighton & Hove City Council	2,349	2,291
Eastbourne Borough Council	345	304
Magistrates	179	209
Wealden District Council	212	176
Hastings Borough Council	168	174
Rother District Council	104	115
Lewes District Council	78	73
South East Water	61	35
Brighton University	28	26
Mid-Sussex District Council	-	19
Westminster (used to be LPFA)	17	18
East Sussex Fire Authority	16	17
Capita Hartshead	16	16
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	5	6
Eastbourne Homes	3	6
West Midlands Pension Fund	5	5
West Sussex County Council*	1,060	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
Newhaven TC	1	1
East Sussex College Group	1	1
Plumpton College	-	1
Total	**9,577**	**8,420**

***** Brighton and Hove City College transferred to West Sussex County Council on the 1 April 2017 East Sussex are still administering the Brighton and Hove City College members at the request of West Sussex until the records were transferred to their administrators March 2019.

25: Related party transactions

East Sussex County Council

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently, there is a strong relationship between the council and the pension fund.

Each member of the Pension Committee is required to declare their interests at each meeting.

The Treasurer of the Pension Fund and members of the County Council and the Pension Committee have no material transactions with the Pension Fund.

The Council incurred costs in administering the fund and charged £1.2m to the fund in 2019/20 (£1.0m in 2018/19). The Council`s contribution to the fund was £42.5m in 2019/20 (£45.9m in 2018/19). All amounts due to the fund were paid in the year. At 31 March 2020 the Pension Fund bank account was in debit by £1.7m. The average throughout the year was £6.0m (£4.3 in 2018/19).

25a: Key management personnel

The Chief Finance Officer of East Sussex County Council holds the key position in the financial management of the East Sussex Pension Fund.

	31 March 2019	31 March 2020
	£000	£000
Short-term benefits	17	18
Post-employment benefits	3	3
Total	**20**	**21**

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £322.0m (31 March 2019: £200.7m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, typically over a period of between four and six years from the date of each original commitment.

At 31 March 2020, the unfunded commitment was £158.4m for private equity, £133.5m for infrastructure and £30.1 for private debt. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2020.

Exit Payments

There were 12 employers whose contracts were due to end by the 31 March 2020 where an exit credit may need to be paid out. The Fund needs to obtain final information from the employers and then will need to commission the final cessation report from the actuaries to ascertain if an exit payment is due for these employers.

GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has nearly completed Stage 2, which reviews data inconsistencies, raised issues with HMRC and agrees outcomes, with 100% of the matching work completed. GMP elements of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3%. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3%.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. Stage 3 of the GMP Reconciliation Project, i.e., Rectification will amend LGPS pensions in line with the reconciled Stage 2 GMP information. This stage will also involve a significant member communication exercise to explain the changes taking place.

We are not in a position to be able to finalise the GMP reconciliation at this point we received with the final Scheme Reconciliation Service data cut, showing the final position of membership and liabilities held on their records from HMRC in July 2020. The contracted provider Mercers are currently performing a final reconciliation on this data with a report due to go to the November Pension Committee meeting for consideration. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2020.

27: Contingent assets

There are 9 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 12 other admitted bodies are covered by:

- 8 guarantees by local authorities participating in the Fund;
- 3 Parent company guarantee;
- 1 deposit held by East Sussex County Council

At 31 March 2020, the Fund has invested £367.4 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £29.9 million in the M&G real estate debt fund VI and £71.4 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful, this may be of material benefit to the Fund. The amount, which may be recoverable, is not currently quantifiable.

28: Impairment losses

During 2019/20, the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.1	5,448	20.8	-	20.3	-
East Sussex County Council	17.1	7,254	17.6	6,141	17.6	5,568
East Sussex Fire and Rescue Service	17.0	247	17.9	164	17.9	137
Eastbourne Borough Council	16.9	654	19.9	-	19.4	-
Hastings Borough Council	17.3	594	17.6	538	17.6	508
Lewes District Council	18.0	551	24.1	-	23.6	-
Rother District Council	17.3	596	26.1	-	25.6	-
University of Brighton	16.75	741	18.2	-	17.7	-
Wealden District Council	17.2	655	17.6	576	17.6	538
Other Scheduled Bodies						
Arlington Parish Council	22.6	-	22.1	-	21.6	-
Battle Town Council	17.4	6	22.1	-	21.6	-
Berwick Parish Council	22.6	-	22.1	-	21.6	-
Buxted Parish Council	22.6	-	22.1	-	21.6	-
Camber Parish council	22.6	-	22.1	-	21.6	-
Chailey Parish Council	22.6	-	22.1	-	21.6	-
Chiddingly Parish Council	22.6	-	22.1	-	21.6	-
Conservators of Ashdown Forest	17.4	17	22.1	-	21.6	-
Crowborough Town Council	17.4	14	22.1	-	21.6	-
Danehill Parish Council	22.6	-	22.1	-	21.6	-
Ditchling Parish Council	22.6	-	22.1	-	21.6	-
Ewhurst Parish Council	22.6	-	22.1	-	21.6	-
Fletching Parish Council	22.6	-	22.1	-	21.6	-
Forest Row Parish Council	17.4	4	22.1	-	21.6	-
Frant Parish Council	22.6	-	22.1	-	21.6	-
Hadlow Down Parish Council	22.6	-	22.1	-	21.6	-
Hailsham Town Council	17.4	17	22.1	-	21.6	-
Hartfield Parish Council	22.6	-	22.1	-	21.6	-
Heathfield & Waldron Parish Council	17.4	5	22.1	-	21.6	-
Herstmonceux Parish Council	22.6	-	22.1	-	21.6	-
Hurst Green Parish Council	22.6	-	22.1	-	21.6	-
Icklesham Parish Council	22.6	-	22.1	-	21.6	-
Isfield Parish Council	22.6	-	22.1	-	21.6	-
Lewes Town Council	17.4	19	22.1	-	21.6	-
Maresfield Parish Council	17.4	1	22.1	-	21.6	-
Newhaven Town Council	17.4	6	22.1	-	21.6	-
Newick Parish Council	22.6	-	22.1	-	21.6	-
Peacehaven Town Council	17.4	10	22.1	-	21.6	-
Pett Parish Council	22.6	-	22.1	-	21.6	-
Plumpton Parish Council	22.6	-	22.1	-	21.6	-
Ringmer Parish Council	22.6	-	22.1	-	21.6	-
Rye Town Council	17.4	2	22.1	-	21.6	-
Salehurst & Robertsbridge Parish Council	22.6	-	22.1	-	21.6	-
Seaford Town Council	17.4	8	22.1	-	21.6	-
Sussex Inshore Fisheries & Conservation Authority	22.6	-	22.1	-	21.6	-
Telscombe Town Council	17.4	5	22.1	-	21.6	-
Uckfield Town Council	17.4	17	22.1	-	21.6	-
Wartling Parish Council	22.6	-	22.1	-	21.6	-

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Westham Parish Council	17.4	2	22.1	-	21.6	-
Willingdon and Jevington Parish Council	17.4	2	22.1	-	21.6	-
Wivelsfield Parish Council	17.4	2	22.1	-	21.6	-
Academy Schools						
Annecy Catholic Primary Academy	15.3	-	15.5	-	15.0	-
Aquinas Trust	21.5	-	21.0	-	20.5	-
ARK Schools Hastings	21.1	-	20.6	-	20.1	-
Aurora Academies Trust	20.9	-	20.4	-	19.9	-
Beacon Academy	23.5	-	23.0	-	22.5	-
Bexhill Academy	23.4	-	22.9	-	22.4	-
Bilingual Primary School	16.1	-	15.6	-	15.1	-
Breakwater Academy	17.5	-	17.0	-	16.5	-
Burfield Academy (Hailsham Primary)	20.5	-	20.0	-	19.5	-
Cavendish Academy	21.0	-	20.5	-	20.0	-
Diocese of Chichester Academy Trust	24.9	-	24.4	-	23.9	-
Eastbourne Academy	21.7	-	21.2	-	20.7	-
Falmer (Brighton Aldridge Community Academy)	20.5	-	20.0	-	19.5	-
Gildredge House Free School	20.1	-	19.6	-	19.1	-
Glyne Gap Academy	21.9	-	21.4	-	20.9	-
Hailsham Academy	20.5	-	20.0	-	19.5	-
Hawkes Farm Academy	16.9	-	16.4	-	15.9	-
High Cliff Academy	20.5	-	20.0	-	19.5	-
Jarvis Brook Academy	15.0	-	14.5	-	14.0	-
King's Church of England Free School	16.7	-	16.2	-	15.7	-
Langney Primary Academy	14.7	-	13.4	-	12.9	-
Ore Village Academy	19.0	-	18.5	-	18.0	-
Parkland Infant Academy	15.9	-	14.8	-	14.3	-
Parkland Junior Academy	15.2	-	14.4	-	13.9	-
Pebsham Academy	20.0	-	19.5	-	19.0	-
Phoenix Academy	20.9	-	20.4	-	19.9	-
Portslade Aldridge Community Academy	20.4	-	19.9	-	19.4	-
King's Academy Ringmer	21.3	-	20.8	-	20.3	-
SABDEN Multi Academy Trust	24.1	-	23.6	-	23.1	-
Seaford Academy	21.6	-	21.1	-	20.6	-
Seahaven Academy	22.0	-	21.5	-	21.0	-
Shinewater Primary Academy	15.3	-	14.5	-	14.0	-
Sir Henry Fermor Academy	15.3	-	14.8	-	14.3	-
The South Downs Learning Trust	12.7	-	12.2	-	11.7	-
The Southfield Trust	14.9	-	14.4	-	13.9	-
Torfield & Saxon Mount Academy Trust	23.1	-	22.6	-	21.1	-
University of Brighton Academies Trust	20.5	-	20.0	-	19.5	-
White House Academy	18.0	-	17.5	-	17.0	-
Colleges						
Bexhill College	16.6	38	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	17.2	38	19.8	-	19.8	-
East Sussex College Group	17.2	171	20.7	-	20.7	-
Plumpton College	16.7	73	18.9	-	18.9	-
Varndean Sixth Form College	17.5	25	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	21.2	-	33.0	11	33.0	-
Biffa Muncipal Ltd	-	-	28.8	-	28.8	-
Brighton and Hove CAB	28.7	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	20.7	-	0.0	-	0.0	0.0

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Care Outlook Ltd	35.0	-	0.0	-	0.0	0.0
Care Quality Commission	41.6	231	49.2	92	49.2	92
De La Warr Pavilion Charitable Trust	43.7	207	4.8	-	4.8	-
Eastbourne Homes - SEILL	21.9	-	19.2	-	19.2	-
Eastbourne Leisure Trust	25.8	18	0.0	-	0.0	0.0
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	24.5	2	29.2	13	29.2	13
EBC - Towner	11.5	-	31.0	7	31.0	7
ESCC - Care at Home Services	-	-	0.0	-	0.0	0.0
ESCC - NSL Ltd	-	-	3.6	-	3.6	-
Grace Eyre	27.5	-	0.0	-	0.0	0.0
Halcrow Group Ltd	23.6	-	5.4	-	5.4	-
Hardings Catering Ltd	-	-	32.4	1	32.4	-
Just Ask Estates Ltd	31.4	-	32.6	3	32.6	-
Optivo	39.2	1,221	45.8	920	45.8	920
Sussex County Sports Partnership	21.0	-	48.6	97	48.6	97
Sussex Housing & Care	35.9	67	0.0	-	0.0	-
Telent Technology Services Ltd	24.9	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	18.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	9.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	27.1	91	15.8	-	15.8	-
Wealden Leisure Ltd - Portslade Sports Centre	12.3	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	6.7	-	0.0	-	0.0	-

30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC), which measures the performance of the Fund compared with 58 other local authority pension funds. Pension Fund investment is a long-term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	(4.3)	1.6	5.1	6.8
Benchmark	(5.0)	1.2	4.4	5.8
Relative	0.7	0.4	0.7	1.0

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	(4.3)	1.6	5.1	6.8
Local Authority Average	(4.8)	1.9	5.2	6.9
Relative	0.5	(0.3)	(0.1)	(0.1)

The Fund outperformed the (weighted) average local authority fund over the year by 1.3% (0.7% outperformance 2018/19), ranking the East Sussex Fund in the 48nd percentile (23rd 2018/19) in the local authority universe. Over three years the fund performed inline (0.7% underperformance 2018/19) and was placed in the 55th percentile (65th 2018/19). Over five years the fund outperformed by 0.1% (0.2% outperformance in 2018/19) and was placed in the 37th percentile (32nd 2018/19). Over ten years the fund years, the fund underperformed by 0.1% (0.3% underperformance 2018/19) and was placed in the 45th percentile (60th 2018/19).

Relative performance is calculated on a geometric basis as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

As opposed to the simpler arithmetic method, the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.

31: Prior Period Adjustments

Fund Account

The 2018/19 contributions from employers and benefits totals have been restated to £92,084k and £122,183k respectively. The net (additions)/withdrawals from dealings with members, net (additions)/withdrawals including fund management expenses, net (increase)/decrease in net assets available for benefits during the year and the closing net assets of the schemes have all been adjusted by £651k to £2,218, £11,820, £248,832 and £3,632,212 respectively. This is due to the removal of unfunded pension payments from the Fund Account and a liability raised for this in the Net Asset Statement.

2018/19			Restated 2018/19		Change
£000	£000		£000	£000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions			
(101,093)		From Employers	(92,084)		9,009
(29,613)		From Members	(29,613)		-
	(130,706)			(121,697)	-
	(6,113)	Transfers in from other pension funds		(6,113)	-
	(136,819)			(127,810)	9,009
	130,541	Benefits		122,183	(8,358)
	3,409	Payments to and on account of leavers		3,409	-
	133,950			125,592	(8,358)
	(2,869)	**Net (additions)/withdrawals from dealings with members**		**(2,218)**	**651**
	14,038	Management expenses		14,038	-
	11,169	**Net (additions)/withdrawals including fund management expenses**		**11,820**	**651**
		Returns on investments			
	(26,191)	Investment income		(26,191)	-
	272	Taxes on income		272	-
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments		(234,733)	-
	(260,652)	**Net return on investments**		**(260,652)**	**-**
	(249,483)	**Net (increase)/decrease in net assets available for benefits during the year**		**(248,832)**	**651**
	(3,383,380)	Opening net assets of the scheme		(3,383,380)	-
	(3,632,863)	**Closing net assets of the scheme**		**(3,632,212)**	**651**

Net Assets Statement

The 31 March 2019 balances for current liabilities and net assets of the fund available to fund benefits at the year end have been restated due to the removal of unfunded pensions from the Fund Account to £3,151k and £3,632,212k respectively a movement of £651k.

31 March 2019 £000		Restated 31 March 2019 £000	Change £000
3,478,924	Investment assets	3,478,924	-
5,362	Other Investment balances	5,362	-
(10,232)	Investment liabilities	(10,232)	-
149,156	Cash deposits	149,156	-
3,623,210	**Total net investments**	**3,623,210**	-
12,153	Current assets	12,153	-
(2,500)	Current liabilities	(3,151)	(651)
3,632,863	**Net assets of the fund available to fund benefits at the year end.**	**3,632,212**	**(651)**

Note 7

The 2018/19 employers normal contributions have been restated to £74,626k with the breakdown by Scheduled bodies, Admitted bodies and Administrative Authority have been restated to £77,498k, £3,578k and £40,623k respectively. Due to the removal of reimbursements for unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Employee's contributions	29,613	29,613	-
Employer's contributions			
Normal contributions	83,635	74,626	9,009
Deficit recovery contributions	16,437	16,437	0
Augmentation contributions	1,021	1,021	0
Total	**130,706**	**121,697**	**9,009**
By authority			
Scheduled bodies	81,178	77,498	3,680
Admitted bodies	3,582	3,576	6
Administrative Authority	45,946	40,623	5,323
Total	**130,706**	**121,697**	**9,009**

Note 9

The 2018/19 pensions and commutation and lump sum retirement benefits have been restated to £99,457k and £19,722K respectively. The breakdown by scheduled bodies, admitted bodies and administrative authority have been restated to £69,441k, £3,778k and £48,964k respectively. Due to the removal of unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Pensions	107,805	99,457	8,348
Commutation and lump sum retirement benefits	19,732	19,722	10
Lump sum death benefits	3,004	3,004	-
Total	**130,541**	**122,183**	**8,358**
By authority			
Scheduled bodies	72,886	69,441	3,445
Admitted bodies	3,808	3,778	30
Administrative Authority	53,847	48,964	4,883
Total	**130,541**	**122,183**	**8,358**

Note 17

The 2018/19 creditors balance has been changed to £3,151k due to the creation of a creditor for unfunded pension payments.

31 March 2019				Restated 31 March 2019			
Fair value through profit and loss	**Assets at amortised cost**	**Liabilities at amortised cost**		**Fair value through profit and loss**	**Assets at amortised cost**	**Liabilities at amortised cost**	**Change**
£000	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
			Financial Assets				
499,750	-	-	Bonds	499,750	-	-	-
153,695	-	-	Equities	153,695	-	-	-
2,232,435	-	-	Pooled investments	2,232,435	-	-	-
339,442	-	-	Pooled property investments	339,442	-	-	-
245,135	-	-	Private equity/infrastructure	245,135	-	-	-
6,125	-	-	Commodities	6,125	-	-	-
2,342	-	-	Multi Asset	2,342	-	-	-
425	-	-	Derivative contracts	425	-	-	-
-	149,156	-	Cash	-	149,156	-	-
-	499*	-	Cash held by ESCC*	-	499	-	-
4,937	-	-	Other investment balances	4,937	-	-	-
-	11,654*	-	Debtors *	-	11,654	-	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,484,286**	**161,309**	**-**	-
			Financial liabilities				
(840)	-	-	Derivative contracts	(840)	-	-	-
(9,392)	-	-	Other investment balances	(9,392)	-	-	-
-	-	-	Cash held by ESCC	-	-	-	-
-	-	(2,500)	Creditors	-	-	(3,151)	(651)
(10,232)	**-**	**(2,500)**	**Total Financial Liabilities**	**(10,232)**	**-**	**(3,151)**	**(651)**
3,474,054	**161,309**	**(2,500)**	**Total Financial Instruments**	**3,474,054**	**161,309**	**(3,151)**	**(651)**

Note 22

The 2018/19 sundry creditors balance has been changed to £1,476k due to the creation of a creditor for unfunded pension payments.

	31 March 2019	**Restated 31 March 2019**	**Change**
	£000	**£000**	**£000**
Current Liabilities			
Pension Payments (inc Lump Sums)	(574)	(574)	-
Cash	-	-	-
Professional Fees	(55)	(55)	-
Administration Recharge	(1,046)	(1,046)	-
Sundry Creditors	(825)	(1,476)	(651)
Total	**(2,500)**	**(3,151)**	**(651)**

9. Asset pools

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities:

1. Cambridgeshire
2. Kent
3. Hampshire
4. West Sussex
5. Norfolk
6. Essex
7. Northamptonshire
8. Hertfordshire
9. Suffolk
10. Isle of Wight

Collectively the pool has assets of £44 billion (of which 49% has been pooled) serving 3,534 employers with over 1.1 million members including 288,248 pensioners.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Objectives

1. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
2. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
3. Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

Principles

Governance

The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Section 151 Officers Group, Officer Working Group and the ACCESS Support Unit.

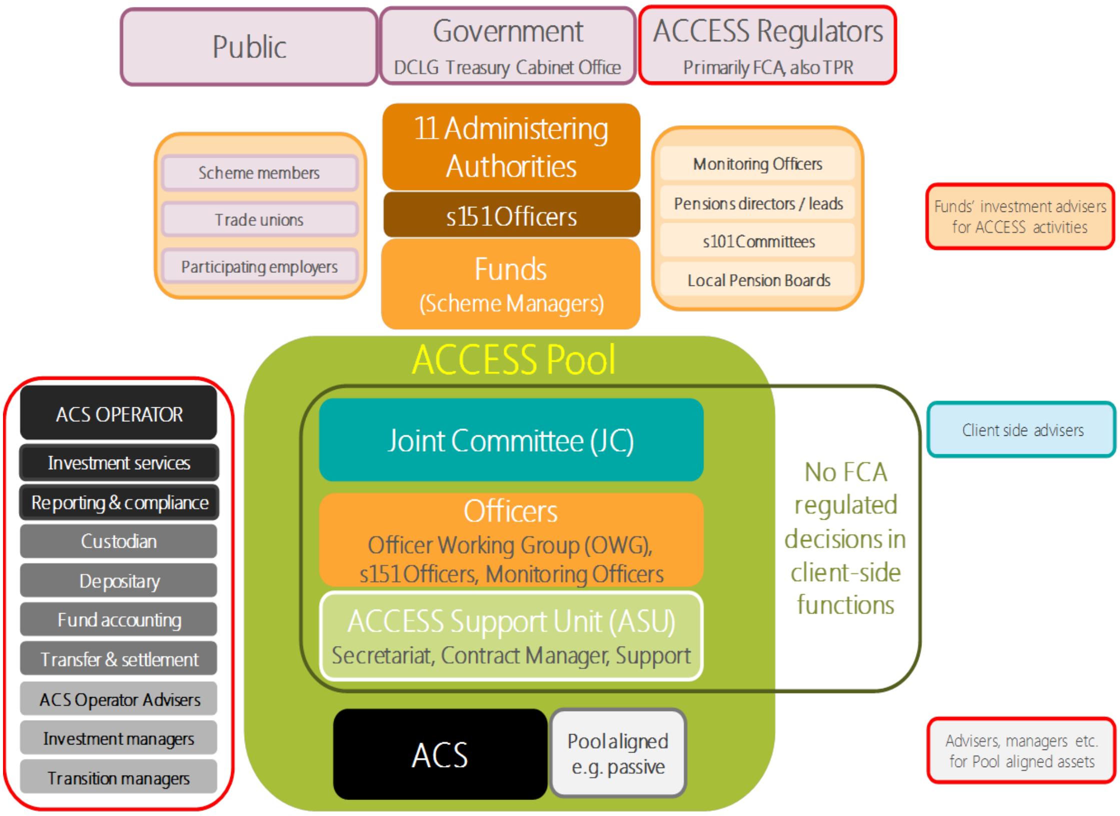
The Section 151 Officers of ACCESS Authorities provide advice to the Joint Committee in response to its decisions ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers within the ACCESS Pension Funds.

Strategic oversight and scrutiny responsibilities remain with the Administrating Authorities as does all decision making power to their own Funds asset allocation and the pooling of assets that each Fund holds within the arrangements developed by the ACCESS Pool.

The diagram below sets out the overarching ACCESS governance arrangements.



The Operator

Link Fund Solutions Ltd were appointed in 2018 to provide a pooled operator service overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies

Pool Aligned Assets: UBS

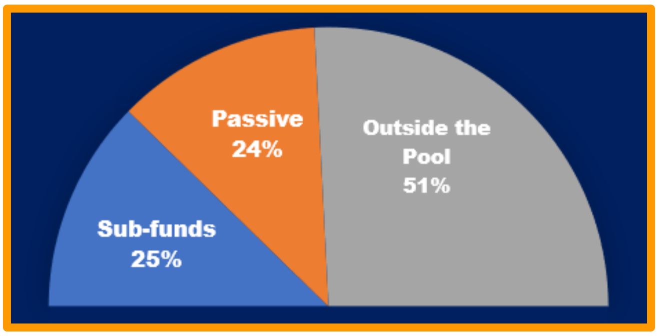
Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing the pool and moving assets into the pool and regularly submitted progress reports to Government. These are all published on the pool's website (www.accesspool.org).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the first milestone of having £27.2 billion assets pooled with estimated savings of £13.6 million by March 2021.

As at 31 March 2020, 49% of assets have been pooled:



Pooled Assets

As at 31 March 2020, ACCESS has pooled the following assets:

	£ billion
Passive investments*	10.5
UK Equity Funds	1.6
Global Equity Funds	7.2
UK Fixed Income	0.8
Diversifed Growth	1.3
Total Pooled Investments	**21.4**

*The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2019/20

- Recruitment of an interim Director to lead the ACCESS Support Unit.
- Establishment of business as usual functions of the ACCESS Support Unit being undertaken by the ACCESS Support Unit officers and technical leads officers.
- Approval and launch of a range of sub-funds further rationalising the existing range of mandates whilst reflecting the strategic asset allocation needs of the ACCESS Funds.
- Re-procurement of a legal advisor for ACCESS.
- Provision of updates of progress of pooling to Government and responding to consultations.
- Commencement of a review of Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the first investor day for members and officers of the individual funds to hear from the investment managers in the ACCESS pool.
- Commencement of a review to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

Objectives for 2020/21

ACCESS is well placed to continue to develop the pool and progress will continue unbated despite the restrictions imposed by the COVID-19 lockdown. Virtual meetings are well established and productive. It is anticipated that 2020/21 will see key activities within the following themes:

- Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).
- Alternative / non listed assets: the initial implementation of pooled alternative assets.
- Passively managed assets: ongoing monitoring and engagement with UBS.
- Governance: the application of appropriate forms of governance throughout ACCESS.
- ACCESS Support Unit (ASU): the size and scope of the ASU will be kept under review.

Financial Management Expected v Actual Costs and Savings

The table below summarises the financial position for 2019/20 along with the cumulative position since the commencement of ACCESS activity in early 2016.

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the 11 Authorities. 2019/20 saw an underspend primarily due to lower than anticipated costs of external advice combined with the establishment of the ACCESS Support Unit reducing the reliance on external project management support.

	2019/20		2019/20	
	Actual	**Budget**	**Actual**	**Budget**
	In Year	**In Year**	**Cumulative to date**	**Cumulative to date**
	£'000	**£'000**	**£'000**	**£'000**
Set Up Costs	-	-	1,824	1,400
Transition Costs	-	-	674	2,499
Ongoing Operational Costs	811	1,203	2,208	2,469
Operator & Depository Costs	3,247	2,000	3,632	2,500
Total Costs	**4,058**	**3,203**	**8,338**	**8,868**
Pool Fee Savings	(13,456)	(13,200)	(20,515)	(18,450)
Net (Savings Realised)/Costs	**(9,398)**	**(9,997)**	**(12,177)**	**(9,582)**

Operator and depositary fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator. The initial ACCESS business plan to MHCLG anticipated Operator costs of 2bps.

The 2019/20 fee savings have been calculated using the CIPFA price variance methodology and based on the asset values as at 31 March 2020. This approach highlights the combined level of investment fee savings, across all ACCESSS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the MHCLG submission whilst delivering savings ahead of the timeline contained in the original proposal.

Investment management costs split between pooled and non-pooled assets

	ACCESS Pool*		Non-ACCESS Pool		Total
	Direct	Indirect	Direct	Indirect	
Management Fee £000	**472**	**2,580**	**2,482**	**8,069**	**13,603**
Transaction Costs £000	**30**	**-**	**189**	**-**	**219**
Custody £000	**-**	**-**	**54**	**-**	**54**
Other Costs £000	**27**	**-**	**1,116**	**-**	**1,143**
Total £000	**529**	**2,580**	**3,841**	**8,069**	**15,019**

* This includes pool aligned assets such as the jointly procured passive manager for ACCESS authorities.

Environmental, Social and Governance (ESG) and Responsible Investment (RI)

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

Over the course of the last year a number of ACCESS Authorities have reviewed and developed their individual ESG /RI policies. Building on this ACCESS will, in the current year review its own ESG /RI guidelines to reflect both the requirements of the Authorities and the expectations associated with this fundamental aspect of institutional investment.

The ACCESS pool has a set of voting guidelines which seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies.

The voting guidelines sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies. During the year ACCESS voted at 383 meetings on 6,000 resolutions.

10. Pensions administration strategy report

The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pension Administration Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

The Pensions Administration Strategy document 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 service. In particular it sets out:

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

This administration strategy statement will be reviewed in line with each valuation cycle and the next review will be as at 1 April 2020. All scheme employers will be consulted before any changes are made to this document. The latest version of this administration strategy statement 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-and-publications/

11. Funding strategy statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013, CIPFA guidance and in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser. The FSS sets out how the Administering Authority has balanced the conflicting aims of:

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

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- actuarial factors for valuing individual transfers, early retirement costs and costs of buying added service; and
- the Fund's Investment Strategy Statement

The Funding Strategy Statement was reviewed during the year to reflect funding principles agreed for the 2019 actuarial valuation, with the new version signed off in March 2020. The FSS can be found in full at www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/. The new funding principles applied to employer contributions payable from 1 April 2020.

Contribution rates payable by participating employers over the year to 31 March 2019 were set at the 2016 valuation in line with the principles summarised in the Funding Strategy Statement dated February 2019. Similarly, the approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers has been in line with that Funding Strategy Statement.

The Fund monitors the change in the funding position at a whole Fund level on a regular basis.

The next review of the Funding Strategy Statement will take place over the 2022/23 year as part of the 2022 valuation exercise.

The FSS that was in place in relation to 2019/20 is included as an appendix to this report.

12. Investment strategy statement

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment strategy for their Fund.

They must consult with persons they deem appropriate when drawing up their statement. Any material change in investment strategy must be included in a revised Investment Strategy Statement (ISS). The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments. A summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments.

The East Sussex Pension Fund ISS was first published in February 2017 when it replaced the Fund's Statement of Investment Principles. The statement is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund (the latest version is available on the website).
https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

The Committee of the East Sussex Pension Fund has an overriding statutory and fiduciary duty to ensure it has sufficient funds available to pay pensions. In light of that obligation, and in order to maximise investment return, the Fund has a diverse range of investments and does not restrict investment managers from choosing certain stocks taking into consideration that the Fund's investment strategy is regularly monitored.

Responsible Investment

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in its ISS. 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 investment strategy of the Fund is documented in its Investment Strategy Statement, as part of this document we have included our Responsible Investment (RI) Policy, which describes the Fund's core principles of responsible investment and how we will ensure that these are met. Our core principles are:

- We will apply long-term thinking to deliver long-term sustainable returns.
- We will seek sustainable returns from well-governed assets.
- 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.
- We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.

The RI Policy also states the Fund's position on 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 addressing governance concerns; it needs to join with other investors sharing similar concerns. It does this primarily through:

- Membership of representative bodies including LAPFF, IIGCC, Climate action 100+;
- 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.

The Pension Committee over the last 3 years has allocated considerable time to consider the potential impact of climate change on the Fund's investments. In so doing, the Committee has:

- commissioned a carbon footprint measurement service that provided data on the levels of carbon emissions,
- committed to putting 15% of the Funds passive equity investments into the UBS Climate Aware Fund, and it is anticipated that the investment in the Climate Aware Fund will reduce the CO^2 emissions of the East Sussex Pension Fund,
- been recognised tier 1 signatory to the UK Stewardship Code by the Financial Reporting Council (FRC),

- shortlisted for the 2018 LAPF Investment Awards for Best Approach to ESG/Impact Investing,

The committee will continue to monitor developments in this area and the long-term implications for the financial health of the Fund.

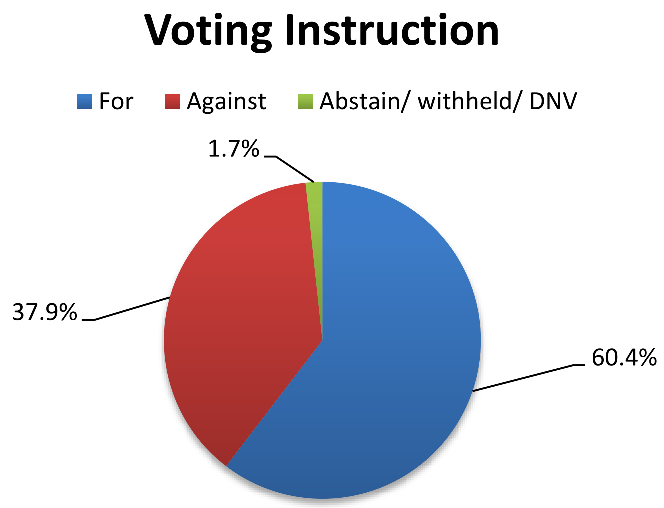
Voting

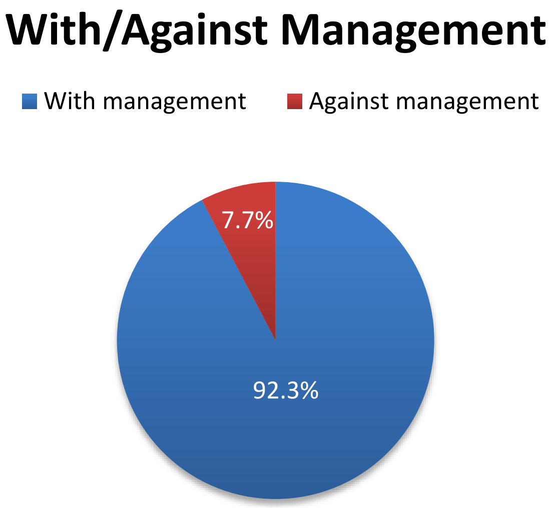
The Fund expects its investment managers to monitor investee companies, engage with company management where necessary and report on voting, governance and engagement activity.

Active mandate

Longview are currently responsible for the Fund's actively managed equity mandate. The table below summarises the combined voting statistics for the Fund's Global equity mandate over the year:

Number of vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
38	520	60.4%	37.9%	1.7%	60.8%	39.2%





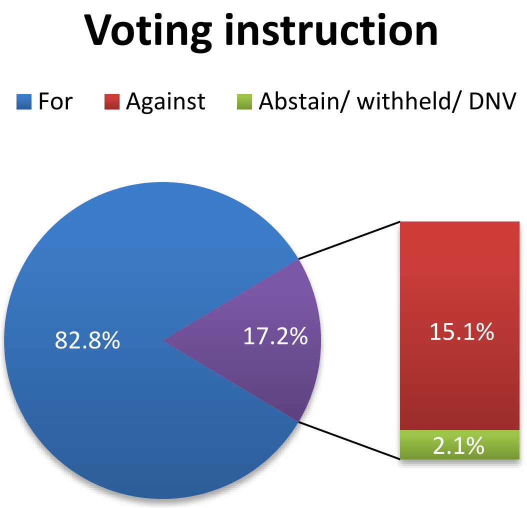
It should be noted that given the nature of the actively managed Longview fund, there are significantly less stocks held in the portfolio, resulting in less vote-able meetings.

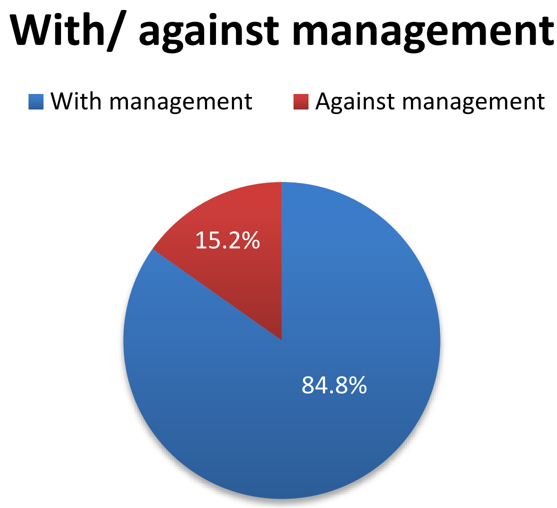
Votes were withheld in nine cases relating to the election of board directors. Longview voted against management on 204 proposals covering a range of issues, such as ongoing compensation concerns and the election of individuals that, in Longview's opinion, serve on too many boards. As requested by the Fund, Longview voted against any proposal to authorise political donations.

Passive mandates

UBS are responsible for the Fund's passively managed equity mandates. The table below summarises the combined voting statistics over the year for the regions that the Fund's equity mandate is invested in.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
5,303	55,420	82.8%	15.1%	2.1%	84.8%	15.2%



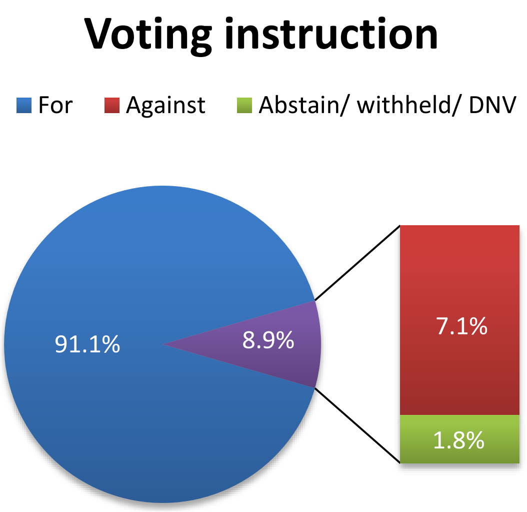


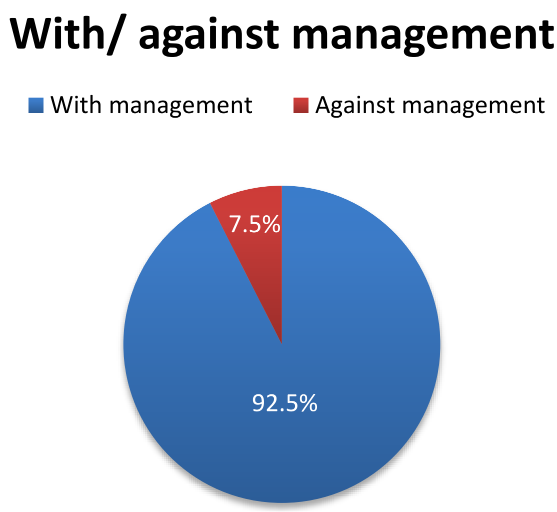
UBS voted against management on 8,424 proposals covering a range of issues, such as candidates proposed for director not being sufficiently independent and rights issues.

Ruffer Absolute Return fund

Ruffer are responsible for one of the Fund's two absolute return mandates. The table below summarises the voting statistics over the year for the equity holdings that the Fund is invested in through the Ruffer mandate.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
47	610	91.0%	7.1%	1.8%	92.5%	7.5%





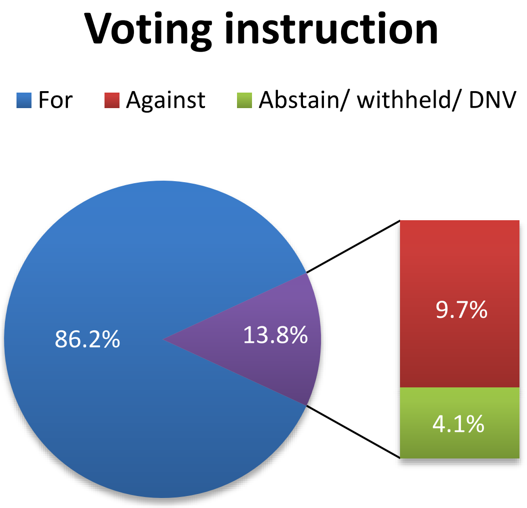
Ruffer voted against management on 46 proposals covering a range of issues, such as executive remuneration and election of non-executive directors.

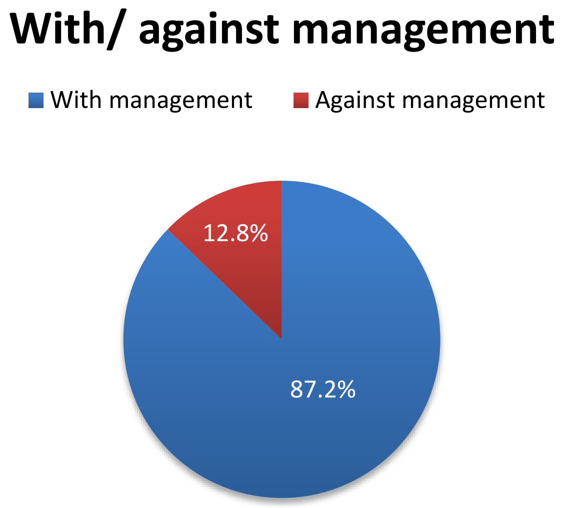
Newton Absolute Return fund

Newton are responsible for one of the Fund's two absolute return mandates. The table below summarises the voting statistics over the year for the equity holdings that the Fund is invested in through the Newton mandate.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management

68	925	86.4%	9.7%	4.1%	87.2%	12.8%





13. Communications policy statement

The Local Government Pension Scheme Regulations 2013 (Regulation 61) requires each pension fund administering authority to prepare and publish a policy statement setting out its approach to communicating with scheme members, representatives of members, prospective members and scheme employers.

The East Sussex Pension Fund policy statement sets out our existing communication activities.

This Policy can be seen on the East Sussex County Council Website.
https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

14. External auditor's report

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements published with the Pension Fund Annual Report

To Follow

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

XX September 2020

East Sussex Pension Fund

Funding Strategy Statement

February 2019

Contents

Funding Strategy Statement PAGE

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 27 February 2017.

1.2 What is the East Sussex Pension Fund?

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

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

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

There are also regulatory requirements for an FSS, as given in Appendix A.

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;

- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Funding strategy and links to investment strategy Section 4).

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. The regulatory background, including how and when the FSS is reviewed,

B. Who is responsible for what,

C. What issues the Fund needs to monitor, and how it manages its risks,

D. Some more details about the actuarial calculations required,

E. The assumptions which the Fund actuary currently makes about the future,

F. A glossary explaining the technical terms occasionally used here.

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

2 Basic Funding issues

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

2.1 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

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

2.2 How does the actuary set the employer contribution rate?

In essence this is a three-step process:

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

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation.

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have an older membership profile, or do not have tax-raising powers to increase contributions if investment returns under-perform.

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

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

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

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

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

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

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer

insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

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

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

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

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

3 Calculating contributions for individual Employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

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

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

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.
- Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.
- Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

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

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

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

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

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

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

Note (c) (Maximum time horizon)

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

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

Note (d) (Secondary rate)

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

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

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

Note (e) (Probability of achieving funding target)

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

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

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

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

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT.

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

v. As an alternative to (iv), the academy will have the option to elect to pay contributions at the ceding LEA rate plus 1% p.a. instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

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

Note (h) (New Admission Bodies)

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

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

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

From 1 April 2019, the Fund's policy is that new outsourcings are set up under a "pass through" arrangement (although exceptions will be considered on a case-by-case basis at the Fund's discretion). Pass through arrangements allow for the pension risks to be shared between the letting employer and new contractor. Typically the majority of the pension risk is borne by the letting employer and thus the liability is retained on their balance sheet – as such the contractor would not be required to pay any deficit or receive any surplus at the end of the contract (subject to any agreed exceptions). However, there is some flexibility within a pass through arrangement. . In particular there are two different routes that the letting employer may wish to adopt. The Fund's default approach will be to set up pass through arrangements using a fixed contribution rate for all new contractors. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

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

ii) Fixed contribution rate agreed

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

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

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

Note (j) (Admission Bodies Ceasing)

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

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

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body).

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

a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit (or surplus) will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required and makes it unlikely that any surplus would be paid to the employer.

b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

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

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

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

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

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

3.4 Pooled contributions

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

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

3.5 Non ill health early retirement costs

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

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

3.6 Ill health early retirement costs

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

3.7 External Ill health insurance

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

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

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

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

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

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

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

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

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

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

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

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

4.5 Does the Fund monitor its overall funding position?

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

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

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

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

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

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

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

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

APPENDIX A – REGULATORY FRAMEWORK

A1 Why does the Fund need an FSS?

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

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers on 23 January 2017 for comment;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 18 November 2016 at which questions regarding the funding strategy could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, on 27 February 2017..

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/
- A copy sent by e-mail to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

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

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

- trivial amendments would be simply notified at the next round of employer communications,

- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

APPENDIX B – RESPONSIBILITIES OF KEY PARTIES

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

B1 The Administering Authority should:-

operate the Fund as per the LGPS Regulations;

effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

collect employer and employee contributions, and investment income and other amounts due to the Fund;

ensure that cash is available to meet benefit payments as and when they fall due;

pay from the Fund the relevant benefits and entitlements that are due;

invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;

communicate appropriately with employers so that they fully understand their obligations to the Fund;

take appropriate measures to safeguard the Fund against the consequences of employer default;

manage the valuation process in consultation with the Fund's actuary;

provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

prepare and maintain a FSS and a SIP/ISS, after consultation;

notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

deduct contributions from employees' pay correctly;

pay all contributions, including their own as determined by the actuary, promptly by the due date;

have a policy and exercise discretions within the regulatory framework;

make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

advise on the termination of employers' participation in the Fund; and

fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;

investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;

auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

APPENDIX C – KEY RISKS AND CONTROLS

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

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

C3 Demographic risks

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

C4 Regulatory risks

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

Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

APPENDIX D – THE CALCULATION OF EMPLOYER CONTRIBUTIONS

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

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

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

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

D2 How is the Primary contribution rate calculated?

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

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

0. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

1. within the determined time horizon (see note 3.3 Note (c) for further details),

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

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

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

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

D3 How is the Secondary contribution rate calculated?

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

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

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

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

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

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

D4 What affects a given employer's valuation results?

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

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

APPENDIX E – ACTUARIAL ASSUMPTIONS

E1 What are the actuarial assumptions?

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

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

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

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

b) Salary growth

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

0. 1% p.a. until 31 March 2020, followed by

1. Retail Prices Index (RPI) per annum thereafter.

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

c) Pension increases

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

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

d) Life expectancy

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

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

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

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

e) General

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

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

APPENDIX F – GLOSSARY

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous

	to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Appendix 2

EAST SUSSEX PENSION FUND GOVERNANCE

POLICY STATEMENT

January 2018

Contents

Governance Policy Statement

Introduction

1. This is the Governance Policy Statement of the East Sussex Pension Fund, which is managed by East Sussex County Council ("The Council"), the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish, following such consultation as it considers appropriate, and keep under review a Governance Compliance Statement which must be revised following any material change in its delegation arrangements.
2. The Governance Compliance Statement of the East Sussex Pension Fund is comprised of the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduced a new framework for the governance and administration of public service pension schemes which is reflected in this Statement.
3. As Administering Authority, East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund of behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The Council may choose to delegate certain aspects of administering the Fund in accordance with the Local Governement Act 1972 and its own constitution. However, even where powers are delegated the Council remains ultimately responsibile for all aspects of the management of the Fund. The Local Government Pension Scheme Regulations specify that, in investing the Fund's money, regard must be given to the need for diversification and for proper advice obtained at reasonable intervals.

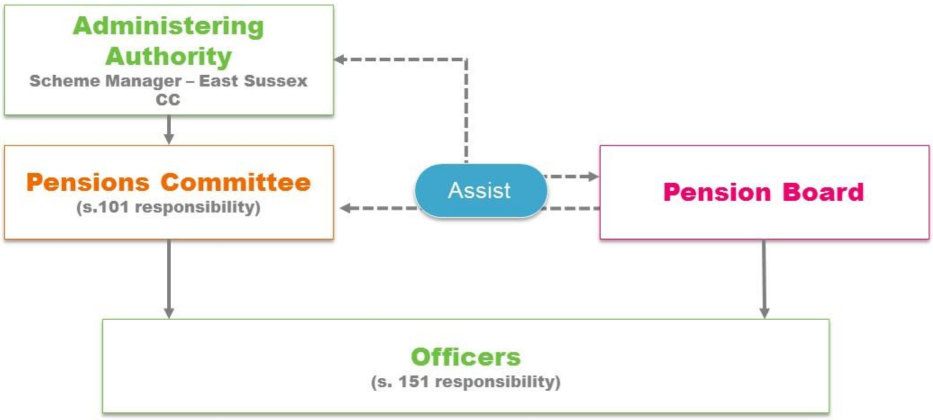
Governance of East Sussex Pension Fund

4. East Sussex County Council operates a Cabinet style decision-making structure. Under the Constitution, the Pension Committee has the delegated authority to exercise the powers of the County Council in respect of the pensions of all employees of the Council (except teachers), including the approval of the pension fund admission agreements. It also has authority for the management of the pension fund. The pension fund governance focuses on:

   - The effectiveness of the Pension Fund Committee, the Local Pension Board ("Board") and officers to where delegated function has been passed, including areas such as decision making processes, knowledge and competencies.
   - The establishment of policies and their implementation.
   - Clarity of areas of responsibility between officers and Pension Fund Committee/Board members.
   - The ability of the Pension Fund Committee/Board and officers to communicate clearly and regularly with all stakeholders.
   - The ability of the Pension Fund Committee/Board and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
   - The management of risks and internal controls to underpin the framework.

   The overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committee.

The East Sussex Pension Fund



Responsibilities of the Pensions Committee

The following powers have been delegated to the Pension Committee

(i) In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.

(ii) To exercise the powers and duties of the County Council in respect of:

- the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.

(iii) To make arrangements for the investment, administration and management of the Pension Fund.

(iv) To arrange for the appointment of investment managers and advisors.

(v) To agree Policy Statements as required under the Local Government Pension Scheme regulations.

(vi) To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.

(vii) To set the Investment Policy and review the performance of the Pension Fund's external investment managers.

(viii) To determine the fund management arrangements and to appoint fund managers and fund advisers.

(ix) To decide on the admission and cessation of bodies to the Pension Fund.

(x) To consider and agree actuarial variations.

(xi) To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.

(xii) To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership of the Pension Committee

5. The County Council appoints five members to the Committee in accordance with political balance provisions. All members of the Committee have voting rights.

6. In relation to Pension Matters, the Committee consider directly all issues relating to pension administration, such as changes in benefit regulation, admission agreements, the Pension Fund Investments, etc.

Frequency of meetings of the Pension Committee.

7. The Pension Committee meets at least 4 times a year. The full terms of reference are publicly available as part of the County Council constitution.

Operational Procedures of the Pension Committee.

8. The Pension Fund Committee receives and reviews quarterly reports from all its Investment Fund Managers and the independent Investment Adviser, Hymans Robertson. The Committee is also advised by an additional Independent Advisor. In addition, the Committee is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated Treasurer). The Committee also receives an annual report from the Fund's independent performance measurement provider which reviews the long-term performance of the Fund and of each of the Investment Fund Managers in relation to their targets. The Committee also holds a separate Annual Strategy Meeting at which its reviews the overall investment strategy of the Fund

Responsibilities of the East Sussex Pension Board

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

10. To provide assistance to East Sussex County Council as the Administering Authority and 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

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

12. To secure effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

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

Frequency of meetings of the East Sussex Pension Board.

13. The Pension Board meets at least 4 times a year. The full terms of reference are publicly available as part of the County Council constitution.

Operational Procedures of the Pension Board.

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

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

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

Membership of the Pension Board

16. In accordance with Regulation 107 of the LGPS Regulations 2013, a Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In considering the size of the East Sussex Pension Board, the Council has taken into consideration number of factors including:

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

17. Composition of the East Sussex Pension Board - The Pension Board shall consist of 7 members as follows:

   - Employer representative x 3

- Scheme member representative x 3
- Independent Chair x 1

Responsibilities of the East Sussex CC Governance Committee

18. The following are pension related responsibilities delegated to the Governance Committee;

- To determine the selection process for appointment to the Pension Board.
- To appoint to, and remove from, the Pension Board
- To agree the level of remuneration for Pension Board Members.

Consultation with Employing Authorities

19. All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by newsletter. They are encouraged to get in touch if they have questions.

20. In addition to these electronic briefings, the East Sussex Fund holds an annual employers forum to which all admitted bodies of the Fund are invited. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. The District Councils receive feedback from their representatives on the Pension Board and are also briefed on pension matters bi-monthly by the Fund's Treasurer at meetings of the East Sussex Financial Officers Association. Update briefings to these meetings are also circulated by email to all other employers in the East Sussex Pension Fund.

21. All employees receive periodic newsletter update on pension issues, especially on any changes affecting benefits. These updates are shared with all employers.

22. More detail on the approach to communication is covered in the separate Pension Fund Communication Statement.

Contact Details

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Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, and provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for "Scheme Administrator" functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund Governance and Investment implementation)

Funding

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective information flow; written plan policies

Including setting of a communication strategy, issuing of benefit statements, annual newsletters, and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Governance Principle: Effective committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (pension fund risk register approval) Chief
Finance Officer (maintaining the pension fund risk register)

Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective board delegation; written plan policies

The Pension Fund Committee Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix A** to this document.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund administration, funding, investment, communication, risk management and the overall governance process surrounding the Fund.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective committee delegation

The Pension Fund Committee shall be made up of:

5 County Councillors appointed by the Governance committee according to the political makeup of the council including the chairman. Decision making quorum of 3 members.

Decision Making:

Governance Principle: Effective committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers. Each member of the Pension Fund Committee shall have full voting rights.

Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Fund Committee shall meet quarterly. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer, and any matters requested by members of the Pension Fund Board. Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency are evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

i) Pension Board

The Pension Board is established by the administering authority to assist in securing compliance with the LGPS Regulations, any other legislation relating to the governance and administration of the scheme, and any requirements imposed by the Pensions Regulator.

The Pension Fund Committee shall:

- Provide the Pension Board with adequate resources to fulfil its role.
- Consider and respond to reports from the Pension Board within a reasonable period of time.

The Pension Board

The role of the Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013, is to assist the Administering Authority:

- to secure compliance with:
  - i) The scheme regulations;
  - ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
  - iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
- to ensure the effective and efficient governance and administration of the LGPS Scheme.

Terms, Structure and Operational Procedures

The Pension Board's Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix B** to this document.

Review of Governance Policy Statement

Responsibility for this document resides with the Chief Finance Officer and will be reviewed by no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Appendix A

Pension Committee terms of reference and membership

1. In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.
2. To exercise the powers and duties of the County Council in respect of:
   - the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and
   - management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.
3. To make arrangements for the investment, administration and management of the Pension Fund.
4. To arrange for the appointment of investment managers and advisors.
5. To agree Policy Statements as required under the Local Government Pension Scheme regulations.
6. To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.
7. To set the Investment Policy and review the performance of the Pension Fund's external investment managers.
8. To determine the fund management arrangements and to appoint fund managers and fund advisers.
9. To decide on the admission and cessation of bodies to the Pension Fund.
10. To consider and agree actuarial variations.
11. To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.
12. To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership

Five members appointed in accordance with political balance provisions.

Appendix B

Constitution and terms of reference of the East Sussex Pension Board

1. Introduction

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

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

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

2. Objectives of the Pension Board

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

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

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

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

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

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

3. Management and operation of the Pension Board

3.1 The Pension Board shall:

- meet at least 4 times per year
- have the power to establish sub committees or panels as required
- agree a programme of training and development for its members.

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

4. Membership - composition of the Pension Board

4.1 The Pension Board shall consist of:

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

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

c) 1 Independent Chair

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

5. Appointment of members of the Pension Board

5.1 The appointment process has been approved by the Governance committee

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

6. Term of office

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

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

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

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

7. Independent Chair

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

7.2 It will be the role of the Chair to -

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

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

8. Support arrangements

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

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

9. Expert advice and information

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

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

- request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund

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

10. Knowledge and Skills

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

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

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

11. Minutes

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

12. Standards of Conduct

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

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

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

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

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

14. Expense reimbursement, remuneration and allowances

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

15. Accountability

15.1 The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the National Scheme

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

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

16. Decision Making Process

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

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

17. Attendance and quorum

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

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

18. Conflicts of Interest

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

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Report to:	**Pension Committee**
Date of meeting:	**30 November 2020**
By:	**Chief Finance Officer**
Title of report:	**Governance and Employer Engagement Report**
Purpose of report:	**To provide an update on various governance and employer engagement work completed and changes affecting the Local Government Pension Scheme (LGPS) generally and East Sussex Pension Fund (ESPF) specifically**

RECOMMENDATIONS – The Committee is recommended to

(1) Approve the ACCESS Pool Amended and Re-stated Inter- Authority Agreement (IAA) (appendix 1);

(2) Note the update to the ACCESS link operator agreement;

(3) Approve the Pension Fund Conflict of Interests Policy (Appendix 2);

(4) Note the update on the McCloud Working Group;

(5) Approve Option 3 approach for classification and inclusion of employers for ill health insurance implementation as set out in 2.16 and Appendix 6;

(6) Note the draft Employer Forum agenda (Appendix 7); and

(7) Note the progress in recruitment to the Pension Fund team and initiation of review of communications (Appendix 8).

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1 Background

1.1 This report is brought to Pension Committee to provide an update on various changes within the Local Government Pension Scheme (LGPS) regulatory framework and governance items or employer engagement items which directly affect the East Sussex Pension Fund (ESPF or the Fund).

1.2 This report provides a note on the changes to the Inter Authority Agreement (IAA) for the ACCESS investment pool; the draft conflicts of interest policy as the final item resulting from the good governance review; an update on the status of the McCloud working group; and a follow-up to the report on ill-health insurance received in September. This report also provides an update on the ESPF Team restructure, an update on contract changes, a draft consultation response on Guaranteed Minimum Pension (GMP) indexation, and the agenda for the November Employer Forum.

2 Supporting information

ACCESS Pool Inter Authority Agreement (IAA)

2.1 The ACCESS Pool IAA is the central constitutional document for the relationship between the ACCESS funds and the pool. The original IAA was executed by the Funds on 12 July 2017. A review of the terms of the IAA was required within two years of execution, however it was established that numerous amendments were needed to be taken into account as the pool had evolved beyond its original focus to procure an operator for an authorised contractual scheme (ACS).

2.2 The ACCESS Joint Committee requested that a full review be undertaken of the IAA, through the Governance Sub Group and their legal advisers to reflect the changes in the markets the pool are looking to invest in, operational changes, such as the ACCESS Support Unit and Officer Working Group responsibilities and the role of the s151 Officers role in business planning and advice to the joint committee.

2.3 The revised IAA seeks to take the ACCESS pool from its establishment phase into business as usual. The revised agreement has been reviewed by the Governance Sub-Group, the Officer Working Group and the Section 151 Officers. The ACCESS Joint Committee on 7 September 2020 received the updated document incorporating all changes to the draft and it was confirmed all Fund Monitoring Officers were content with the revised final draft.

2.4 A copy of the revised agreement is included as **Appendix 1**. The Committee are asked to approve the revised document for execution.

Conflict of Interest Policy

2.5 In continuation of the Good Governance review, the last remaining item for completion is for the Pension Committee, on 30 November 2020 to consider and agree the Conflict of Interest Policy. The draft version is at **Appendix 2**. **Appendices 3-5** are the codes of conduct referenced in the Conflict of Interest Policy and are attached for information.

McCloud Working Group

2.6 The recent consultation on amendments to the statutory underpin in the LGPS, in response to the McCloud judgement has now closed. Although it will take some time for responses to be considered, there are actions that administering authorities should be taking now in preparation for implementation of the remedy to the scheme regulations. As a result, and as discussed at the previous meeting of the Board, The McCloud Working Group will be established.

2.7 The McCloud Working Group is the body responsible for overseeing the implementation of the McCloud ruling in the ESPF within a prescribed timeframe and addressing any gaps and barriers preventing progress and ultimately delivery of the project. The Working Group will:

- oversee the McCloud project, drive the delivery and receive project updates
- tackle employer related issues that become or continue to be a barrier to the effective collection and use of data; and,
- be aware of and manage dependencies across third parties.

2.8 Working group members will consist of Councillor Fox, Lynda Walker, Stephen Osborn, Dave Kellond, Paul Punter and Sian Kunert.

2.9 The first meeting of The McCloud Working Group will take on 8 December, with a selection of papers being shared in advance.

2.10 In preparation, Pension Fund officers have received a number of papers from Hymans Robertson to initiate this project. These include a high level analysis on the numbers of ESPF members who could have been impacted by the McCloud ruling (these are members who would have been active on 1 April 2012); an initial draft of terms of reference and a proposed project plan.

Ill Health Insurance

2.11 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) and a proposed categorisation of scheme employers.

2.12 At its meeting on 21 September 2020 the Pensions Committee received a report on Managing Ill Health Early Retirement Risk. This paper had previously been considered at Pensions Board on 7 September, where the Board suggested potential recommendations on approach. The Pension Committee as a result of the paper and discussions agreed that they were not sufficiently sighted to make an informed decision and asked for a further paper on approach.

2.13 Hymans Robertson has completed a supplementary paper with can be seen in **Appendix 6** to this report. The paper refreshes on the report presented in September and looks into the suggestion of splitting employers into three groups with group one being compelled to have cover, group two being automatically included unless they opt out and group three only covered if they opt in. The report categories employers into three groups based on number of active members as an option, however it also raises the consideration to treat similar employers the same as they will have the same risk profile.

2.14 The Employer Covenant review of the high-risk employers is not yet complete which could feed into establishing the allocation of employers for mandatory inclusion in the ill health insurance. The covenant providers will carry out a high-level financial assessment of employers and a deeper more granular assessment on selected employers

2.15 At its meeting on 16 November 2020 Pension Board discussed the Hymans report and suggested that consideration is made to treating all academies the same with the group two cut off at 200 active scheme members. Pensions Board also stressed the importance of reducing the risk to the fund and its employers by implementing this insurance and that communications to employers should be carefully considered to recognise the existential risk of ill health strain costs to smaller employers and that the insurance approach would not increase employers costs, but reallocate existing contributions.

2.16 Options for Pensions Committee to consider are

a. Option 1 - Split Employers into three groups. Assign groups based on type of body.
b. Option 2 – Split Employers into three groups. Group 1: compelled to have cover; employers defined as small employers with less than 50 active members or employers considered high risk. Group 2: automatically covered unless they opt out; medium employers with less than 100 active members. Group 3: only covered if opt in; large employers.
c. Option 3 – Split Employers into three groups. Group 1: compelled to have cover; employers defined as small employers with less than 50 active members or employers considered high risk. Group 2: automatically covered unless they opt out; medium employers with less than 200 active members. Group 3: only covered if opt in; large employers.
d. Option 4 – Employer "Choice" insurance where each employer holds its own policy should it elect to do so.

2.17 Pensions Board and officers recommend that Pensions Committee agree to implement **Option 3**. This will ensure high risk and small employers are protected against an existential risk from ill health strain costs and similar organisations are treated the same.

Employer Forum Agenda

2.18 The Annual Employer Forum has been booked as a virtual event on 20 November 2020. The draft agenda is included at **Appendix 7** to note.

Pension Fund Structure Update

2.19 As a result of the Pension Fund restructure, officers have begun recruiting to the new positions and appointments have now been made to the three Pensions Manager roles to head up the three streams of Governance and Compliance, Employer Engagement and Investments and Accounting.

2.20 In addition the Fund have also appointed two Chartered Institute of Public Finance and Accountancy (CIPFA) trainee apprentices, which will help the fund in succession planning and benefit from utilisation of the apprenticeship levy for costs of training.

2.21 Now the Pension Manager roles have been recruited further positions will shortly be advertised to continue to expand the team and increase the quality of service provision by the Pension Fund.

2.22 In addition to the recruitment process a communications review process has been initiated to help ensure the Pension Fund communications are timely, engaging, accessible and accurate. This will allow for the fund to promote engagement with member and employers.

2.23 The Communications review outline document can be seen in **Appendix 8** to this report.

Advisors

2.24 At the Pension Committee on 21 September 2020 contracts were awarded to:

- ISIO as Investment Consultants from 1 February 2021 for 3 years with the possibility to extend 1 year;
- Barnett Waddingham LLP from 1 January 2021 for 3 years with the possibility to extend 1 + 1 years
- PWC as covenant adviser for management of high-risk employers.

2.25 Initial conversations have taken place with the new advisers and contracts are being written with any data protection impacts and risk assessments of IT systems taken into account as part of the process.

3. Conclusion and reasons for recommendations

3.1 Pension Committee is requested to approve the amendments to the ACCESS Inter Authority Agreement for sealing in line with the decisions made at the ACCESS Joint Committee in liaison with S151 officers and Monitoring officers of each constituent fund.

3.2 Pension Committee is requested to consider the options and approve the recommendation for rolling out ill health insurance to cover regarding impact of ill health strain costs on employers, based on classification of employers as per option 3. Employers will be grouped into compulsory inclusion, opt out and opt in based on the risk profile and size of active membership with group 2 including employers with less than 200 active members.

3.3 Pension Committee is requested to note the updates provided in the report.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions
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SQUIRE PATTON BOGGS

M E M O R A N D U M

To: **ACCESS Pool Joint Committee**

Subject: ACCESS Pool Amended and Re-stated Inter-Authority Agreement ("IAA")

1 Introduction

1.1 As legal advisors to the ACCESS Pool we were asked by the Joint Committee, acting via the Governance Sub-Group ("GSG"), to review the terms of the IAA, which was originally executed by the Councils on 12 July 2017. The Joint Committee last reviewed a draft of the IAA at its meeting on 11 June 2019 and reports on progress since then have been brought to subsequent meetings, including of course the most recent meeting on 7 September 2020. At that meeting Kevin McDonald reported to the Committee that all monitoring officers had confirmed that they were content with the revised final draft.

1.2 The purpose of this memorandum is to update the Joint Committee on drafting amendments made after input from the GSG, ASU and Monitoring Officers since the June 2019 meeting.

1.3 A clean final version of the amended and restated IAA is appended to this note.

2 Table of amendments

2.1 Given the period of time which has passed since the Joint Committee last reviewed the IAA, we have encapsulated in the table below both material initial amendments circulated in June 2019 where there have been subsequent drafting amendments and new revisions that have been reviewed by the GSG, the OWG, the ASU and the Monitoring Officers over the past year. The changes reflect their instructions and input.

2.2 This table does not comment on minor, self-explanatory grammatical or typographical amendments to the original IAA, nor on the purely consequential drafting amendments that flow from newly defined terms.

2.3 Capitalised terms have the meaning attributed to them in the IAA.

		Amendments to IAA as at June 2019	Amendments to IAA as at September 2020
3	**General Drafting Comments**		
3.1	**Page 2, Recital D**		This has been restructured to replicate the founding principles of the ACCESS Pool as set out in the July 2016 Memorandum of Understanding www.accesspool.org/document/190
3.2	**Page 2, Recital E**	We added this recital to make it clear that the Joint Committee is not simply concerned with the ACS, but has had a wider role in relation to the passive contracts with UBS and it envisages making arrangements for other investments in due course under other structures which will not be part of the ACS.	Minor amendments to the new clause have been made for clarification.
3.3	**Page 2, Recital H**		This new recital has been added to clarify that the IAA and activities carried on under it will not involve the Councils engaging in any regulated activity for financial services legislation purposes.
3.4	**Section 151 Officers**		Amendments have been made so Section 151 Officers are formally referred to as a 'group' within the IAA.
4	**Definitions**		

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4.1	**“Main Operator Agreement”**		This is a new definition introduced to refer to the operator agreement between the councils and Link. This new definition creates a distinction between the ACS and the potential for appointing further operator or operators for other collective investment vehicles in the future.
4.2	**“Monitoring Officer”**		The definition has been simplified to identify such officers pursuant to the legislation under which they are appointed.
4.3	**"Operator Agreement"**	The term original used in the IAA was "Operator Contract", but because the Councils have become used to referring to the “Operator Agreement”, it seems sensible to make a change to reflect common parlance, as well as to date the Operator Agreement with Link.	Amended because of the addition of the “Main Operator Agreement” definition, (see above comment). This allows for there to be multiple operators in future. References to “Operator” throughout the body of the IAA have been similarly updated (see clause 5.5(a) for an example of this).
4.4	**“Pool Aligned Assets Provider” and “Pool Aligned Assets Vehicle”**		The expansion of the Pool’s activity to incorporate not only the existing Pool Aligned Assets (i.e. the passive investments held with UBS), but also the work on illiquid investments which would fall outside of the ACS necessitated the inclusion of these additional defined terms.
4.5	**“Services”**		This definition has been widened to capture those services which are to be jointly commissioned by Councils in respect of Pool Assets, also now including provisions of a Pool Vehicle (e.g. the ACS) or in respect of the newly defined Pool Aligned Asset Vehicle(s).
4.6	**"Vehicle", replaced by “Pool Vehicle”**	Originally the definition of the term “Vehicle” envisaged that a single operator would be used to create one or more collective investment vehicles. In reality, Link has been used to create the ACS only, hence the 2019 change to the definition of “Vehicle” was to include the express reference to that vehicle.	After further consideration, the definition of “Vehicle” has been deleted and replaced with “Pool Vehicle”. This replacement simplifies the definition, removing the specific reference to Link, and streamlines with the new definitions, as set out above.

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5	**Amendments to specific clauses**		
5.1	**Clause 5.5(e)**	The original agreement included references to the Officer Working Group, which were removed in the revised 2019 draft. To reflect the formal reality of statutory obligations owed by the Section 151 Officers, we allowed for advice to be provided to the Joint Committee under the aegis of the Section 151 Officers Group.	Further reference now added to allow advice to be provided by Monitoring Officers where required.
5.2	**Clause 7**	The amendments made to these provisions replaced the redundant language in the original IAA which was superseded by events (i.e. the original IAA was entered into before the procurement of the Operator and therefore before the Operator Agreement was entered into).	Further amendments have been made to clause 7 dealing with the procurement of various service providers. This is in line with the newly defined "Pool Aligned Assets Provider", and also the expansion of the IAA to cover potential multiple Operators.
5.3	**Clause 12**		Clause 12.6 has been clarified by the addition of the final sentence which confirms that where a Council withdraws from the Pool (and becomes a "Former Council"), it will not be prevented from procuring any new relationship with a provider of services to the Pool after withdrawal.
5.4	**Clause 17.3**		Amendments have been made to this clause to simplify the duties and obligations in respect of GDPR.
5.5	**Clauses 27.2 and 27.3**		Clause 27.2 has been expanded and a new clause 27.3 added to clarify the position of a Council withdrawing from the IAA (and being replaced by another party) as a result of a change in administering authority.
6	**Amendments to specific Schedules**		
6.1	**Schedule 2, part 1, paragraph 1**	The changes here were made at the request of the Section 151 Officers to recognise formally their role in providing advice to the decision making body (the Joint Committee).	An amendment has been made to refer expressly to seeking advice from the Monitoring Officers and professional advisors.

6.2	**Schedule 2, paragraphs 4 and 8-11**		In line with the introduction of provisions that envisage multiple Operators in the future, this paragraph now breaks down the functions concerning Pool Aligned Asset Providers to mirror the functions of the Joint Committee relating to the relevant Operator(s).
6.3	**Schedule 3, paragraphs 5, 8 and 9**		Some minor changes have been made to introduce flexibility about the terms of appointment of Committee members, the Chairman and Vice Chairman.
6.4	**Schedule 3, paragraph 16.2**	This provision was introduced at the request of the Section 151 Officers, notwithstanding that they are not formal members of the Joint Committee, but it was felt important to reflect the fact that they may attend Joint Committee meetings to provide advice if necessary.	This provision has been further clarified to allow attendance by Monitoring Officers at any sub-committee meeting, as well as all other meetings of the Joint Committee.
6.5	**Schedule 4, para 3**	The original Schedule 4 contained the terms of reference for the OWG, which, as explained above, were replaced in the June 2019 draft IAA terms of reference for the Section 151 Officers.	Paragraph 3 has been further amended to include more detail, so as to accurately reflect the working arrangements of the Section 151 Officers.
6.6	**Schedule 5, paragraph 1.2(b)**		A new paragraph has been added to cover how to allocate any costs payable in relation to the newly defined Pool Aligned Asset Providers or incurred under any Pool Aligned Asset Vehicles.
6.7	**Schedule 5, paragraph 1.2(c)**		Pool Aligned Assets Costs and Asset Transition Costs have been added here (and Asset Transition Costs to paragraph 2.1) for completeness. The definition of Asset Transition Costs has also been widened to reflect transitions that are either in or out of a vehicle.
6.8	**Schedule 5, paragraph 4.4**		This amendment allows the Joint Committee a discretion to charge an additional fee in respect of Pool Establishment Costs if appropriate.

6.9	**Schedule 5, paragraph 7.4**		The date by which costs must be determined by the Joint Committee for the preceding financial year has been extended from 28 days after the end of the financial year to the first meeting of the Joint Committee following 1 April (provided that meeting falls within 90 days after the end of the financial year).

Squire Patton Boggs (UK) LLP

21 September 2020

DATED 2020

CAMBRIDGESHIRE COUNTY COUNCIL	(1)
EAST SUSSEX COUNTY COUNCIL	(2)
ESSEX COUNTY COUNCIL	(3)
HAMPSHIRE COUNTY COUNCIL	(4)
HERTFORDSHIRE COUNTY COUNCIL	(5)
ISLE OF WIGHT COUNCIL	(6)
KENT COUNTY COUNCIL	(7)
NORFOLK COUNTY COUNCIL	(8)
NORTHAMPTONSHIRE COUNTY COUNCIL	(9)
SUFFOLK COUNTY COUNCIL	(10)
and	
WEST SUSSEX COUNTY COUNCIL	(11)

AMENDED AND RESTATED AGREEMENT
to cooperate in the pooling of Local Government Pension Scheme investments and establishment of the ACCESS Pool

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Reference HER.157-2

014-4422-9261/22/EUROPE

CONTENTS

DATE OF AGREEMENT **2020**

PARTIES

(1) **CAMBRIDGESHIRE COUNTY COUNCIL** of Shire Hall, Castle Hill, Cambridge, CB3 0AP (**"Cambridgeshire"**)

(2) **EAST SUSSEX COUNTY COUNCIL** of County Hall, St Anne's Crescent, Lewes, East Sussex BN7 1UE (**"East Sussex"**)

(3) **ESSEX COUNTY COUNCIL** of County Hall, Market Road, Chelmsford CM1 1QH (**"Essex"**)

(4) **HAMPSHIRE COUNTY COUNCIL** of The Castle, Winchester, Hampshire SO23 8UJ (**"Hampshire"**)

(5) **HERTFORDSHIRE COUNTY COUNCIL** of County Hall, Pegs Lane, Hertford SG13 8DQ (**"Hertfordshire"**)

(6) **ISLE OF WIGHT COUNCIL** of County Hall, High St, Newport, Isle of Wight PO30 1UD (**"Isle of Wight"**)

(7) **KENT COUNTY COUNCIL** of County Hall, Maidstone, ME14 1XQ (**"Kent"**)

(8) **NORFOLK COUNTY COUNCIL** of County Hall, Martineau Lane, Norwich, NR1 2DH (**"Norfolk"**)

(9) **NORTHAMPTONSHIRE COUNTY COUNCIL** of One Angel Square, Angel Street, Northampton NN1 1ED (**"Northants"**)

(10) **SUFFOLK COUNTY COUNCIL** of Endeavour House, 8 Russell Road, Ipswich, Suffolk, IP1 2BX (**"Suffolk"**)

(11) **WEST SUSSEX COUNTY COUNCIL** of County Hall, West Street, Chichester, West Sussex, PO19 1RQ (**"West Sussex"**)

INTRODUCTION

A The Councils are each administering authorities within the Local Government Pension Scheme and within the meaning of the Local Government Pension Scheme Regulations 2013.

B The Councils each administer, maintain and invest their own respective funds within the LGPS in accordance with those Regulations and the LGPS Investment Regulations.

C In accordance with the LGPS Investment Regulations, the Councils entered into an agreement (the **"Original Agreement"**) with effect on and from 12 July 2017 in order to establish arrangements relating to the joint undertaking of their respective Funds by appointing one or more third parties to act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow the administering authorities to pool their respective investments. The Councils have agreed to amend and restate certain terms of the Original Agreement in accordance with clause 11 (Variation of Agreement) with effect from the date appearing at the start of this Agreement.

D This arrangement is intended to:

(i) enable the Councils to execute their fiduciary responsibilities to LGPS stakeholders including scheme members and employers as economically as possible;

(ii) provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible, and

(iii) enable the Councils to achieve the benefits of pooling investments, preserve the best aspects of what is done locally, and create the desired level of local decision-making and control

E The Councils are also responsible for the procurement of investment services in relation to Pool Aligned Assets.

F The Councils are local authorities within the meaning of the Local Government Act 1972 and have agreed as set out in this Agreement to establish and participate in a joint committee which will be responsible for the Specified Functions to the extent provided for in the Joint Committee Terms of Reference.

G The Councils have entered into this Agreement in reliance on the rights given to local authorities to undertake administrative arrangements of this nature in sections 101, 102, 103, 112 and 113 of the Local Government Act 1972 and the Regulations made under that Act together with the general power within section 1 of the Localism Act 2011 and the supporting provisions within section 111 Local Government Act 1972.

H Neither the execution of this Agreement nor the carrying on of activities under it is intended by the Councils to constitute the carrying on of any "regulated activity" under section 19 of the Financial Services and Markets Act 2000 ("FSMA"). In particular, the Joint Committee shall not constitute the establishment or operation of a “collective investment scheme” under s235 of FSMA.

IT IS AGREED THAT:

1 DEFINITIONS AND INTERPRETATION

1.1 The following expressions have the following meanings unless inconsistent with the context:

"ACCESS" means the name used by the Pool for the purposes of communicating with third parties on the activities contemplated by this Agreement.

"Agreement Personal Data" means the Personal Data which is processed by the Councils pursuant to this Agreement.

"Agreement" means this Amended and Restated Agreement.

"ASU" means the ACCESS Support Unit, whose employees are employed by the Host Authority wholly or mainly for the purposes of implementing this Agreement.

"Business Days" means any day which is not a Saturday, a Sunday or a bank or public holiday.

"Commencement Date" means 12 July 2017.

"Constitution" means the constitution of the Joint Committee set out at Schedule 3**.**

"Councils" means**:**

(a) at the Commencement Date and until such time as a Council withdraws from this Agreement the local authorities who are parties to this Agreement and

(b) after the withdrawal of a Council from this Agreement those local authorities who remain parties to this Agreement; and

(c) from such time as another local authority becomes party to this Agreement that local authority and the other local authorities who are parties to this Agreement,

and each a **"Council"**.

"Data Controller" has the same meaning as given to it under the Data Protection Legislation.

"Data Processor" has the same meaning as given to it under the Data Protection Legislation.

"Data Protection Authority" means any organisation which is responsible for the supervision, promotion and enforcement of the Data Protection Legislation, including the Information Commissioner's Office (or any joint, like, replacement or successor organisation from time to time).

"Data Protection Legislation" means all privacy laws applicable to the personal data which is Processed under or in connection with this Agreement, including, where applicable, EU Directive 95/46/EC, prior to its repeal, EU Directive 2002/58/EC, and Regulation (EU) 2016/679/EC (amongst others) as implemented by the applicable local laws, including the DPA, GDPR as directly applicable, and all regulations made pursuant to and in relation to such legislation.

"DPA" Data Protection Act 2018.

"Exempt Information" any information relating to this Agreement which may be:

(a) exempt from disclosure under the Freedom of Information Act 2000 (as updated, amended, or replaced from time to time); or

(b) excepted from disclosure under the Environmental Information Regulations 2004 (as updated amended, or replaced from time to time);

(c) or otherwise does not fall to be disclosed because it is vexatious or compliance with the Information Request would exceed an applicable time and costs limit specified within the FOI Legislation;

(d) defined in Part VA of the Local Government Act 1972.

"FOI Legislation" means the Freedom of Information Act 2000 and subordinate legislation made under this or the Environmental Information Regulations 2004 together with all codes of practice and other guidance on the foregoing issued by the Information Commissioner's Office, and/or relevant Government Department, all as amended, updated and/or replaced from time to time (or, for the purposes of clause 16, exempt information as defined by Schedule 12A to the Local Government Act 1972).

"Former Council" means a Council which has withdrawn from this Agreement pursuant to clause 12.

"GDPR" means the General Data Protection Regulation as set out in Regulation (EC) 2016/679, as may be replaced, amended and or updated from time to time.

"Head of the Paid Service" means the statutory officer appointed to this role by each Council.

"Host Authority" means the Council appointed from time to time to act as referred to in clause 9.1 hereof.

"Information Request" means a request for information under FOI Legislation.

"Joint Committee" means the statutory Joint Committee of elected members from the Councils known as the ACCESS Joint Committee established for the purposes contained within this Agreement.

"Joint Committee Terms of Reference" means the terms of reference of the Joint Committee set out at Schedule 2.

"LGPS" means the Local Government Pension Scheme in England and Wales.

"LGPS Investment Regulations" means the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

“Main Operator Agreement” means the agreement between the Councils and Link Fund Solutions Limited dated 5 March 2018 or any extension or replacement of the same.

"Monitoring Officer" means the officer appointed as such by each council under section 5 of the Local Government and Housing Act 1989.

"Operator" means the person(s) appointed by the Councils from time to time to provide the Services.[1]

"Operator Agreement" means an agreement entered into between the Councils and an Operator.[2]

"Personal Data" means as defined in the Data Protection Act 2018.

[1] As at the date of this Agreement, the appointed Operator is Link Fund Solutions Limited.
[2] As at the date of this Agreement, the agreement entered into with Link Fund Solutions Limited, for the provision of the Services, dated 5 March 2018.

"Pool" means the arrangements made by the Councils for the purposes of complying with the statements that each has made under Regulation 7(2)(d) of the LGPS Investment Regulations.

"Pool Aligned Assets" means any assets of the Councils held separately from the Pool Assets which the Joint Committee has recommended that the Councils hold in the same investment vehicle and where a Council has complied with that recommendation.

"Pool Aligned Assets Provider" means a provider of investment management services in respect of Pool Aligned Assets, as appointed by the Councils from time to time.

"Pool Aligned Assets Vehicle" means the investment vehicle or vehicles operated by a Pool Aligned Assets Provider which is available for use by the Councils.

"Pool Assets" means any assets of the Councils which are managed by an Operator.

"Pool Vehicle" means one or more collective investment vehicles, used by an Operator in respect of the Pool Assets.[3]

"Process" and other derivations such as **"Processed" and "Processing"** means any use of Personal Data in accordance with the Data Protection Legislation. For the avoidance of doubt, this includes, without limitation, storing, accessing, reading, using, copying, printing, revising, deleting, disclosing, transferring or otherwise using Personal Data.

"Procurement Lead Authority" means such Council as may be agreed from time to time by the Joint Committee and the Council concerned as being the Council appointed to undertake the procurement of such services as may be required by the Joint Committee.

"Secretary to the Joint Committee" means the officer appointed in accordance with clause **9.1**.

"Section 151 Officer" means the officer designated by each of the Councils as the person responsible for the proper administration of its financial affairs as required by section 151 of the Local Government Act 1972, and the Section 151 Officers shall collectively be referred to as the **"Section 151 Officers Group**" in this Agreement

"Section 151 Officers Group Terms of Reference" means the terms of reference of the Section 151 Officers Group in relation to the Pool as set out in Schedule 4.

"Services" means the services which the Joint Committee has agreed the Councils will commission together and which are provided by an Operator in accordance with an Operator Agreement in respect of Pool Assets which may include provision of one or more Pool Vehicle(s) or provision of or access to Pool Aligned Assets Vehicle(s).

[3] As at the date of this Agreement, the Link Fund Solutions ACCESS Pool Authorised Contractual Scheme is the only Pool Vehicle in existence.

"Specified Functions" means the investment functions of the Councils as pension administering authorities to the extent specified in the Joint Committee Terms of Reference.

"Withdrawal Date" means the date of withdrawal from the Agreement by a Council which gives notice to withdraw in accordance with this Agreement.

1.2 References to the background section, clauses and Schedules are to the background section and clauses of and schedules to this Agreement and references to paragraphs are to paragraphs of the relevant Schedule.

1.3 The Schedules form part of this Agreement and will have the same force and effect as if set out in the body of this Agreement and any reference to this Agreement will include the Schedules.

1.4 The background section, all headings and footnotes are for ease of reference only and will not affect the construction or interpretation of this Agreement.

1.5 Unless the context otherwise requires:

(a) references to the singular include the plural and vice versa and references to any gender include every gender; and

(b) references to a "person" include any individual, body corporate, association, partnership, firm, trust, organisation, joint venture, government, local or municipal authority, governmental or supra-governmental agency or department, state or agency of state or any other entity (in each case whether or not having separate legal personality).

1.6 References to any statute or statutory provision will include any subordinate legislation made under it and will be construed as references to such statute, statutory provision and/or subordinate legislation as modified, amended extended, consolidated, re-enacted and/or replaced and in force from time to time.

1.7 Any words following the words "include", "includes", "including", "in particular" or any similar words or expressions will be construed without limitation and accordingly will not limit the meaning of the words preceding them.

1.8 The rule known as the ejusdem generis rule will not apply and accordingly the meaning of general words introduced by the word "other" or a similar word or expression will not be restricted by reason of the fact that they are preceded by words indicating a particular class of acts matters or things.

1.9 References to "in writing" or "written" are to communication effected by post and email or any other means of reproducing words in a legible and non-transitory form (but not fax).

1.10 An obligation on a party to procure or ensure the performance or standing of another person will be construed as a primary obligation of that party.

1.11 Unless expressly stated otherwise, all obligations, representations and warranties on the part of two or more persons are (unless stated otherwise) entered into, given or made by such persons severally.

2 TERM

The Original Agreement came into force on the Commencement Date and shall continue as amended and restated in this Agreement from year to year, subject to the right of the Councils to terminate this Agreement in accordance with the provisions of this Agreement.

3 GOVERNING PRINCIPLES

The Councils agree to adopt the principles set out in Part 1 of Schedule 1 when working jointly.

4 PRINCIPLES OF COLLABORATION

The Councils agree to act in good faith and to adopt the behaviours set out in Part 2 of Schedule 1 when working jointly.

5 ESTABLISHMENT OF A JOINT COMMITTEE

5.1 In exercise of their powers under sections 102(1)(b) of the Local Government Act 1972 and the LGPS Investment Regulations the Councils created the Joint Committee with effect from the Commencement Date.

5.2 The purpose of the Joint Committee is to undertake the Specified Functions to the extent set out in the Joint Committee Terms of Reference.

5.3 The Joint Committee shall operate and conduct its business in accordance with the terms of this Agreement including the Constitution and the Joint Committee Terms of Reference.

5.4 In so far as the business of the Joint Committee may require the exercise of overview or scrutiny functions by the elected members of the Councils, each of the Councils will comply with the overview and scrutiny requirements of its own constitution.

5.5 In discharging its functions the Joint Committee shall:

(a) Take steps to ensure that together the Operator(s) provide sufficient sub-funds and/or vehicles to enable each Council to execute its investment strategy;

(b) Have due regard to any relevant stewardship codes of practice or other relevant documents, recognising that individual Councils reserve the right to adopt their own individual policies in areas including application of stewardship codes, exercise of shareholder voting rights and policies in respect of responsible investment;

(c) Ensure at all times that the processes and arrangements of the Pool deliver value for money for the Councils and the taxpayer;

(d) Ensure that members appointed to the Joint Committee undertake training to acquire and maintain knowledge and skills relevant to the performance of their duties; and

(e) Put arrangements in place to ensure that it takes decisions only after considering proper advice from the Section 151 Officers Group and, where required, from Monitoring Officers or from appropriate professional advisers.

5.6 The Councils may from time to time agree to vary this Agreement to enable any other pension administering authority to become a party to this Agreement and such agreement will be effected by the Councils and that other pension administering authority entering into a deed of variation on such terms as may be agreed including but without prejudice to the generality hereof to include provision that the terms of Schedule 5 relating to cost sharing will apply.

6 TERMS OF REFERENCE OF THE JOINT COMMITTEE AND THE SECTION 151 OFFICERS

6.1 The terms of reference of the Joint Committee are set out in Schedule 2 of this Agreement. The terms of reference for the Section 151 Officers Group are set out in Schedule 4 of this Agreement (Section 151 Officers Group Terms of Reference).

6.2 Any reference in this Agreement to a decision or approval of the Section 151 Officers or the Section 151 Officers Group is a reference to a decision expressed taken in accordance with the Section 151 Officers Group Terms of Reference.

7 PROCUREMENT OF OPERATORS AND POOL ALIGNED ASSETS PROVIDERS[4]

7.1 The Councils will from time to time jointly procure the services of one or more Operators to provide the Services insofar as they relate to Pool Assets, acting through the Procurement Lead Authority.

7.2 The Councils will from time to time jointly procure the services of one or more Pool Aligned Assets Providers to provide the Services insofar as they relate to Pool Aligned Assets, acting through the Procurement Lead Authority.

7.3 Each Operator Agreement and each agreement with a Pool Aligned Assets Provider shall be entered into by each Council in identical form.

7.4 The Procurement Lead Authority will consult each Council as to the form and content of the documents used to procure an Operator or a Pool Aligned Assets Provider, and will consider any comments made by each Council in response.

7.5 Should any Council terminate its appointment of each and every Operator other than in circumstances where the reason for such termination is that the Council is to be abolished or will cease to be an administering authority, then that Council shall be treated as having given notice to withdraw from this Agreement in accordance with clause 12.1 hereof save that such notice will have immediate effect.

[4] Clause 18(a) of the Operator Agreement currently in force at the time of execution of this Agreement (the "Main Operator Agreement") provides that it shall have an initial fixed term of five years from 5 March 2018, subject to the right to terminate the Main Operator Agreement on twelve months' notice and subject to the facility to extend the Main Operator Agreement for a period of a further two years (i.e. to 5 March 2025).

8 GOVERNANCE

8.1 Each of the Councils shall ensure that its participation in this Agreement is at all times in keeping with its own constitution.

8.2 This Agreement is entered into without prejudice to the exercise of the statutory powers and duties by any Section 151 Officer, the Monitoring Officer or the Head of Paid Service of any Council. Without prejudice to the generality of the foregoing, each Council will provide the said officers with all such information as is reasonably required to enable each of them to undertake their statutory roles and responsibilities.

8.3 The Councils will provide officer resources for the purpose of providing support to the Joint Committee in undertaking its functions.

8.4 The Councils have agreed that day-to-day management of the Operator Agreement(s) and the agreement(s) with Pool Aligned Assets Provider(s) and other services which may be procured by the Joint Committee or by the Councils shall be supported by the ASU.

9 HOST AUTHORITY

9.1 The role of Host Authority may be undertaken by any Council as agreed between the Joint Committee and the Council concerned from time to time. Unless otherwise agreed, the Host Authority will designate an officer to be the Secretary to the Joint Committee. The Joint Committee will operate under the normal committee governance arrangements of whichever Council employs the Secretary, subject to any specific processes or requirements outlined in this Agreement.

9.2 The Host Authority shall have primary responsibility for putting in place corporate management arrangements (including financial and employment) for the ASU, including in relation to the cost sharing arrangements envisaged under clause 10.

10 COST SHARING

10.1 Costs incurred in the operation of the Joint Committee (including the costs of officers providing support to the Joint Committee in accordance with this Agreement but excluding costs incurred by the Host Authority in its capacity as Host Authority) will be borne by the Council incurring them.

10.2 Costs incurred as a result of the Councils entering into this Agreement will be shared and paid in accordance with Schedule 5 of this Agreement.

11 VARIATION OF AGREEMENT

11.1 Any of the Councils may request a variation to this Agreement by making such a request in writing to the Secretary to the Joint Committee.

11.2 The Secretary to the Joint Committee shall circulate the request to each of the Councils by sending it to each Council's Section 151 Officer or such other officer as that Council may nominate for this purpose within 10 Business Days of receipt of the request for consideration and approval by the Councils.

11.3 Each Council shall provide a response to the Secretary to the Joint Committee indicating whether it agrees to the variation and shall do so within 60 Business Days of receipt of the request. Any failure to respond within that period shall be deemed to indicate agreement to the requested variation.

11.4 If all of the Councils approve the variation then the Secretary to the Joint Committee shall arrange for the preparation of an appropriate deed of variation to this Agreement to be prepared for execution by all of the Councils and such change shall only take effect upon completion of that deed and the costs associated with the preparation of such deed of variation shall be shared equally between the Councils.

11.5 If any of the Councils does not approve the variation then the variation to this Agreement shall not take effect.

12 WITHDRAWAL FROM THIS AGREEMENT

12.1 Subject to clause 27, a Council may only withdraw from this Agreement in accordance with the procedure set out in this clause 12.

12.2 Any Council which wishes to withdraw from this Agreement shall, subject to any decision by the Joint Committee to waive this requirement, give not less than twelve months written notice to expire on 31st March to the Secretary to the Joint Committee of its intention to do so.

12.3 A Council wishing to withdraw from this Agreement undertakes as a condition of such withdrawal to make payment as shall be determined in the manner set out in Part 2 of Schedule 5 to this Agreement.

12.4 On the Withdrawal Date the Council giving notice shall cease to be a member of the Joint Committee and, subject to clause 19, this Agreement shall cease to apply to that Council and it shall thereafter be a Former Council.

12.5 Each Council is entitled to recover from any Former Council the costs of any claims, costs, expenses, losses or liabilities of any nature in accordance with paragraph 2 of Schedule 5 or any other costs, claims expenses, losses or liabilities which have been caused by any act or omission of the Former Council and which are discovered after the Former Council's withdrawal from this Agreement.

12.6 Where a Council withdraws from this Agreement it must withdraw all its funds from the relevant Pool Vehicle and/or Pool Aligned Assets Vehicle no later than the Withdrawal Date unless the Joint Committee recommends to the Councils that some or all of the relevant funds may remain in the relevant Pool Vehicle(s) or Pool Aligned Assets Vehicle(s) after the Withdrawal Date on the terms existing at that time or on any terms to be agreed between the Councils, the Former Council and any other relevant parties. Nothing in this clause shall prevent a Former Council from procuring a new relationship with an organisation which is a Pool Assets provider following its withdrawal from this Agreement.

13 TERMINATION OF THIS AGREEMENT

13.1 This Agreement may be terminated upon terms agreed by all Councils.

13.2 Upon termination of this Agreement the Councils agree that the Joint Committee shall cease to exist.

13.3 Notwithstanding the termination of this Agreement the Councils each agree to do all such acts and things and execute all such documents as each of them reasonably requires.

13.4 On termination of this Agreement the provisions relating to costs set out in paragraph 3 of Schedule 5 will have effect.

14 DISPUTE RESOLUTION

14.1 The Councils undertake and agree to pursue a positive approach towards dispute resolution which seeks (in the context of this Agreement) to identify a solution at the lowest operational level that is appropriate to the subject of the dispute and which avoids legal proceedings and maintains a strong working relationship between the Councils.

14.2 In the event of any dispute or disagreement arising out of or in connection with this Agreement or any breach thereof a Council may serve notice upon one or more of the other Councils setting out brief details of the dispute that has arisen. The Notice of dispute shall in the first instance be considered at a meeting of the Section 151 Officers Group who shall, acting in good faith, attempt to resolve such dispute within 28 days of the dispute being referred to them.

14.3 Where the Section 151 Officers Group is unable to resolve such dispute by agreement within that period of 28 days or where, in the opinion of that Group, such dispute would be more effectively resolved in another forum, the Councils in dispute may refer such dispute to a suitably qualified and independent person as may be recommended by the Section 151 Officers Group and to be agreed by the Councils which are in dispute or (in the event of failure within a period of 28 days to agree on such appointment) a person nominated by the President of the Law Society, who shall act as an expert.

14.4 Where a dispute is referred to a person appointed under clause 14.3 hereof that person shall determine the procedure and timetable for resolution of the said dispute at his or her absolute discretion and the decision of that person shall be binding on the Councils.

14.5 For the avoidance of doubt, this clause 14 applies only to disputes between the Councils and does not apply to any dispute between the Councils and Operator or other third parties or between the officers supporting the Joint Committee.

15 NOTICES

15.1 Any notice or other communication given under or in connection with this Agreement will be in writing, marked for the attention of the specified representative of the party to be given the notice or communication and:

(a) sent to that party's address by pre-paid first-class post or mail delivery service providing guaranteed next working day delivery; or

(b) delivered to or left at that party's address.

15.2 The address and representative for each Council are set out below and may be changed by that party giving at least 10 Business Days' notice in accordance with this clause 15.

Council	**Address**	**For the attention of**
Cambridgeshire County Council	Shire Hall, Castle Hill, Cambridge, CB3 0AP	Chief Finance Officer
East Sussex County Council	County Hall, St Anne's Crescent, Lewes, East Sussex BN7 1UE	Chief Finance Officer
Essex County Council	County Hall, Market Road, Chelmsford CM1 1QH	Chief Finance Officer
Hampshire County Council	The Castle, Winchester, Hampshire SO23 8UJ	Chief Finance Officer
Hertfordshire County Council	County Hall, Pegs Lane, Hertford SG13 8DQ	Chief Finance Officer
Isle of Wight Council	County Hall, High St, Newport, Isle of Wight PO30 1UD	Chief Finance Officer
Kent County Council	County Hall, Maidstone, ME14 1XQ	Corporate Director of Finance
Norfolk County Council	County Hall, Martineau Lane, Norwich, NR1 2DH	The Executive Director Finance and Commercial Services
Northamptonshire County Council	One Angel Square, Angel Street, Northampton NN1 1ED	Director of Finance
Suffolk County Council	Endeavour House, 8 Russell Road, Ipswich, Suffolk, IP1 2BX	Head of Finance
West Sussex County Council	County Hall, West Street, Chichester, West Sussex, PO19 1RQ	Director of Finance and Support Services

15.3 Any notice or communication given in accordance with this clause 15 will be deemed to have been served:

(a) if given as set out in clause 15.1(a), at 9.00am on the 2nd Business Day after the date of posting; and

(b) if given as set out in clause 15.1(b), at the time the notice or communication is delivered to or left at that party's address, provided that if a notice or communication is deemed to be served before 9.00am on a Business Day it will be deemed to be served at 9.00am on that Business Day and if it is deemed to be served on a day which is not a Business Day or after 5.00pm on a Business Day it will be deemed to be served at 9.00am on the immediately following Business Day.

15.4 For the purposes only of this clause 15, references to time of day are to the time of day at the address of the recipient parties referred to in clause 15.

15.5 To prove service of a notice or communication it will be sufficient to prove that the provisions of this clause 15 were complied with.

16 INFORMATION AND CONFIDENTIALITY

16.1 Whilst acknowledging that meetings of the Joint Committee will ordinarily be open to the public and that the Councils intend to comply with their respective obligations under the FOI Legislation, the Councils shall seek to protect commercial information and in particular shall:

(a) seek to prevent the disclosure of any Exempt Information relating to this Agreement; and

(b) use all reasonable endeavours to prevent their employees and agents from making any disclosure of any Exempt Information to any person of any matter relating to the Agreement.

16.2 Clause 16.1 shall not apply to:

(a) Any disclosure of information that is reasonably required by persons engaged in the performance of their obligations under this Agreement;

(b) Any matter which a Council can demonstrate is already generally available and in the public domain otherwise than as a result of a breach of this clause;

(c) Any disclosure to enable a determination to be made under clause 14 (*Dispute Resolution*);

(d) Any disclosure which is required by any law (including any order of a court of competent jurisdiction), in compliance with the Data Protection Legislation, and/or the FOI Legislation (including their relevant exemptions and exceptions where appropriate), any Parliamentary obligation or the rules of any stock exchange or governmental or regulatory authority having the force of law;

(e) Any required disclosure by a Council to a department, office or agency of the Government; and

(f) Any disclosure for the purpose of the examination and certification of a Council's accounts.

16.3 Save for in relation to disclosures made under the FOI Legislation (which, for the avoidance of doubt, cannot be made subject to imposed conditions or where disclosure is permitted under clause 16.2), the recipient of the information shall be placed under the same obligation of confidentiality as that contained in this Agreement by the disclosing Council.

17 DATA PROTECTION

17.1 The Councils shall be separate Data Controllers of the Agreement Personal Data. As such, the Councils shall at all times comply with their obligations under the Data Protection Legislation. In doing so the Councils shall:

(a) to the extent required, maintain a valid and up to date registration or notification under the Data Protection Legislation covering any Processing of Agreement Personal Data;

(b) only undertake Processing of Agreement Personal Data that is reasonably required in connection with the operation of this Agreement and only as may be lawful under the Data Protection Legislation;

(c) not transfer any Agreement Personal Data to any country or territory outside the European Economic Area, notwithstanding their ability to do so under the Data Protection Legislation, save for any export of Agreement Personal Data which is compliant with the Data Protection Legislation which is necessary for the use of core IT services and systems operated by the Councils in connection with this Agreement;

(d) implement appropriate technical and organisational measures to prevent unauthorised or unlawful Processing of Agreement Personal Data and against the accidental loss, or destruction of, or damage to Agreement Personal Data;

(e) promptly notify the other Councils (and no later than within one working day) if they become aware of any actual or suspected, threatened or 'near miss' incident of accidental or unlawful destruction or accidental loss, alteration, unauthorised or accidental disclosure of or access to the Agreement Personal Data Processed, or if it is corrupted or rendered unusable, which is reasonably likely to result in risks to the rights and freedoms of natural persons, pursuant to this Agreement;

(f) use their reasonable endeavours to restore or retrieve any personal data which is unlawfully or accidentally lost, destroyed, damaged, corrupted or made unusable;

(g) keep full, up-to-date and accurate records of any processing of Personal Data carried out pursuant to this Agreement;

(h) promptly respond to any request from one of the other Councils to amend, transfer, delete or otherwise Process Personal Data; and

(i) not do anything (whether by act or omission) which would cause the other Councils to be in breach of their obligations as Data Controllers of the Agreement Personal Data under the Data Protection Legislation.

17.2 The Councils shall not disclose Agreement Personal Data to any third parties in compliance with the Data Protection Legislation, for example other than:

(a) as required in law in response to a data subject access request under the DPA;

(b) to employees and contractors to whom such disclosure is necessary in order to comply with their obligations under this Agreement; or

(c) to the extent required to comply with a legal obligation.

17.3 To the extent that any Council acts as a Data Processor for and on behalf of one or more of the other Councils in relation to the Agreement Personal Data Processed pursuant to this Agreement, the Data Processor and the Data Controller(s) shall enter into an agreement which complies with the terms of the Data Protection Legislation. In particular, the Data Processor shall:

(a) only Process that Agreement Personal Data on the written instructions of the Data Controller(s) unless required by law to act without such instructions;

(b) ensure that persons authorised to process the Agreement Personal Data have committed themselves to confidentiality or are under an appropriate statutory duty of confidentiality;

(c) take appropriate measures to ensure the security of Agreement Personal Data;

(d) not engage a sub-processor except with the prior consent of the Data Controller(s) and subject to a written contract being put in place with the sub-processor;

(e) assist the Data Controller(s) in providing subject access and allowing data subjects to exercise their rights under relevant Data Protection Legislation;

(f) assist the Data Controller(s) in meeting its/their Data Protection Legislation obligations in relation to Agreement Personal Data as regards the security of processing, the notification of personal data breaches and data protection impact assessments;

(g) in relation to the Agreement Personal Data, submit to audits and inspections, provide the Data Controller(s) with whatever information it/they need to ensure that they are complying with their obligations under the Data Protection Legislation in relation to the Processing and tell the Data Controller immediately if in its opinion an instruction infringes the Data Protection Legislation;

(h) not transfer any Agreement Personal Data outside the European Economic Area, unless this is done with the express written agreement of the Data Controller(s) and it is necessary for the use of core IT services and systems operated by the Councils, and is undertaken in compliance with Data Protection Legislation; and

(i) on withdrawal from or termination of this Agreement, return all the Agreement Personal Data to the Data Controller(s) and securely delete and/or destroy any copies of the Agreement Personal Data which is Processed by the Data Processor pursuant to this Agreement, unless applicable laws permit retention of the Agreement Personal Data, in which case the relevant Council(s) agree(s) it (or they) shall retain the Agreement Personal Data securely and only for as long as strictly necessary in the capacity as a Data Controller.

17.4 Each Council agrees to indemnify and keep indemnified and defend at its own expense the other Councils against all costs, claims, damages and/or expenses (including legal and administrative) incurred by the other Councils or for which the other Councils may become liable due to any failure by a particular Council, its employees or agents to comply with any of its obligations under this clause 17.

18 FREEDOM OF INFORMATION

18.1 The Councils recognise that each Council is a public authority as defined by FOI Legislation and therefore recognise that information relating to this Agreement may be the subject of an Information Request which shall be considered in accordance with this clause 18.

18.2 The Councils shall assist each other in complying with their obligations under FOI Legislation as they relate to Information Requests made in relation to this Agreement, including but not limited to assistance without charge in gathering information to respond to an Information Request relating to this Agreement. For the avoidance of doubt, nothing in this clause 18.2, shall require a Council to provide information, if the relevant information has not been held on behalf of the Council that received the Information Request.

18.3 Each Council, as a separate public authority, shall in their absolute and sole discretion, decide:

(a) whether the Information Request is valid under the FOI Legislation, as well as all other considerations relevant in the assessment of an Information Request under the FOI Legislation, such as any considerations (as may be applicable) regarding the cost of complying with a request or any charges for responding to a request, whether the request is repeated, vexatious or manifestly unreasonable and any other relevant considerations;

(b) whether the information requested in an Information Request is relevant to the Agreement;

(c) whether, if the Information Request does relate to the Agreement, whether the information is Exempt Information;

(d) where appropriate, whether or not in all circumstances of the case the public interest in maintaining any exemption outweighs the public interest in disclosing the requested information; and

(e) whether the information requested in the Information Request is to be disclosed or not, or proactively disclosed regardless of whether an Information Request is received or not.

18.4 Where a Council receives an Information Request for information about the Agreement which may be Exempt Information and which refers to one or more of the Councils, then where reasonably practicable and, subject to clause 18.5 below, take reasonable steps prior to disclosure of such information to:

(a) circulate the Information Request, as soon as reasonably practicable, to the other Council(s) to which the Information Request relates and invite those other Council(s) to make representations to the Council which received the Information Request as to whether or not the information is considered to be Exempt Information and as to disclosure; and

(b) in good faith, consider any representations raised by the Council(s) consulted pursuant to clause 18.4(a) when deciding whether to disclose Exempt Information, but the Council which receives the Information Request shall not be obliged to accept or agree to the representations which are made by the other Council(s).

18.5 The Councils acknowledge that (notwithstanding the provisions of this clause 18) the Council which received the Information Request may, under the FOI Legislation or acting in accordance with the Department of Constitutional Affairs' Code of Practice on the Discharge of Functions of Public Authorities under Part I of the Freedom of Information Act 2000 (the **"Code"**), be obliged under the FOI Legislation to disclose information concerning this Agreement or the other Councils:

(a) in certain circumstances without consulting with other Councils; or

(b) following consultation with other Councils and having taken their views into account,

provided always that where 18.4(a) above applies the Council which receives the Information Request, shall take reasonable steps wherever practicable to draw this to the attention of the other Councils prior to any disclosure.

18.6 The Councils acknowledge and agree that no Council will be liable to any other Council for any loss, damage, harm or detrimental effect arising from or in connection with the disclosure of information in response to an Information Request.

19 PROVISIONS REMAINING OPERATIVE

19.1 Following the termination of this Agreement:

(a) the following provisions will continue in force:

(i) Clause 3 and Schedule 1

(ii) Clause 4 and Schedule 1

(iii) Clause 10 and Schedule 5

(iv) Clause 12

(v) Clauses 13.3 and 13.4

(vi) Clause 14

(vii) Clause 15

(viii) Clause 16

(ix) Clause 17

(x) Clause 18

together with any other provisions which expressly or impliedly continue to have effect after expiry or termination of this Agreement; and

(b) all other rights and obligations will immediately cease, without prejudice to any rights, obligations, claims (including without limitation claims for damages for breach) and liabilities which have accrued prior to termination.

20 EQUAL OPPORTUNITIES

Each of the Councils is subject to public law duties under the Equality Act 2010 and agree to operate the Agreement in such a way as to ensure compliance with the requirements of the Equality Act 2010.

21 RELATIONSHIP OF COUNCILS

Each of the Councils is an independent local authority and nothing contained in this Agreement shall be construed to imply that there is any relationship between the Councils of partnership or principal/agent or of employer/employee. No Council shall have any right or authority to act on behalf of another Council nor to bind any of the other Councils by contract or otherwise, except to the extent expressly permitted by the terms of this Agreement.

22 COUNTERPARTS

This Agreement may be executed in any number of counterparts, each of which will constitute an original but which will together constitute one agreement.

23 SEVERANCE

If any term of this Agreement is found by any court or body or authority of competent jurisdiction to be illegal, unlawful, void or unenforceable, such term will be deemed to be severed from this Agreement and this will not affect the remainder of this Agreement which will continue in full force and effect. In this event the parties will agree a valid and enforceable term to replace the severed term which, to the maximum extent possible, achieves the parties' original commercial intention and has the same economic effect as the severed term.

24 RIGHTS OF THIRD PARTIES

The Councils do not intend that any term of this Agreement will be enforceable under the Contracts (Rights of Third Parties) Act 1999 by any person.

25 GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it will be governed by the law of England and Wales.

26 JURISDICTION

Each party agrees that the courts of England and Wales have exclusive jurisdiction to determine any dispute arising out of or in connection with this Agreement (including in relation to any non-contractual obligations).

27 CHANGE IN ADMINISTERING AUTHORITY

27.1 This clause 27 applies if any of the Councils is abolished or ceases to be an administering authority in circumstances where one or more local authorities become the administering authority in place of the Council.

27.2 Where this clause applies, the Council affected and the remaining Councils shall, subject to any contrary provision in any statutory order made in connection with the abolition or change in administering authority, make such arrangements as are necessary to enable the Council affected to withdraw from this Agreement and, where relevant, to be replaced as a party to this Agreement by the replacement administering authority or authorities, provided that the replacement administering authority or authorities so consent.

27.3 For the avoidance of doubt, where an affected Council withdraws from this Agreement in the circumstances set out in this clause 27, such withdrawal shall be deemed not to be a withdrawal for the purposes of clause 12.

This Agreement is executed as a **deed** and **delivered** on the date stated at the beginning of this Agreement.

Executed as a deed by	)
CAMBRIDGESHIRE COUNTY COUNCIL	)
by affixing the common seal	)
in the presence of:	)

Authorised signatory: __________________________

Executed as a deed by	)
EAST SUSSEX COUNTY COUNCIL	)
by affixing the common seal	)
in the presence of	

Authorised signatory: __________________________

Executed as a deed by	)
ESSEX COUNTY COUNCIL	)
by affixing the common seal	)
in the presence of:	)

Authorised signatory: __________________________

Executed as a deed by	)
HAMPSHIRE COUNTY COUNCIL	)
by affixing the common seal	)
in the presence of:	)

Authorised signatory: __________________________

Executed as a deed by	)
HERTFORDSHIRE COUNTY COUNCIL	)
by affixing the common seal	)
in the presence of:	)

Authorised signatory: __________________________

Executed as a deed by)
ISLE OF WIGHT COUNCIL)
by affixing the common seal)
in the presence of:)

Authorised signatory: ______________________________

Executed as a deed by)
KENT COUNTY COUNCIL)
by affixing the common seal)
in the presence of:)

Authorised signatory: ______________________________

Executed as a deed by)
NORFOLK COUNTY COUNCIL)
by affixing the common seal)
in the presence of:)

Authorised signatory: ______________________________

Executed as a deed by)
NORTHAMPTONSHIRE COUNTY COUNCIL)
by affixing the common seal)
in the presence of:)

Authorised signatory: ______________________________

Executed as a deed by)
SUFFOLK COUNTY COUNCIL)
by affixing the common seal)
in the presence of:)

Authorised signatory: ______________________________

Executed as a deed by	)
WEST SUSSEX COUNTY COUNCIL	)
by affixing the common seal	)
in the presence of:	)

Authorised signatory: ____________________________

SCHEDULE 1

Principles

Part 1 Governing Principles

1 The Councils will work collaboratively.

2 The Councils will have an equitable voice in governance.

3 Decision making will be objective and evidence based.

4 The Pool will use professional resources as appropriate.

5 The risk management processes will be appropriate to the Pool's scale, recognising it as one of the biggest pools of pension assets in the UK.

6 The Pool will avoid unnecessary complexity.

7 The Pool will evolve its approach to meet changing needs and objectives.

8 The Pool will welcome innovation.

9 The Pool will be established and run economically, applying value for money considerations.

10 The Pool's costs will be shared equitably.

11 The Pool is committed to collaboration with other pools where there is potential to maximise benefits.

Part 2 Principles of Collaboration

1 To establish and adhere to the governance structure set out in this Agreement to ensure that activities are delivered and actions taken as required.

2 To manage and account to each other for performance of their respective roles and responsibilities set out in this Agreement.

3 To communicate openly about concerns, issues or opportunities relating to the Pool.

4 To learn, develop and seek to achieve full potential from the Pool. The Councils will share information, experience, materials and skills to learn from each other and develop effective working practices, work collaboratively to identify solutions, eliminate duplication of effort, mitigate risk and reduce cost.

5 To behave in a positive, proactive manner.

6 To adhere to statutory requirements and best practice. The Councils will comply with applicable laws and standards including relevant procurement rules, data protection and freedom of information legislation.

7 To recognise the time-critical nature of the work and respond accordingly to requests for support.

8 To manage stakeholders effectively.

9 To ensure sufficient and appropriately qualified resources are available and authorised to fulfil the responsibilities set out in this Agreement.

10 To enable the Councils to achieve the benefits of pooling investments, preserve the best aspects of what is done locally, and create the desired level of local decision-making and control.

SCHEDULE 2

Terms of Reference of the Joint Committee

Part 1 Operating the Pool and taking Advice

1. The Joint Committee shall consult with and consider the advice of the Section 151 Officers Group (and, where requested, the Monitoring Officers and from appropriate professional advisers) in discharging its functions, recording, if appropriate, where such advice is not followed and the rationale for not doing so. It may decide to procure such professional advisers on such terms as it thinks fit. Accordingly, any procurement of advisers must comply with the constitution of the Council designated to undertake the procurement and that Council will enter into a contract with the appointed adviser on behalf of the Councils.

2. The Joint Committee shall decide which functions shall be performed by the ASU.

3. The Joint Committee shall at all times have regard to the principles set out in Schedule 1.

Part 2 Functions in relation to the Operator(s)

1. **Specifying Operator services:** Deciding, in consultation with the Councils, the specification of Services and functions that each Operator will be required to deliver including the sub-funds and classes of investments required to enable each Council to execute its investment strategy.

2. **Procuring an Operator:** agreeing the method and process for the procurement and selection of one or more Operators.

3. **Appointing an Operator:** Making a recommendation to the Councils as to the identity of each Operator and the terms upon which each Operator is to be appointed.

4. **Reviewing the Performance of an Operator:** Keeping the performance of each Operator under review and making arrangements to ensure that the Joint Committee is provided with regular and sufficient reports from the ASU to enable it to do so including but not limited to:

4.1 the performance of an Operator against its contractual requirements and any other performance measures such as any Service Level Agreement ("**SLA**") and key performance indicators ("**KPIs**") and officer recommendations on any remedial action;

4.2 sub-fund investment performance;

4.3 investment and operational costs including the annual review of investment manager costs;

4.4 performance against the strategic business plan agreed by the Councils.

5. **Managing the Operator(s):**

The Joint Committee shall:

5.1 Make recommendations to the Councils about the termination or extension of the Operator Agreement(s);

5.2 Make decisions about any other action to be taken to manage an Operator Agreement including the giving of any instruction or the making of any recommendation to the relevant Operator including but not restricted to recommendations on investment managers (within any regulatory constraints that may apply); and

5.3 Make recommendations to the Councils about appropriate arrangements to replace an Operator Agreement on its termination.

Part 3 Functions in relation to management of Pool Assets

6. The Joint Committee shall make recommendations to the Councils on the strategic plan for transition of assets that are to become Pool Assets.

Part 4 Functions Concerning Pool Aligned Assets

7. The Joint Committee shall make recommendations to the Councils about Pool Aligned Assets in accordance with this Agreement or any other delegation to the Joint Committee by the Councils.

8. **Specifying services of Pool Aligned Assets Provider(s):** Deciding, in consultation with the Councils, the specification of Services which any Pool Aligned Assets Provider will be required to deliver including the sub-funds and classes of investments required to enable each Council to execute its investment strategy.

9. **Procuring a Pool Aligned Assets Provider:** agreeing the method and process for the procurement and selection of one or more Pool Aligned Assets Providers.

10. **Appointing Pool Aligned Assets Providers:** Making a recommendation to the Councils as to the identity of each Pool Aligned Assets Provider and the terms upon which each Pool Aligned Assets Provider is to be appointed.

11. **Reviewing the Performance of a Pool Aligned Assets Provider:** Keeping the performance of each Pool Aligned Assets Provider under review and making arrangements to ensure that the Joint Committee is provided with regular and sufficient reports from the ASU to enable it to do so including but not limited to:

11.1 the performance of a Pool Aligned Assets Provider against its contractual requirements and any other performance measures such as any Service Level Agreement ("**SLA**") and key performance indicators ("**KPIs**") and officer recommendations on any remedial action;

11.2 investment performance of the Pool Aligned Assets Vehicle(s) or sub-funds, as appropriate;

11.3 investment and operational costs including the annual review of investment manager costs;

11.4 performance against the strategic business plan agreed by the Councils.

Part 5 Functions concerning Business Planning and Budget

12. Having taken account of any advice from the Section 151 Officers Group (or, where relevant, recording the rationale for not following such advice), the Joint Committee shall:

12.1 Make recommendations to the Councils about the annual strategic business plan for the Pool;

12.2 Determine the budget necessary to implement that plan and meet the expenses of undertaking the Specified Functions (insofar as they will not be met by individual transaction costs paid by Councils to the Operator) in accordance with Schedule 5;

12.3 Keep the structures created by this Agreement under review from time to time and make recommendations to the Councils about:

12.3.1 the future of the Pool;

12.3.2 any changes to this Agreement; and

12.3.3 the respective merits of continuing to procure operator services by means of a third party or by creation of an operator owned by the Councils.

Part 6 Functions concerning communications

13. The Joint Committee may agree a protocol for communications in respect of the Pool with third parties, including the LGPS Scheme Advisory Board, other LGPS administering authorities, press, and relevant Government departments.

Part 7 Review of this Agreement

14. The Joint Committee is required to undertake a review of this Agreement:

14.1 to be completed 18 months before the expiry of each and every Operator Agreement, including as a result of the exercise of any option to terminate an Operator Agreement;

14.2 whenever a Council gives notice of withdrawal under clause 12 of this Agreement; or

14.3 at such times as a Council may request under clause 11 *(Variation of this Agreement)*.

SCHEDULE 3

Constitution of the Joint Committee

Part 1 Membership

1 The Joint Committee shall consist of one elected councillor appointed by each Council. The member so appointed must, at the time of the appointment, be an elected councillor serving as a member of the Committee of a Council which discharges the functions of that Council as pension administering authority.

2 Each Council may appoint a substitute. Any substitute must meet the eligibility requirements in paragraph 1. The substitute may attend any meeting of the Joint Committee or any of its sub-Committees in place of that Council's principal member if notice that the substitute will attend is given to the Secretary of the Joint Committee by the Council concerned.

3 Where a substitution notice is in effect with respect to a particular member at a particular meeting, the substitute shall be a full member of the Joint Committee for the duration of the meeting in place of the principal member.

4 Each Council may remove its appointed member and appoint a different member by giving written notice to the Secretary to the Joint Committee.

5 Each appointed member shall be entitled to remain on the Joint Committee for so long as the appointing Council so wishes. Any member who ceases to meet the eligibility criteria in paragraph 1 shall automatically ceases to be a member of the Joint Committee.

6 Any casual vacancies will be filled as soon as reasonably practicable by the Council from which such vacancy arises by giving written notice to the Secretary to the Joint Committee or his or her nominee.

7 The Joint Committee may co-opt any other person whom it thinks fit to be a non-voting member of the Joint Committee. The Joint Committee may from time to time make rules as to:

(a) Registration and declaration of interests by co-opted members.

(b) Standards of behaviour required to be observed by co-opted members when acting as such.

8 The Chairman of the Joint Committee will be appointed from time to time by the members of the Joint Committee. Subject to paragraph 5, the Chairman of the Joint Committee shall hold that office until another member is appointed. The appointment of the Chairman shall take place every two years, beginning with the Commencement Date with subsequent appointments falling not later than the first meeting of the Joint Committee following the annual meetings of the Councils in the relevant years.

9 The Vice-Chairman of the Joint Committee will be appointed from time to time by the members of the Joint Committee. Subject to paragraph 5, the Vice-Chairman of the Joint Committee shall hold that office until another member is appointed. The appointment of the Vice-Chairman shall take place every two years, beginning with

the Commencement Date with subsequent appointments falling not later than the first meeting of the Joint Committee following the annual general meetings of the Councils in the relevant years.

10 The Joint Committee may appoint such sub-committees from among its membership as it thinks will help it to enable it to fulfil its remit. The Joint Committee may delegate its responsibilities to such sub-committees. Sub-Committees may co-opt non-voting members.

11 The Joint Committee may set up working groups to advise it on matters within its remit. Such working groups may be formed of members or officers of the constituent Councils or any other third party as the Joint Committee sees fit. Such working groups are advisory only and the Joint Committee may not delegate its responsibilities to such working groups.

12 Each member of the Joint Committee and any Sub-committee shall comply with any relevant code of conduct of their Council when acting as a member of the Joint Committee.

13 The Chairman may direct the Secretary to the Joint Committee to call a meeting and may require any item of business to be included in the summons.

14 Any 5 members of the Joint Committee may by notice in writing require the Chairman to call a meeting to consider a particular item of business and if the Chairman fails to do so within 20 working days of receipt of the notice then those 5 members may direct the Secretary to the Joint Committee to call a meeting to consider that business.

15 The Committee may, if the law permits, arrange for attendance at meetings via video conferencing. Any such attendance shall be in accordance with the law and any other requirements imposed by the Joint Committee from time to time.

Part 2 Proceedings

16 TIME AND PLACE OF MEETINGS

16.1 The Joint Committee will meet at least four times each year. All meetings of the Joint Committee will take place at a suitable venue and at a time to be agreed by the Councils.

16.2 Any Section 151 Officer or Monitoring Officer is entitled to attend all parts of all meetings of the Joint Committee or of any sub-committee appointed by the Joint Committee.

17 NOTICE OF AND SUMMONS TO MEETINGS

The Secretary to the Joint Committee will give notice to the public of the time and place of any meeting in accordance with Part VA of the Local Government Act 1972. At least five clear days before a meeting, the Secretary to the Joint Committee will send a summons by email and, if a member of the Joint Committee so requests, by post to every member at their last known address. The summons will give the date, time and place of each meeting and specify the business to be transacted, and will be accompanied by such reports as are available.

18 **CHAIRING OF JOINT COMMITTEE**

The Vice Chairman shall preside in the absence of the Chairman. If there is a quorum of members present but neither the Chairman nor the Vice-Chairman is present at a meeting of the Joint Committee, the other members of the Joint Committee shall choose one of the members of the Joint Committee to preside at the meeting.

19 **QUORUM**

19.1 The quorum of a meeting will be at least 8 members who are entitled to attend and vote.

19.2 If there is no quorum present at the start of the meeting the meeting may not commence. If after 1 hour from the time specified for the start of the meeting no quorum is present, then the meeting shall stand adjourned to another time and date determined by the Secretary to the Joint Committee.

20 **VOTING**

20.1 **Majority**

Each elected member shall have one vote. Co-opted members will not have a vote. Any matter will be decided by a simple majority of those members of the Councils represented in the room at the time the question is put. In the event of equality of votes the person presiding at the meeting will be entitled to a casting vote under paragraphs 39(1) and 44 of Schedule 12 of the Local Government Act 1972.

20.2 **By Substitutes**

The member appointed as a substitute shall have the same voting rights as the member for whom he or she is substituting. Where notice of substitution has been given for a particular meeting the principal member may not vote unless the notice of substitution is withdrawn before the start of the meeting.

20.3 **Show of hands**

The Chairman will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.

20.4 **Recording of individual votes**

The minutes of the meeting shall record how a member of the Committee voted on a particular question if, at the time that the vote is taken or immediately thereafter, that member asks the Secretary to the Joint Committee or his or her representative at the meeting to record his vote.

21 **MINUTES**

21.1 The Secretary to the Joint Committee shall arrange for written minutes to be taken at each meeting of the Joint Committee and shall present them to the Joint Committee at its next meeting for approval as a correct record. At the next meeting of the Joint Committee, the Chairman shall move that the minutes of the previous meeting be signed as a correct record. If this is agreed, the Chairman of the Joint Committee shall sign the minutes.

21.2 Draft minutes or a summary of the decisions taken at the meeting and a note of the actions arising shall be circulated to the Committee and to each Council by email no later than 7 days after the date of the meeting.

21.3 Minutes of the meeting shall be published by the Host Authority to the extent required by Part VA of the Local Government Act 1972.

22 ACCESS FOR ELECTED MEMBERS OF THE COUNCILS

Any elected member of the Councils who is not a member of the Joint Committee may speak at a meeting of the Joint Committee if the Chairman of the Joint Committee invites him or her to do so but an elected member of the Councils who is not a member of the Joint Committee shall not be entitled to vote at a meeting of the Joint Committee.

23 PUBLIC ACCESS

23.1 Meetings of the Joint Committee shall be open for members of the public to attend unless the Joint Committee determines that it is necessary to exclude members of the public in accordance with Part VA of the Local Government Act 1972 or the Joint Committee determines that it is necessary to close the meeting to the public because of a disturbance.

23.2 Copies of the agenda for meetings of the Joint Committee and any reports for its meetings shall be open to inspection by members of the public at the offices of the Councils with the exception of any report which the Secretary to the Joint Committee determines relates to items which in his or her opinion are likely to be considered at a time when the meeting is not to be open to the public.

23.3 If a member of the public interrupts proceedings, the Chairman will warn the person concerned. If that person continues to interrupt, the Chairman will arrange for that person to be removed from the meeting room and will suspend the meeting until the member of the public has left or been removed.

23.4 If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared.

24 OVERVIEW AND SCRUTINY

24.1 Each Council has overview and scrutiny committees which have the right to scrutinise the operation of the Joint Committee and the Joint Committee and the Host Authority will co-operate with reasonable requests for information from any of the Councils' overview and scrutiny committees.

24.2 The decisions of the Joint Committee are not subject to call-in.

25 REGULATION OF BUSINESS

25.1 Any ruling given by the Chairman as to the interpretation of this constitution with respect to the regulation of proceedings at a meeting shall be final.

25.2 Subject to the law, the provisions of this Constitution and the terms of any contract, the Joint Committee may decide how it discharges its business.

SCHEDULE 4

Terms of Reference for the Section 151 Officers Group

Part 1 Governing Principles

1 The Section 151 Officers will co-operate to support the activities of the Pool in providing advice to or in consultation with the Joint Committee and they shall always act in line with the Governing Principles and Principles of Collaboration as set out in Schedule 1 except to the extent that it is inconsistent with the discharge of their personal statutory duties.

Part 2 Functions in relation to the Pool

2 In response to decisions made by the Joint Committee, the Section 151 Officers shall (in addition and without prejudice to their existing statutory responsibilities in relation to the proper administration of the financial affairs of their own Councils) ensure appropriate resourcing, support, advice and facilitation to the Joint Committee including, without limitation, in the following ways:

Discharging Section 151 Officer Functions

2.1 **Staffing and resourcing:** in relation to the provision of staff and resources to assist the Joint Committee in the exercise of its functions under this Agreement.

2.2 **Cost sharing:** in accordance with any local arrangements within their Councils, ensuring that their Councils' share of costs is provided to the relevant parties, whether under the business plan, budget or otherwise under Schedule 5 from time to time.

2.3 **Pool Aligned Assets:** providing the Joint Committee, the ASU and any other relevant staff resource with such support as is reasonably required in order to engage with Pool Aligned Assets Providers.

Advising the Joint Committee

2.4 **Budget and business planning:** making recommendations to the Joint Committee on budget and business plan matters, following input from the ASU in accordance with Schedule 5 (Cost Sharing).

2.5 Reviewing and advising on budget variations throughout each financial year.

2.6 **Risk and performance:** advising the Joint Committee on the identification of, and mitigation of any risk to the operation or success of the Pool.

2.7 **Host Authority and Procurement Lead Authority roles:** making recommendations to the Joint Committee regarding the Host Authority and Procurement Lead Authority roles from time to time as necessary.

2.8 **Amendments to this Agreement:** reviewing, in consultation with their respective Councils' Monitoring Officers, any material changes to this Agreement, in accordance with the provisions of Clause 11 (Variation of Agreement).

Part 3 Working arrangements and meetings

3.1 The Section 151 Officers Group shall express its advice and decisions by a majority of those voting on a particular issue. Decisions may be made by email circulation, in a meeting (which may be conducted remotely) of which proper notice has been given.

3.2 Each Council shall be represented at meetings of the Group by its Section 151 Officer, or his or her deputy or nominee,

3.3 The Section 151 Officers Group may make any such working arrangements as they deem necessary. Any such arrangements shall be recorded in writing in a minute of a meeting of the Group.

3.4 The Section 151 Officers Group may delegate any of their functions to one or more Section 151 Officers. Any exercise of this power shall be recorded in writing in a minute of a meeting of the Group.

3.5 Minutes of a meeting of the Section 151 Officers Group shall be deposited with the Host Authority and made available to the Monitoring Officer, Section 151 Officer or Head of Paid Service of any Council.

Part 4 Section 151 Officer of the Host Authority

4 The Section 151 Officer of the Host Authority may have additional responsibilities for corporate management of the ASU and its staff.

SCHEDULE 5

Cost Sharing

1.1 **Pool Establishment Costs**

For the purpose of this Schedule 5 Pool Establishment Costs are the costs of creating the Pool including but not limited to:

(a) Strategic and technical advice;

(b) External legal advice;

(c) Project management;

(d) Financial and taxation advice;

(e) Costs of undertaking the procurement of the Main Operator Agreement and any subsequent Operator Agreement.

Pool Establishment Costs shall be shared equally between the Councils.

1.2 **Running Costs**

(a) **Operator Costs**

For the purpose of this Schedule 5 Operator Costs are the costs payable to the Operator(s) or investment managers as follows:

(i) Costs payable to the Operator(s) or investment managers will be made in accordance with the relevant Operator Agreement or such arrangements as are made with investment managers.

(ii) Where these costs are calculated based on the value of investments under management these costs will be borne by each Council in accordance with the agreed fee arrangements for each sub-fund as set out in the prospectus for each sub-fund or in accordance with the relevant Operator Agreement. To the extent that the general costs payable to an Operator for the operation of Pool Vehicles are calculated based on a flat fee then that fee shall be shared equally between the Councils.

(iii) Operator costs incurred in the creation of a new sub-fund shall be allocated back to the sub-fund and will therefore be apportioned to those Councils investing based on the assets under management in that sub-fund as set out in the prospectus approved by the Joint Committee and the contract entered into pursuant to that agreement.

(iv) Where an Operator or a Council incurs charges or liabilities in circumstances where it would be inequitable to apply the provision of paragraphs 1.2(a)(i) to (iii) above, the Joint Committee may decide that one or more Councils should pay some or all of those costs or charges to the Operator or to a Council as the case may be so as to reflect the responsibility for those charges in an equitable way and the Councils affected shall make payments to reflect the decision of the Joint Committee. Before making a decision that costs should be borne differently in a way which it considers to be more equitable under this paragraph the Joint Committee must allow any Council which would be adversely affected the opportunity to make written representations.

(b) **Pool Aligned Assets Costs**

To the extent that costs are payable to any Pool Aligned Assets Provider or are incurred under any Pool Aligned Assets Vehicle, such costs shall be allocated in accordance with the relevant contractual arrangements and will be borne by each Council in accordance with the value of investments under such arrangement, unless the Joint Committee otherwise agrees with the relevant Pool Aligned Assets Provider or Pool Aligned Assets Vehicle to meet such costs in a different way.

(c) **Other Costs**

(i) For the purpose of this Schedule 5 Other Costs are the costs of operating the Pool, excluding Pool Establishment Costs, Operator Costs, Pool Aligned Assets Costs and Asset Transition Costs, including but not limited to the cost of:

(A) Strategic and technical advice

(B) Legal advice

(C) Project management

(D) Financial and taxation advice

(E) The cost of overseeing and supervising the operation of the relevant Operator Agreement including the cost of the ASU and the Host Authority and including the costs of any procurement and appointment of any contractor to provide adviser services.

(ii) Other Costs shall be shared equally between the Councils and shall be reviewed annually.

(iii) Where an Operator or a Council incurs charges or liabilities in circumstances where it would be inequitable to apply the provision of paragraph 1.2(c)(ii) above, the Joint Committee may decide that one or more Councils should pay some or all of those costs or charges to the Operator or to a Council as the case may be so as to reflect the responsibility for those charges in an equitable way and the Councils affected shall make payments to reflect the decision of the Joint Committee. Before making a decision that costs should be borne differently in a way which it considers to be more equitable under this paragraph, the Joint Committee must allow any Council which would be adversely affected the opportunity to make written representations.

(d) **Asset Transition Costs**

(i) For the purpose of this Schedule 5 Asset Transition Costs are the costs incurred when transferring assets from each Council into or from vehicles managed by an Operator to become (or cease to be) Pool Assets. These costs include but are not limited to:

(A) Transition manager fees

(B) Duties and taxes

(C) Buy and sell spreads

(D) Market and opportunity costs

(ii) Asset Transition Costs will be borne by each Council on its own assets transferred to or removed from the vehicle(s) or transitioned between managers of sub-Funds in the vehicle(s).

2 SHARING OF COSTS RELATING TO WITHDRAWAL

2.1 Should any Council give notice to withdraw from this Agreement under clause 12 then the Former Council will be required to pay all costs which that Council would have had to pay if it had continued to be a member of the Pool until the expiry of the Relevant Period, including its share of Pool Establishment Costs, Operator Costs, Asset Transition Costs and Other Costs unless the Joint Committee agrees otherwise.

2.2 In this Schedule the **"Relevant Period"** with respect to a former Council means the period between the Withdrawal Date for the Council concerned and the first of the following dates which occur on or after the Withdrawal Date:

(a) The date on which the relevant Operator Agreement(s) comes to an end;

(b) The date on which the relevant Operator Agreement(s) would have come to an end but for the fact that it is extended by the Councils.

2.3 All costs of withdrawing assets, including any dilution levies, from the vehicle(s) shall be borne by each Council in accordance with the terms on which they are invested with the Operator.

2.4 Payments made by a Former Council shall be made at the same time and in the same manner as if that Former Council had not withdrawn from this Agreement.

3 SHARING OF COSTS ON TERMINATION

3.1 Should this Agreement be terminated in accordance with clause 13 the Councils will determine any outstanding amounts due to an Operator and to any other parties in respect of this Agreement.

3.2 Should this Agreement be terminated after the appointment of the Main Operator the following shall apply:

(a) Costs of withdrawing assets from the vehicle(s) shall be borne by each Council according to their own assets withdrawn. These may include any dilution levies as defined in the relevant sub-fund prospectuses or similar investment scheme documentation.

(b) Any other costs which shall include but are not limited to:

(i) Contractually committed costs not yet paid

(ii) Liabilities that may be imposed by parties to this Agreement or contractually engaged third parties

shall be shared equally by the Councils and any Former Councils whose Relevant Period ends on or after the date of termination of this Agreement.

3.3 The Joint Committee may agree that the liability of one or more Former Councils under paragraph 3.2(b) should be reduced, avoided or allocated other than in equal shares to the extent that it considers that it would be inequitable to require that Former Council to pay an equal share.

4 SHARING OF COST ON ADDITION OF ANOTHER PARTY

4.1 Should this Agreement be varied in accordance with clause 5.6 to provide for the addition of a further pension administering authority or authorities then:

4.2 that pension administering authority or authorities shall, on becoming a party to this Agreement, pay a proportionate share of the Pool Establishment Costs, determined in accordance with paragraph 1.1 of this Schedule 5 as reflects the number of parties to this Agreement at the moment after the new party joins; and

4.3 that sum shall be immediately paid to the Councils who were parties to this Agreement immediately prior to the variation in equal shares.

4.4 The Joint Committee may agree to waive payment of part or all of the proportionate share of Pool Establishment Costs (or increase such proportionate share) if it considers it to be in the interests of the Pool to do so.

5 SHARING OF HOST AUTHORITY AND ASU COSTS

5.1 Costs incurred in the operation of the Joint Committee (including the costs of officers providing support to the Joint Committee in accordance with this Agreement) will be borne by the Council incurring them.

5.2 Costs incurred by the Host Authority in providing clerking and other services required of it as Host Authority by the Joint Committee will be shared equally between the Councils and, with respect to any Relevant Period, any Former Councils.

5.3 Costs incurred by any Council with respect to provision of the ASU or undertaking work commissioned from that authority by the Joint Committee will be shared equally between the Councils and, with respect to its Relevant Period, former Councils, with respect to any such services commissioned.

6 LITIGATION COSTS

6.1 The cost of

(a) defending a claim brought against one or more Councils or Former Councils or the Joint Committee arising from any activity it or they have undertaken on behalf of the Joint Committee or undertaken by that Council or Councils in accordance with this Agreement; or

(b) bringing any legal proceedings authorised by the Joint Committee

including the cost of any award made by any court, tribunal or other body having the jurisdiction to require any payment to be made by any Council or Former Council shall be shared equally between the Councils unless the Joint Committee agrees that it would be more equitable for the cost to be borne differently and the Councils affected shall make payments to reflect the decision of the Joint Committee.

6.2 Before making a decision that costs should be borne other than equally under paragraph 6.1 the Joint Committee must allow every Council (or Former Council as the case may be) which might be adversely affected by that decision the opportunity to make written representations.

7 PAYMENT OF SHARED COSTS

7.1 No later than 31 January in each and every year the Joint Committee will agree a budget for the forthcoming financial year (1 April to 31 March) setting out the estimated cost of:

(a) the provision of services to the Joint Committee by the Host Authority;

(b) the operation of the ASU;

(c) the provision of services by advisers appointed by the Joint Committee;

(d) any other services provided by a Council or third party which are considered by the Joint Committee to be the shared responsibility of the Councils;

(e) any other cost which is to be payable by the Councils equally in accordance with the provisions of this Agreement.

7.2 No later than 1 April in the following year the Host Authority shall invoice each Council and Former Council for its estimated share of the costs payable under paragraph 7.1 for the financial year just commencing and each Council (or during its Relevant Period a Former Council as the case may be) shall pay such invoice within 28 days from receipt.

7.3 The Host Authority shall defray any expenditure falling under paragraphs 7.1(a)-(e) upon being invoiced for the same by the supplier or by a Council which has incurred or paid any such cost.

7.4 At the first meeting of the Joint Committee following each 1 April (provided that that meeting takes place no later than 90 days after the end of previous financial year), the Joint Committee will determine the actual cost of the services set out in paragraph 7.1 for the preceding financial year and the Host Authority shall invoice each Council and Former Council for its further share of the costs (if any) payable under paragraph 7.1 and each Council (or Former Council as the case may be) shall pay such invoice within 28 days from receipt. Where any payment on account exceeds the amount invoiced then that excess shall be credited to the relevant Council in respect of costs for the then current Financial Year or, in the case of a Former Council, paid to that Former Council within 28 days of the determination of the amount due.

7.5 If any sum payable under this Agreement is not paid on or before the due date for payment the Council entitled to payment will be entitled to charge the Council from which payment is due interest on that sum at 3% per annum above the base lending rate from time to time of the Bank of England from the due date until the date of payment (whether before or after judgment), such interest to accrue on a daily basis.

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East Sussex Pension Fund

CONFLICTS OF INTEREST POLICY

Contents

Introduction

The potential for conflicts of interest have always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS, as an officer with responsibilities for or within a shared service or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Fund, which is managed by East Sussex County Council (the Council). The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the East Sussex Pension Fund ("the Fund") whether directly or in an advisory capacity, and seeks to ensure consistency with the Council's policies and codes.

This Conflicts of Interest Policy is established to guide the Pension Committee members, Pension Board members, officers and advisers. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

This conflict of interest policy also identifies areas of potential conflict that are specific to the Local Government Pension Scheme (LGPS) that would be dealt with in the same manner as conflicts of interest under the Members' codes of conduct and Employees' codes of conduct.

Aims and Objectives

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measuring and monitoring success
- Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.

The identification and management of potential and actual conflicts of interest is integral to the Council achieving its governance objectives as the administering authority of the Fund.

To whom this Policy Applies

This Conflicts of Interest Policy applies to:

- all members of the Pension Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not.
- all managers in the Council's Fund Management Team,
- the Chief Finance Officer (Section 151 Officer),
- the Chief Operating Officer, and
- any other officer of East Sussex County Council or Surrey County Council who has responsibilities relating to the Fund, including those who are part of the Orbis shared service (from here on in collectively referred to as the officers for or of the Fund).
- all advisers and suppliers to the Fund, whether advising the Pension Board, Pension Committee or Fund officers.

The Head of Pensions will monitor potential conflicts for officers involved in the daily management of the Fund and highlight this Policy to them as they consider appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role and including responsibilities representing the Fund on other committees, groups and bodies.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Council as the administering authority in relation to Fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, shared service partners, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Council rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Council and any other body on which they represent the Council, on any actual or potential conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Council how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013
Section 5 of this Act requires that the scheme manager (in the case of the Fund, this is the Administering Authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the Administering Authority for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

[Further, the Act requires that the Council as administering authority must have regard to any such guidance that the national LGPS Scheme Advisory Board may issue (see below).]

The Local Government Pension Scheme Regulations 2013
Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on the Council as administering authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the Board. It also requires those Pension Board members to provide reasonable information to the Administering Authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards. Further, regulation 110 provides that the national LGPS Scheme Advisory Board has a function of providing advice to administering authorities and local pension boards. The LGPS Scheme Advisory Board issued guidance relating to the establishment of local pension boards, including a section on conflicts of interest. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004
The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for local pension board members are not being adhered to.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance
The CIPFA governance principles guidance states "*the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisors might have*." It includes some examples of how conflicts of interest could arise in these new roles. It highlights the need for administering authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities; and
- ensure declarations are updated appropriately.

This Conflicts of Interest Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

Localism Act 2011
Chapter 7 of the Localism Act 2011 requires local authorities to produce a code of conduct for members. All members and co-opted members of the Pension Committee are required to register and declare ‘disclosable pecuniary interests’ and abide by the Council’s Code of Conduct for Members. That Code contains provisions relating to Code Interests and Disclosable Pecuniary Interests, their disclosure and limitations on members’ participation where they have any such interest.

The Seven Principles of Standards in Public Life
Sometimes known as the ‘Nolan Principles’, the seven principles of public life apply to anyone who holds public office. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service
- local government
- the police
- the courts and probation services
- non-departmental public bodies
- health, education, social and care services

The principles also apply to all those in other sectors that deliver public services. Many of the principles are integral to the successful implementation of this Policy.

- Selflessness
- Integrity
- Objectivity
- Accountability

- Openness
- Honesty
- Leadership

Advisers' Professional Standards
Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any protocol or other document entered into between an adviser and the Council in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Administering Authority Requirements
Pension Committee Members
Committee Elected Members and co-opted members of East Sussex County Council are required to adhere to the **Council's Members' Code of Conduct (annex 1)** which, in Part 2 and 3, includes requirements in relation to the disclosure and management of personal and prejudicial interests.

Pension Board Members
Pension Board members are required under (xxi) of the Board's terms of reference to adhere to the Members' Code of Conduct which, in Part 2 and 3, includes requirements in relation to the disclosure and management of personal and prejudicial interests.

Officers
Officers of the Council are required to adhere to the Council's **Code of Conduct and Conflict of Interest Policy for Employees (annex 2)** which includes requirements in relation to the disclosure and management of all potential conflicts of interests that may impact on their work or that of the Council.

Employees of Surrey County Council who, as part of their responsibilities provide services to or on behalf of the Fund under the Orbis shared service, are required to adhere to the Surrey County Council Code of Conduct for Employees which has similar requirements relating to the disclosure and management of their work for Surrey County Council, which will include their responsibilities for carrying out work for the Fund.

Advisers and suppliers
Advisers and suppliers to the Fund are required to sign up to the **Orbis Supplier Code of Conduct (annex 3)** as part of the tendering process for all East Sussex County Council services. Suppliers are required to declare any conflicts of interest when quoting or submitting a tender for any contract. The terms of contracts for all advisers and suppliers of the Fund will also include specific requirements around conflicts of interest deemed necessary for this specialised type of service.

Conduct at Meetings
There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer

(or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pension Board or Pensions Committee meeting, and that this will be recorded in the minutes.

What is a Conflict or Potential Conflict of interest and how will they be managed?

General conflicts of interest

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Conflicts of interest for Pension Board and Pension Committee members

Conflict of interests as they apply to Pension Board and Pension Committee members are defined in the Members' Code of Conduct which is set out at Annex 1.

As well as the definition in the Code of Conduct, paragraph xxxvi of the terms of reference of the Pension Board states a conflict of interest is defined in the Public Service Pensions Act 2013 as: "in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the Pension Board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)."

Conflicts of interest for Officers

The Council's Code of Conduct and Conflict of Interest Policy for Employees is set out at Annex 2 and defines personal interests in Section 8: Personal interests. Officers are also required to declare any outside commitments under Section 7 of the Code.

Conflicts of interest for advisers and suppliers

The terms of contracts for all advisers and suppliers of the Fund will specify what constitutes a conflict of interest and how it will be managed.

There may be circumstances where these advisers are asked to give advice to scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Fund and on which advice is required or to a supplier or organisation providing services to the Fund. An adviser can only continue to advise the Council and another party where there is no conflict of interest in doing so.

An adviser appointed to advise the Pension Committee or Pension Board, or Fund Officers can be the same person as there is no conflict of interest between the multiple responsibilities.

Areas of potential conflict that are specific to the LGPS

These are areas of potential conflict that the Scheme Advisory Board identifies as specific to the LGPS. They apply to Pension Committee and Pension Board Members, as well as officers, advisers and suppliers and are to be managed in the same way as other conflicts of interest under the relevant policy:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contributions setting for the administering authority and other employers.
- Cross charging for services or shared resourcing between the administering authority and the fund.
- Dual role of the administering authority as owner and client of a pool.
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Members of the Pension Board or Pension Committee would need to consider whether they have a personal interest and whether that is prejudicial or pecuniary under the **Members' Code of Conduct.**

Officers would need to consider whether any of the above conflicts of interest apply to Section 7 or Section 8 of the **Code of Conduct and Conflict of Interest Policy for Employees.**

Advisers and suppliers to the Fund also need to consider whether any of the above conflicts of interest apply to the conflict of interest policy in their contract with the Administering Authority.

Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS Fund administered by the Administering Authority, and
- at the same time has:
  - a separate personal interest (financial or otherwise) or
  - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts of interest relating to the areas of conflict specific to the LGPS are included in Appendix 1.

East Sussex County Council, as Administering Authority, will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest. East Sussex County Council will evaluate the nature of any interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

Gifts and Hospitality

The Members' Code of Conduct sets gifts and hospitality with worth estimated at over £50 as a personal interest under section 8 (3) (a) (iii).

Section 5 of the Code of Conduct and Conflict of Interest Policy for Employees forbids officers from the acceptance of any gifts other than those set out in 5.6. Section 6 sets out that officers should exercise caution in offering and accepting hospitality.

The suppliers code of conduct requires advisers and suppliers to maintain a gifts and hospitality register (relating to Council contracts) that is available on review.

Managing conflicts of interest

Managing conflicts of interest for members of the Pension Board and Pension Committee

Section 9 of the Members' Code of Conduct sets out the requirements around Members disclosing an interest at a meeting of the authority at which any matter relating to the business is considered, including circumstances where they do not have to disclose an interest. Each agenda of the Pension Board and Pension Committee includes an agenda item seeking declarations of interest from members for all matters for discussion on the agenda.

Section 12 of the Members' Code of Conduct sets out the effect of prejudicial interests on participation at a meeting, including circumstances where they must withdraw from a meeting and where they may continue to attend a meeting but only for the purposes of making representations. Section 15 sets out dispensations to these restrictions. A Member declaring a personal, non-prejudicial interest would not be expected to take any action.

Section 13 of the Members’ Code of Conduct deals with the requirement for Members to register in the register of members’ interests all personal interests and personal interests that are also disclosable pecuniary interests.

Section 14 sets out the steps taken where a Member considers that the information relating to any of their personal interests is sensitive information, and the authority's Monitoring Officer agrees. Section 14 (3) states that "sensitive information" means information, the details of which, if disclosed, could lead to you or a person connected with you being subject to violence or intimidation.

Section xxxix of the Pension Board terms of reference requires Members of the Pension Board to provide, as and when requested by the Scheme Manager, such information as the Scheme Manager requires to identify all potential conflicts of interest and ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest at appointment or whilst a member of the Pension Board.

Managing conflicts of interest for officers

The Code of Conduct and Conflict of Interest Policy for Employees says all potential conflicts of interest must be declared before the activity commences or the issue arises. If an individual’s circumstances change, it is their responsibility to immediately inform their manager and make a new declaration.

Annually, all staff will be reminded of the need to declare potential conflicts of interest and required to complete an annual form, including where a NIL return has been made in the previous declaration.

Appendix 1 of the Code of Conduct and Conflict of Interest Policy for Employees describes how potential conflict of interest are dealt with.

For clarity, officers who form part of or who have responsibilities for Orbis, the shared service with Surrey County Council, are not classed as advisers. As employees of East Sussex County Council or Surrey County Council, they will follow this policy in the same way as the East Sussex Pension Fund Management Team.

Managing conflicts of interest for advisers and suppliers.

The contract between the adviser and supplier and the Administering Authority will specify how conflicts of interest are managed. This will include All of the advisers and suppliers to the East Sussex Pension Fund being expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with, East Sussex County Council.

all advisers and suppliers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Head of Pensions in relation to how they will manage and monitor actual or potential conflicts of interest relating to the provision of advice or services to the Council
- notify the Head of Pensions immediately should a potential or actual conflict of interest arise

Reporting conflicts of interest

Pension Committee Members

Section 13 of the Members' Code of Conduct requires Members and co-optees of East Sussex County Council to complete a registration of interests form within 28 days of election or appointment to officer (where that is later) containing details of personal and pecuniary interests.

A copy of the register of interest form is available on the Administering Authority's website and available to view on request.

Member Services officers will send an annual reminder to Members to review their registration of interests.

Any declarations of interest made at a Committee meeting will be recorded in the minutes.

Pension Board Members

Pension Board members are required under (xxi) of the Board's terms of reference to adhere to the Members' Code of Conduct.

Section 13 of the Members' Code of Conduct requires Members and co-optees of East Sussex County Council to complete a registration of interests form within 28 days of election or appointment to officer (where that is later) containing details of personal and pecuniary interests.

A copy of the register of interest form is available to view on request.

Member Services officers will send an annual reminder to Board Members to review their registration of interests.

Any declarations of interest made at a Board meeting will be recorded in the minutes.

Officers

Annually, all staff will be reminded of the need to declare potential conflicts of interest and required to complete an annual form, including where a NIL return has been made in the previous declaration.

The officers line manager/Assistant Director will retain a copy of an officer's conflicts of interest declaration?

Responsibility

The Council as the scheme administering authority manager for the East Sussex Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Head of Pensions is the designated individual for ensuring the procedure outlined above is carried out.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties, to declare and register interests and seek advice and to withdraw from meetings if they are not complying.

Key Risks

The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Head of Pensions will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy or the relevant codes of conduct referred to in this policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- A decision by an individual to disregard advice and be subject to formal action under the Localism Act 2011.

Costs

All costs related to the operation and implementation of this Policy will be met directly by East Sussex Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval, Review and Consultation

This Conflicts of Interest Policy was approved on [TBC] by the East Sussex Pension Committee. It will be formally reviewed and updated by the Committee at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Sian Kunert
Head of Pensions, East Sussex County Council
E-mail - sian.kunert@eastsussex.gov.uk
Telephone – 07701394423

Appendix 1

Examples of situations where a conflict of interest may arise

a)	An employer representative on the Pensions Board may be required to consider a policy or covenant change which could result in an increase in employer costs by the employer he or she represents.
b)	A member of the Pension Committee is on the board of an Investment Manager that the Committee is considering appointing.
c)	A Pensions Committee or Pensions Board member is a beneficiary of the East Sussex Pension fund and a discussion item as a result of legislative change could affect members benefits.
d)	An officer of the Pension Fund also has responsibilities within the administering authority or relating to a shared service initiative which provides services to the Fund, and which has objectives which are not fully aligned to that of the Fund.
e)	An employer representative on the Pension Board is employed by a company to which the Council has outsourced its pension administration services and the Pension Board is reviewing the standards of service provided by that company.
f)	The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
g)	The Pension Fund is considering alternative supply of services currently provided by the Administering Authority. The Chief Finance Officer, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee which, if agreed would result in a material reduction in the recharges to the Council from the Fund.
h)	Officers are asked to provide a report to the Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen could result in a change of employer or job insecurity for the officers.
i)	An employer representative appointed to the Pension Board to represent employers generally could be conflicted if he or she only serves to act in the interests of their own authority/organisation, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pension Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.
j)	A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, selection of new investment managers, providing assistance with monitoring the covenant of employers or where they are also advisers to the ACCESS Pool.
k)	An employer or employee representative has access to information by virtue of his or her employment, which could influence or inform the considerations of the Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Board.
l)	An officer of the Fund or member of the Pension Committee accepts a dinner invitation or gift from an Investment Manager who has submitted a bid as part of a tender process.

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Code of Conduct for Members

On their election or co-option to the East Sussex County Council, members are required to sign an undertaking to comply with the authority's Code of Conduct.

This Code of Conduct, adopted by the authority on 20 July 2012, is set out below. It is made under Chapter 7 of the Localism Act 2011 and includes, as standing orders made under Chapter 7 of that Act and Schedule 12 of the Local Government Act 1972, provisions which require members to leave meetings in appropriate circumstances, while matters in which they have a personal interest are being considered.

Part 1 – General provisions

Introduction and interpretation

1. —(1) This Code applies to **you** as a member of the authority, when acting in that capacity.

(2) This Code is based upon seven principles fundamental to public service, which are set out in **Appendix 1**. You should have regard to these principles as they will help you to comply with the Code.

(3) If you need guidance on any matter under this Code you should seek it from the authority's monitoring officer or your own legal adviser – but it is entirely your responsibility to comply with the provisions of this Code.

(4) It is a criminal offence to fail to notify the authority's monitoring officer of a disclosable pecuniary interest, to take part in discussions or votes at meetings, or to take a decision where you have disclosable pecuniary interest, without reasonable excuse. It is also an offence to knowingly or recklessly to provide false or misleading information to the authority's monitoring officer.

(5) Any written allegation received by the authority that you have failed to comply with this Code will be dealt with by the authority under the arrangements which it has adopted for such purposes. If it is found that you have failed to comply with the Code, the authority has the right to have regard to this failure in deciding -

(a) whether to take action in relation to you and

(b) what action to take.

(6) Councillors are required to comply with any request regarding the provision of information in relation to a complaint alleging a breach of the Code of Conduct and must comply with any formal standards investigation.

(7) Councillors should not seek to misuse the standards process, for example, by making trivial or malicious allegations against another councillor for the purposes of political gain.

(8) In this Code—

“authority” means East Sussex County Council

“Code” means this Code of Conduct

“co-opted member” means a person who is not a member of the authority but who-

(a) is a member of any committee or sub-committee of the authority, or

(b) is a member of, and represents the authority on, any joint committee or joint sub-committee of the authority,

and who is entitled to vote on any question that falls to be decided at any meeting of that committee or sub-committee.

"meeting" means any meeting of—

(a) the authority;

(b) the executive of the authority

(c) any of the authority's or its executive's committees, sub-committees, joint committees, joint sub-committees, or area committees;

"member" includes a co-opted member.

“register of members’ interests” means the authority's register of members' pecuniary and other interests established and maintained by the authority’s monitoring officer under section 29 of the Localism Act 2011.

Scope

2. —(1) Subject to sub-paragraphs (2) and (3), you must comply with this Code whenever you—

(a) conduct the business of your authority (which, in this Code, includes the business of the office to which you are elected or appointed); or

(b) act, claim to act or give the impression you are acting as a representative of your authority,

and references to your official capacity are construed accordingly.

(2) This Code does not have effect in relation to your conduct other than where it is in your official capacity.

(3) Where you act as a representative of your authority—

(a) on another relevant authority, you must, when acting for that other authority, comply with that other authority's code of conduct; or

(b) on any other body, you must, when acting for that other body, comply with your authority's code of conduct, except and insofar as it conflicts with any other lawful obligations to which that other body may be subject.

General obligations

3. —(1) You must treat others with respect.

(2) You must not—

(a) do anything which may cause your authority to breach any of its equality duties (in particular as set out in the Equality Act 2010);

(b) bully or harass any person; Note: Bullying may be characterised as: offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. Harassment may be characterised as unwanted conduct which has the purpose or effect of violating an individual's dignity or creating an intimidating, hostile, degrading, humiliating or offensive environment for an individual.

(c) intimidate or improperly influence or attempt to intimidate or improperly influence any person who is or is likely to be—

- (i) a complainant,
- (ii) a witness, or
- (iii) involved in the administration of any investigation or proceedings,

in relation to an allegation that a member (including yourself) has failed to comply with his or her authority's code of conduct; or

(d) do anything which compromises or is likely to compromise the impartiality of those who work for, or on behalf of, your authority.

4. You must not—

(a) disclose information given to you in confidence by anyone, or information acquired by you which you believe, or ought reasonably to be aware, is of a confidential nature, except where—

(i) you have the consent of a person authorised to give it;

(ii) you are required by law to do so;

(iii) the disclosure is made to a third party for the purpose of obtaining professional advice provided that the third party agrees not to disclose the information to any other person; or

(iv) the disclosure is—

(a) reasonable and in the public interest; and

(b) made in good faith and in compliance with the reasonable requirements of the authority; or

(b) prevent another person from gaining access to information to which that person is entitled by law.

5. You must not conduct yourself in a manner which could reasonably be regarded as bringing your office or authority into disrepute.

6. You—

(a) must not use or attempt to use your position as a member improperly to confer on or secure for yourself or any other person, an advantage or disadvantage;

(b) must, when using or authorising the use by others of the resources of your authority—

(i) act in accordance with your authority's reasonable requirements;

(ii) ensure that such resources are not used improperly for political purposes (including party political purposes); and

(c) must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

7. —(1) When reaching decisions on any matter you must have regard to any relevant advice provided to you by—

(a) your authority's chief finance officer; or

(b) your authority's monitoring officer,

where that officer is acting pursuant to his or her statutory duties.

(2) You must give reasons for all decisions in accordance with any statutory requirements and any reasonable additional requirements imposed by your authority.

Part 2 – Interests

Personal interests

8. – (1) The interests described in paragraphs 8(3) and 8(5) are your personal interests and the interests in paragraph 8(5) are your pecuniary interests which are disclosable pecuniary interests as defined by section 30 of the Localism Act 2011.

(2) If you fail to observe Parts 2 and 3 of the Code in relation to your personal interests-

> (a) the authority may deal with the matter as mentioned in paragraph 1(5) and
>
> (b) if the failure relates to a disclosable pecuniary interest, you may also become subject to criminal proceedings as mentioned in paragraph 1(4).

(3) You have a personal interest in any business of your authority where either—

(a) it relates to or is likely to affect—

> (i) any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;
>
> (ii) any body—
>
> > (a) exercising functions of a public nature;
> >
> > (b) directed to charitable purposes; or
> >
> > (c) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union),
>
> of which you are a member or in a position of general control or management;
>
> (iii) the interests of any person from whom you have received a gift or hospitality with an estimated value of at least £50;

(b) a decision in relation to that business might reasonably be regarded as affecting your well-being or financial position or the well-being or financial position of a relevant person to a greater extent than the majority of (in the case of authorities with electoral divisions or wards) other council tax payers, ratepayers or inhabitants of the electoral division or ward, as the case may be, affected by the decision;

(4) In sub-paragraph (3)(b), a relevant person is—

(a) a member of your family or a close friend; or

(b) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;

(c) any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or

(d) any body of a type described in sub-paragraph (3)(a)(i) or (ii).

(5) Subject to sub-paragraphs (6) and (7), you have a personal interest which is also a disclosable pecuniary interest as defined by section 30 of the Localism Act 2011 in any business of your authority where (i) you or (ii) your partner have an interest within the following descriptions:

Interest	**Description**
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to M's knowledge)—

	(a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

These descriptions on interests are subject to the following definitions;

'body in which the relevant person has a beneficial interest' means a firm in which the relevant person is a partner or a body corporate of which the relevant person is a director, or in the securities of which the relevant person has a beneficial interest;

'director' includes a member of the committee of management of an industrial and provident society;

'land' includes an easement, servitude, interest or right in or over land which does not carry with it a right for the relevant person (alone or jointly with another) to occupy the land or to receive income;

'M' means the person M referred to in section 30 of the Localism Act 2011;

'member' includes a co-opted member;

'relevant authority' means the authority of which M is a member;

'relevant period' means the period of 12 months ending with the day on which M gives a notification for the purposes of section 30(1) of the Localism Act 2011;

'relevant person' means M or any other person referred to in section 30(3)(b) of the Localism Act 2011;

'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

(6) In sub-paragraph (5), your partner means—

(a) your spouse or civil partner,

(b) a person with whom you are living as husband and wife, or

(c) a person with whom you are living as if you were civil partners,

(7) In sub-paragraph (5), any interest which your partner may have is only treated as your interest if you are aware that that your partner has the interest.

Disclosure of personal interests (See also Part 3)

9. —(1) Subject to sub-paragraphs (2) to (6), where you have a personal interest in any business of your authority and you attend a meeting of your authority at which any matter relating to the business is considered, you must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

(2) If the personal interest is entered on the authority's register there is no requirement for you to disclose the interest to that meeting, but you should do so if you wish a disclosure to be recorded in the minutes of the meeting.

(3) Sub-paragraph (1) only applies where you are aware or ought reasonably to be aware of the existence of the personal interest.

(4) Where you have a personal interest but, by virtue of paragraph 14, sensitive information relating to it is not registered in your authority's register of members' interests, you must indicate to the meeting that you have a personal interest and, if also applicable, that it is a disclosable pecuniary interest, but need not disclose the sensitive information to the meeting.

(5) Subject to paragraph 12(1)(b), where you have a personal interest in any business of your authority and you have made an executive decision on any matter in relation to that business, you must ensure that any written statement of that decision records the existence and nature of that interest.

(6) In this paragraph, "executive decision" is to be construed in accordance with any regulations made by the Secretary of State under section 22 of the Local Government Act 2000.

Prejudicial interest generally

10. —(1) Subject to sub-paragraph (2), where you have a personal interest in any business of your authority you also have a prejudicial interest in that business where either-

(a) the interest is a disclosable pecuniary interest as described in paragraph 8(5), or

(b) the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest.

(2) For the purposes of sub-paragraph (1)(b), you do not have a prejudicial interest in any business of the authority where that business—

(a) does not affect your financial position or the financial position of a person or body described in paragraph 8;

(b) does not relate to the determining of any approval, consent, licence, permission or registration in relation to you or any person or body described in paragraph 8; or

(c) relates to the functions of your authority in respect of—

(i) housing, where you are a tenant of your authority provided that those functions do not relate particularly to your tenancy or lease;

(ii) school meals or school transport and travelling expenses, where you are a parent or guardian of a child in full time education, or are a parent governor of a school, unless it relates particularly to the school which the child attends;

(iii) statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of, or are entitled to the receipt of, such pay;

(iv) an allowance, payment or indemnity given to members;

(v) any ceremonial honour given to members; and

(vi) setting council tax or a precept under the Local Government Finance Act 1992.

Interests arising in relation to overview and scrutiny committees

11. You also have a personal interest in any business before an overview and scrutiny committee of your authority (or of a sub-committee of such a committee) where—

(a) that business relates to a decision made (whether implemented or not) or action taken by your authority's executive or another of your authority's committees, sub-committees, joint committees or joint sub-committees; and

(b) at the time the decision was made or action was taken, you were a member of the executive, committee, sub-committee, joint committee or joint sub-committee mentioned in paragraph (a) and you were present when that decision was made or action was taken.

Effect of prejudicial interests on participation

12. —(1) Subject to sub-paragraph (2) and (3), where you have a prejudicial interest in any matter in relation to the business of your authority—

(a) you must not participate, or participate further, in any discussion of the matter at any meeting, or participate in any vote, or further vote, taken on the matter at the meeting and must withdraw from the room or chamber where the meeting considering the matter is being held—

(i) in a case where sub-paragraph (2) applies, immediately after making representations, answering questions or giving evidence;

(ii) in any other case, whenever it becomes apparent that the matter is being considered at that meeting;

unless you have obtained a dispensation from your authority's monitoring officer or standards committee;

(b) you must not exercise executive functions in relation to that matter; and

(c) you must not seek improperly to influence a decision about that matter.

(2) Where you have a prejudicial interest in any business of your authority which is not a disclosable pecuniary interest as described in paragraph 8(5), you may attend a meeting (including a meeting of the overview and scrutiny committee of your authority or of a sub-committee of such a committee) but only for the purpose of making representations, answering questions or giving evidence

relating to the business, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

(3) Where you have a prejudicial interest which is not a disclosable pecuniary interest as described in paragraph 8(5), arising solely from membership of any body described 8(3)(a)(i) or 8(3)(a)(ii)(a) then you do not have to withdraw from the room or chamber and may make representations to the committee but may not participate in the vote.

Part 3 – Registration of Interests

Registration of members' interests

13. —(1) Subject to paragraph 14, you must, within 28 days of—

(a) this Code being adopted by the authority; or

(b) your election or appointment to office (where that is later),
register in the register of members' interests details of-

(i) your personal interests where they fall within a category mentioned in paragraph 8(3)(a) and

(ii) your personal interests which are also disclosable pecuniary interests where they fall within a category mentioned in paragraph 8(5)

by providing written notification to your authority's monitoring officer.

(2) Subject to paragraph 14, you must, within 28 days of becoming aware of any new personal interest falling within sub-paragraphs (1)(b)(i) or (1)(b)(ii) or any change to any personal interest registered under sub-paragraphs (1)(b)(i) or (1)(b)(ii), register details of that new personal interest or change by providing written notification to your authority's monitoring officer.

Sensitive information

14. —(1) Where you consider that the information relating to any of your personal interests is sensitive information, and your authority's monitoring officer agrees, the monitoring officer shall not include details of the interest on any copies of the register of members’ interests which are made available for inspection or any published version of the register, but may include a statement that you have an interest, the details of which are withheld under this paragraph.

(2) You must, within 28 days of becoming aware of any change of circumstances which means that information excluded under paragraph (1) is

no longer sensitive information, notify your authority's monitoring officer asking that the information be included in the register of members' interests.

(3) In this Code, "sensitive information" means information, the details of which, if disclosed, could lead to you or a person connected with you being subject to violence or intimidation.

Dispensations

15 - (1) The standards committee, or any sub-committee of the standards committee or the monitoring officer may, on a written request made to the monitoring officer of the authority by a member, grant a dispensation relieving the member from either or both of the restrictions in paragraph 12(1)(a) (restrictions on participating in discussions and in voting), in cases described in the dispensation.

(2) A dispensation may be granted only if, after having had regard to all relevant circumstances, the standards committee, its sub-committee or the monitoring officer.—

(a) considers that without the dispensation the number of persons prohibited by paragraph 12 from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business,

(b) considers that without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business,

(c) considers that granting the dispensation is in the interests of persons living in the authority's area,

(d) if it is an authority to which Part 1A of the Local Government Act 2000 applies and is operating executive arrangements, considers that without the dispensation each member of the authority's executive would be prohibited by paragraph 12 from participating in any particular business to be transacted by the authority's executive, or

(e) considers that it is otherwise appropriate to grant a dispensation.

(3) A dispensation must specify the period for which it has effect, and the period specified may not exceed four years.

(4) Paragraph 12 does not apply in relation to anything done for the purpose of deciding whether to grant a dispensation under this paragraph.

APPENDIX 1

The Seven Principles of Public Life

The Principles of public life apply to anyone who works as a public office holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the Civil Service, local government, the police, courts and probation services, non-departmental public bodies, and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources. The principles also have application to all those in other sectors delivering public services.

Selflessness
1. Holders of public office should act solely in terms of the public interest.

Integrity
2. Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity
3. Holder of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability
4. Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness
5. Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.

Honesty
6. Holders of public office should be truthful.

Leadership
7. Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Code of Conduct and Conflict of Interest Policy

Key Points:

- This policy applies to all County Council employees, including schools based employees where the Governing Body has adopted the policy (subject to such other changes which may have been adopted by the Governing Body of the school). Throughout this policy, reference to the 'County Council' includes County Council-maintained schools.
- Words such as 'you' and 'your' throughout this policy refer to an employee of the County Council.
- The Code aims to ensure that confidence in the integrity of employees is maintained at all times.
- The Code forms part of your contract of employment and must be followed – breach of this code may be viewed as a serious disciplinary matter depending on the severity of the breach.
- The Code, where appropriate, must be read in conjunction with the Anti-Fraud and Corruption Strategy, Whistleblowing Policy, Financial Regulations, Procurement Standing Orders, the Scheme of Delegations, and with any other more detailed County Council/Departmental operational instructions/guidelines.
- All potential conflicts of interest must be declared before the activity commences or the issue arises. If your circumstances change, it is your responsibility to immediately inform your manager and make a new declaration.
- Annually, all staff will be reminded of the need to declare potential conflicts of interest and required to complete an annual form, including where a NIL return has been made in the previous declaration.
- A separate code of conduct applies to Members (Members' Code of Conduct).
- For School Governors, a code of practice is available from the National Governors Association website.

1. Introduction

1.1. This Code should be considered alongside relevant guidance from professional bodies, such as the Health and Care Professions Council. In Schools, this includes the 'Code of Conduct for Employees Whose Work Brings Them into Contact with Young People'.

1.2. Please take time to read this Code, and make sure that you understand it. Although this Code cannot be exhaustive, its intention is to provide sufficient information to make you aware of what is required of you. Therefore, if you are unclear, or want to know something specific, please talk to your manager.

1.3. It is important that you understand that a breach of the Code could lead to disciplinary action, and even dismissal, depending on the severity of the breach (please refer to the Disciplinary Policy and Procedure). Ignorance of the guidelines in the Code will not be seen as a valid excuse.

1.4. All staff are required to complete the Declaration Form for all potential Conflicts of Interest.

1.4.1. Staff in corporate departments should use the form at Appendix 2. Staff in corporate departments who do not have an ESCC email account should send their written declaration to their line manager.

1.4.2. Staff in schools should use the separate form available on Czone.

1.5. You will be asked to review your declaration of interest form annually, including where you have made a NIL return in your previous declaration. However, if there is a change in your circumstances and a potential conflict arises, it is your responsibility to inform your manager as soon as possible so the conflict of interest can be considered.

1.6. Throughout this policy, where it is stated that Assistant Directors will determine whether a conflict of interest exists or whether a gift or offer of hospitality may be accepted, when the employee in question is an Assistant Director the determination will be made by the relevant Chief Officer and/or the Assistant Chief Executive. For Headteachers, the school's Governing Body should decide and a recommendation may be sought from the Director of Children's Services.

2. Standards

2.1. You are expected to give the highest possible standard of service to members of the public, observing the standards of conduct which the law, the Council's Standing Orders and Financial Regulations, Conditions of Service, this Code and any School /Departmental rules require together with any relevant guidance from professional bodies.

2.2. The Council has adopted the Nolan Committee's seven principles, which set the standards in public life. In performing your duties, you must act in accordance with the seven Nolan principles, which are:

- Selflessness – You must act solely in terms of the public interest and not in order to gain financial or other material benefits for yourself, family or friends.
- Integrity – You should not place yourself under any financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.
- Objectivity – You must make choices on merit when making decisions on appointments, contracts, or recommending rewards and benefits for individuals.
- Accountability – You are accountable for your decisions and actions to the public and you must submit yourself to whatever scrutiny is appropriate.
- Openness – You should be as open as possible about all the decisions and actions that you take. You should give reasons for your decisions and restrict information only when the wider public interest clearly demands.
- Honesty – You have a duty to declare any private interests relating to your work and you need to take steps to resolve any conflicts arising in a way that protects the public interest.
- Leadership – You should promote and support these principles by leadership and example.

2.3. You are encouraged and expected, through agreed procedures and without fear of recrimination, to raise workplace concerns about risk, malpractice or wrongdoing in accordance with the County Council's Whistleblowing Policy.

2.4. You must ensure that you use public funds entrusted to you in a responsible and lawful manner and in accordance with the County Council's Financial Regulations.

2.5. If requested to do so, you are expected to co-operate in any investigation being carried out by or on behalf of the County Council.

3. Political neutrality

3.1. Please note that Section 3 'Political Neutrality' is not applicable to employees on teachers' terms and conditions of employment.

3.2. You serve the County Council as a whole. It therefore, follows that you must serve all County Councillors and not just those of the majority group and you must ensure that the individual rights of all County Councillors are respected.

3.3. You must not be involved in advising any political group of the County Council or attend any of their meetings in an official capacity without the express consent of your Chief Officer. You must follow every lawful expressed policy of the County Council and must not allow your own personal or political opinions to interfere with your work.

3.3.1. Political Assistants appointed on fixed term contracts in accordance with the Local Government & Housing Act 1989 are exempt from these conditions.

3.4. As an employee of the County Council you are not eligible to stand for office as an elected member of the County Council**.** For County Council staff (with the exception of staff on Teachers' Terms and Conditions of Employment), some posts are politically restricted and employees are prohibited from political activity as defined in the Local Government and Housing Act 1989 (as amended), either:

(i) where the post holder gives advice on a regular basis to the Authority (meaning the County Council, the Cabinet, Lead Cabinet Member, any committee or sub-committee of the Authority, or to any committee on which the Authority is represented); and/or

(ii) the post holder speaks on behalf of the Authority on a regular basis to journalists or broadcasters.

Advice on this can be obtained from the Assistant Chief Executive.

3.5. If your duties bring you into contact with County Councillors, you should be aware that guidance on relationships with Councillors is contained within the Code on Member/Employee Relationships.

4. Using County Council equipment, materials and property

4.1. You must ensure that you use public funds entrusted to you in a responsible and lawful manner, and in accordance with the County Council's Financial Regulations, and all other relevant County Council policies.

4.2. The facilities and equipment provided as part of your work belong to the County Council and should only be used for legitimate County Council business purposes. Please ensure that you:

- Comply with health and safety regulations and use personal protective equipment as required;
- Take care of County Council property or equipment, keeping it secure and reporting any breakages or breaches of security;
- Use equipment and facilities for authorised purposes only;
- Do not use County Council equipment or property, including vehicles, for your own private benefit or gain or in fraudulent activity or for any unauthorised purposes.

4.3. Facilities and equipment is taken to mean, but is not limited to; computers, software, telephones, vehicles and intellectual property. The County Council reserves the right to access all IT systems (including telephone voice recordings), in the event of a policy or security breach. Please also refer to the Personal Use of Council Equipment Policy, Internet Access and Usage Policy, Email Use Policy and Data Protection and Information Security Policy.

5. Gifts, bequests and legacies

5.1. It is a serious criminal offence for you to corruptly receive or give any bribe, gift, loan, fee, reward, or advantage for doing or not doing anything or showing favour or disfavour to any person in your official capacity. If an allegation is made, it is for you to demonstrate that any such rewards have not been corruptly obtained. Please also refer to the Anti-Fraud and Corruption Strategy.

5.2. As a representative of the County Council it is important that you treat any offer of a personal gift, loans, fees, rewards or other financial or in kind advantage (collectively referred to here as 'gifts') with care. You must not accept gifts from contractors or potential contractors, including those who have previously worked for the County Council, service users, clients or suppliers.

5.3. You should handle the refusal of gifts with tact and courtesy. The intentions of those offering gifts may not have been corrupt but simply inappropriate to professional relationships in the public sector. It is therefore important, that where organisations make offers of gifts or hospitality, they are clearly made aware that such practice is unacceptable and should not be repeated.

5.4. If you receive any unexpected gifts they must be returned with a polite refusal letter to the sender, which makes it clear that County Council employees are not permitted to accept any gifts, other than those set out in sections 5.6 and 5.7.

5.5. All gifts offered including, but not limited to, inducements such as air miles, trading discounts, vouchers, or offers of hospitality, must be declared

5.5.1. Staff in corporate departments should use the form at Appendix 3

5.5.2. Staff in schools should use the separate form available on Czone.

5.6. Minor articles such as diaries, calendars, mugs, office items and the like will not be regarded as a gift. If you have any doubt as to whether an item falls within the definition of a gift and / or is acceptable, you are expected to raise this with your manager at the earliest opportunity.

5.7. In the case of schools, low value items are frequently offered as a gesture of appreciation from pupils, parents or carers, at the end of term for example. These may be accepted if they are not in any way connected with the performance of duties. Discretion should be exercised where the items offered are in excess of £10 in value and then can only be accepted with the Headteacher's approval and must be declared.

5.8. The same rules as above apply to bequests, which must be refused, unless there are special circumstances approved in writing by your Assistant Director in consultation with the Assistant Chief Executive. In schools, this should be approved by your Headteacher and Chair of Governors.

5.9. In summary:

- You should not accept gifts.
- Declare the offer of any gifts (including bequests or legacies).
- You should handle the refusal of gifts with tact and courtesy and make those offering them aware that such practice is not acceptable and should not be repeated.
- Unexpected gifts must be returned with a polite refusal letter to the sender.
- All gifts offered for any amount must be declared.
- Minor articles of a promotional nature such as diaries, calendars, and mugs will not be regarded as a gift.
- If you have any doubt, as to what is acceptable, speak to your manager beforehand or at the earliest opportunity following receipt of the article or gift.
- In the case of schools, articles from pupils/parents/carers of less than £10 in value need not necessarily be refused.

6. Hospitality

6.1. You should exercise caution in offering and accepting accommodation, tickets or passes for an event, food or drink, or entertainment which is provided free of charge or at a discounted rate ('hospitality'). You should bear in mind how it might affect your relations with the party offering it or receiving it and how it might be viewed by a range of stakeholders, including:

- County Councillors;
- School Governors;
- other potential suppliers/contractors;
- the public;
- the media;
- your colleagues.

6.2. When considering any offer of hospitality, the following should be considered when determining whether it can be accepted:

- the invitation comes from an organisation or individual likely to benefit from the County Council;
- the organisation or individual is seeking a contract with the County Council, or one has already been awarded;
- in the case of a visit, it is genuinely instructive and does not constitute, or could be perceived as being, more of a social function;
- the scale and location of the hospitality is proportionate and relative to the event;
- the event takes place outside of normal working hours;
- it is being offered on a frequent basis;
- it is being offered just to you or others as well;
- the hospitality is purely a social or sporting event as opposed to an event which you are attending in an official capacity.

6.3. Examples of Hospitality which should not normally be accepted include:

- events that are purely social occasions;
- attendance at events that, if they had been funded by the County Council, would be perceived as a poor or inappropriate use of public funds;
- events where current or potential contractors pay for the meals or the table at the event; and /or
- attendance at corporate events, including sporting or cultural events.

6.4. Examples of events which may be accepted (subject to consideration of the factors listed in 6.2):

- events that are clearly of a training or development nature; and / or
- events where you are invited to attend as a formal representative of the County Council and attendance relates directly to the performance of your duties.

6.5. In all instances where you wish to accept hospitality, including site visits as part of procurement or similar activities, you must seek the approval in advance in writing from your Assistant Director/Headteacher and wherever possible the County Council should meet the cost of your attendance in full.

6.6. Particular care should be taken in the case of attendance at conferences, seminars or other training and development events, where current or potential contractors or suppliers offer to pay the associated costs. Whilst these may be business related events, it may be inappropriate hospitality to be funded by others. In such cases, advice should be sought from your Assistant Director/ Headteacher but as a general rule, if the event is genuinely business related then it should be funded by the County Council and the expense subject to the normal authorisation process.

6.7. All offers of hospitality, whether accepted or not, should be declared. You are also reminded that, where organisations make inappropriate offers of gifts or hospitality, they should be made aware that such practice is unacceptable and should not be repeated.

7. Outside commitments

7.1. Regardless of grade, whether whole or part-time, permanent, temporary, relief or seasonal, you must seek the written permission of, and make a written declaration (an oral declaration is not sufficient) to, your Assistant Director/Headteacher before engaging in any other work or business (*) which might relate or in any way impact on your duties for the County Council. This includes paid or unpaid work, and will include one off pieces of work as well as regular employment.

7.1.1. Staff in corporate departments should use the form at Appendix 3. Staff in corporate departments who do not have an ESCC email account should send their written declaration to their line manager.

7.1.2. Staff in schools should use the separate form available on Czone.

7.2. If you are paid at or above NJC Scale 6 (spinal column point 28 and above) / Single Status Grade 9 (spinal point 23 and above) or equivalent, you are specifically required to declare to, and obtain consent from, your Assistant Director/ Headteacher, if you wish to engage in any other business (*), or take up any additional appointment regardless of whether there is any conflict of interest anticipated. Such consent will not be unreasonably withheld. If your request is approved, the County Council must be mindful of its responsibility under the Working Time Regulations 1998, the Health and Safety at Work Act 1974 and its general responsibilities towards the health of its employees.

7.3. You must declare in writing to your Assistant Director any relatives, partners or friends who are engaged in a business (*), which either currently provides services to the County Council or may do so in the future. In the case of schools based staff, you must declare in writing to your Headteacher any relatives, partners or friends who are engaged in a business (*), which either currently provides services to your School, or schools with which your school collaborates or is federated to, or may do so in the future. This is in order to minimise the risk of suspicion that some influence may be exerted over a particular customer as to the choice of provider, or that the provider gained advantage in terms of information received.

7.4. You must not work privately for personal gain for a service user/pupil for whom you have a service provision role within the County Council unless you have written consent from your Assistant Director/Headteacher. This includes service users or pupils to whom an employee may not personally be giving a service but does receive a service from the County Council. Suitability of such work may depend on the scale of the work, the impact it has on an employee's performance and whether there is any potential for an employee to be perceived as taking advantage of their position to generate the work. This determination lies with your Assistant Director or Headteacher.

7.5. If you are permitted to engage in any other business or take up any additional employment, you must not undertake any work in connection with your additional employment in County Council time, or make use of any County Council equipment or facilities. It is the responsibility of each individual employee to declare any additional personal income to Her Majesty's Revenue and Customs (HMRC).

7.6. If you have any doubt whatsoever you should make a declaration, so that the County Council can make the judgement as to whether a conflict exists.

7.7. The County Council is entitled to ownership of intellectual property e.g. copyright of material created by you in the course of your duties as an employee of the County Council. Please see Guidance Notes on Ownership of Intellectual Property.

(*) - "engage in any other business" includes roles such as company directorships, company secretaries and so on.

8. Personal interests

8.1. Your off-duty hours are your own personal concern. However, you must not put yourself in a position where your job and personal interests conflict.

8.2. You must declare in writing any financial or non-financial interests that could in any way be considered to bring about conflict with the County Council's interests. This includes any relationship, discussions or correspondence over any employment or private interests with organisations or individuals that may have a past, current or future business connection with the County Council, including but not limited to circumstances where funds are being paid or received by the County Council or situations that could result in more favourable treatment or give advantage to an individual or organisation. If you have any doubt whatsoever you should make a declaration, so that your employer can make the judgement as to whether a conflict exists (see Appendix 1: Making a declaration).

8.3. You are required to disclose any personal interest that may conflict with the County Council's interests e.g. representative of an organisation which may seek to influence the County Council's policies (see Appendix 1: Making a declaration).

8.4. You must inform your Assistant Director/Headteacher if you are declared bankrupt or are involved as a Director of a company which is wound up or put into voluntary liquidation, if it may potentially impact upon your role and duties. Bankruptcy may impact on the duties of employees who have a financial responsibility. The purpose of this is to ensure that a proper framework of support is in place.

9. Disclosure of information and confidentiality

9.1. It is generally accepted that open government is best. The law requires that certain types of information must be made available to members, auditors, government departments, service users, and the public. In particular, the Freedom of Information Act 2000 gives a legal right of access to information held by the County Council, subject to certain exemptions. You must ensure that you are aware of the Freedom of Information Policy, and guidance for staff issued in relation to this.

9.2. No politically or commercially sensitive information should be released to anyone, including County Councillors, without authorisation from your line manager.

9.3. You must ensure that any personal information you work with is only processed in accordance with data protection legislation. When handling personal data you must always adhere to the Data Protection Guide for Employees and Confidentiality Code of Practice. Further training and guidance is available from the Council, and you should ensure you are familiar with it.

9.4. If you are in any doubt about disclosing information then you are expected to seek guidance from your manager.

9.5. Confidential Committee papers must not be released without the consent of the Assistant Chief Executive. In schools, confidential Governor Papers must not be released without the approval of the Governing Body.

9.6. You must not use any information obtained in the course of your employment for personal gain nor pass it on to others who might use it in such a way or for any purpose for which it was not originally intended.

9.7. Any information which you might receive from a County Councillor/ Governor relating to his/her personal/private affairs and which does not belong to the County Council should not be divulged without the prior approval of that County Councillor/ Governor, except where such disclosure is required or sanctioned by law.

10. Appointment and other employment matters

10.1. You must not be involved in the day-to-day line management, appointment, or any other decisions relating to the discipline, promotion or pay or conditions of another employee, or prospective employee, who is a relative, partner or friend. Managers should consider whether their relationship with a colleague may have an impact on their ability to carry out their duties. In schools, staff Governors should not be involved in making decisions about these matters when a colleague is the subject.

10.2. If you are responsible for appointing employees, you must ensure that decisions are based on merit and not on anything other than their ability to do the job. Similarly, you must not canvass on behalf of any applicant. (Please see the Recruitment and Selection Policy).

10.3. If you have a connection in a private, social or domestic capacity with someone who also works for the County Council or who sits on a school's Governing Body that may potentially create, or be thought to create, a conflict of interest you need to declare this to your Assistant Director/Headteacher for them to consider.

10.4. Employees must inform their manager if they are being investigated by any professional body and any sanction imposed.

10.5. If you are in doubt about any of the above, please seek advice from the Personnel Advisory Team.

11. Employment after working at the County Council

11.1. The County Council is concerned to safeguard the integrity of the workings of local government and to avoid even the appearance of impropriety among its employees. It is in the public interest that people with experience of public administration should be able to move into business and other bodies. It is also important that whenever a County Council employee accepts a particular outside appointment, there should be no cause for any suspicion of impropriety. The rules set out in Appendix 4 to this Code are aimed at safeguarding both the County Council and individual employees from such criticism or suspicion. The rules apply to appointments in the United Kingdom and across the European Union.

12. Criminal offences

12.1. Employees are expected to conduct themselves at all time (inside and outside of work) in a manner which will maintain public confidence in both their integrity and the services provided by the County Council. In general, what an employee does outside work is his/her personal concern, unless those actions would cause a breakdown in the employment relationship.

12.2. Employees must inform their manager if they are arrested/convicted/cautioned in respect of any offence as soon as possible. Employees do not need to disclose minor driving offences (such as fixed penalty notices for speeding tickets) unless either:

12.2.1. driving is a key requirement of their role (e.g. they drive County Council vehicles or drive their own vehicle regularly for work); and / or

12.2.2. the conviction results in disqualification from driving.

(See the Safe Use of Motor Vehicles Policy for details.)

12.3. Disclosing all convictions does not necessarily mean disciplinary action will be taken against an employee. The extent to which a criminal offence may affect employment depends on whether the conduct:

- Makes the employee unsuitable for their type of work; and/or,
- May reflect adversely on the County Council's reputation or ability to perform its function.

12.4. Employees sentenced to immediate imprisonment may be dismissed without notice or compensation in lieu of notice.

12.5. Employees should always notify their manager if there is any doubt as to whether or not they need to share information about an arrest or conviction.

12.6. Any failure to disclose such information, even where no charges are brought against you, may lead to disciplinary action. Where it is deemed that there is an adverse impact on your employment, the Disciplinary Policy will apply.

13. Position of trust

13.1. It is the responsibility of all staff to ensure they maintain professional standards and do not abuse or appear to abuse their position of trust in the way they conduct their relationships with service users/pupils/contractors, their families or carers.

13.2. Specific examples of conduct which should be avoided include, but are not limited to:

- meeting socially with pupils or service users (or their carers or families); and/or
- exchanging personal contact details or connecting using social media.

13.3. Employees must refrain from conduct of this nature unless there is sound operational reason to do so, in which case the action must only be taken with the express written approval of the employee's Assistant Director/Headteacher.

13.4. If employees are engaging in activity or associating with people outside work whose current or past conduct could raise doubts or concerns about an employee's own integrity or ability to be in a 'position of trust' with regard to children or vulnerable adults, this could have a direct consequence on their employment.

14. Sponsorship

14.1. When an outside organisation wishes to sponsor or is being asked to sponsor a County Council activity, the basic conventions concerning the acceptance of gifts and hospitality apply. Please refer to the East Sussex County Council's Corporate Sponsorship Policy.

14.2. This section on sponsorship is not applicable to schools.

15. Relationships

15.1. Councillors

Employees are responsible to the County Council through its senior managers, except where a school's Governing Body is the employer. Your role may require you to give advice to councillors and senior managers. Mutual respect between employees and Councillors is essential to good local government. Close personal familiarity between employees and individual Councillors can damage the relationship and prove embarrassing to other employees and Councillors. It should therefore be avoided.

15.2. Contractors

You must declare in writing to your Assistant Director/Headteacher any current or past relationships of a business or private nature with any outside organisation or individual that has a relationship with the County Council (see Appendix 1: Making a declaration). Orders and contracts must be awarded on merit and no special favour should be shown to any businesses, particularly those you have an interest in. If you have such an interest you must not be involved in any way in awarding work or orders or subsequent management of contracts. Similarly, you must not canvass on behalf of any outside organisation that has a relationship with the County Council.

Where your role within the Council means that you are involved with outside businesses and suppliers (eg through raising orders, letting contracts, contract management etc.) discussions over potential conflicts and gifts/hospitality should be had as part of regular performance and development conversations with your manager.

You must declare in writing to your Assistant Director/Headteacher, if you become aware that the County Council is entering a contract in which you have a direct interest

15.2.1. Staff in corporate departments should use the form at Appendix 2

15.2.2. Staff in schools should use the separate form available on Czone.

15.3. Contract Tenders

If you wish to tender for a contract from the County Council, you must declare such an intention to the appropriate Assistant Director/Headteacher, as soon as intent has been formed, and at the earliest possible opportunity.

15.4. Foster Carers

If you act as a foster carer for the County Council or any other agency you must declare this (including the intention to do so if you are not already a foster carer) in writing as a potential conflict of interest.

15.5. The Press and Media

You must not deal direct with the press or the media in relation to anything related to County Council business unless required to do so as part of your duties, or you have been expressly authorised by your line manager in consultation with your Assistant Director/Headteacher.

If you speak as a private individual directly to the press or at a public meeting or other situation where your remarks may be reported to the press, you must take reasonable steps to ensure nothing you say might lead the public to think you are acting in your capacity as a County Council employee.

15.6. The Local Community and Service Users

You must always remember your responsibilities to the community which you serve and ensure courteous, efficient and impartial service delivery to all groups and individuals within that community as defined by the policies of the County Council.

16. Approvals

16.1. Where Assistant Directors, Deputy Chief Officers, and Chief Officers require approval or notification under the Code then this shall respectively be obtained from the appropriate Deputy Chief Officer, Chief Officer, or the Chief Executive. The Chief Executive shall obtain approval or notify either the Monitoring Officer, or the Section 151 Officer.

16.2. Where the Headteacher requires approval or notification under the Code then this shall be obtained from the Chair of Governors.

17. If in doubt

17.1. It is not possible to cover every situation you may face as an employee of the County Council. Simply because a particular action may not be addressed within the Code, this does not condone that action by omission. If you are in any doubt about anything contained within this Code, or are concerned about anything relating to your personal position, you should speak to your line manager immediately. Where necessary, line managers should seek advice from their Assistant Director/ Headteacher.

Step 1: Inform your line manager
Tell your line manager about the potential area of conflict.

Step 2: Complete the declaration form
Complete the form (Appendix 2 to the Code of Conduct) giving details of the potential conflict. Pass the completed form to your line manager for them to complete the relevant sections, including what involvement they might have and detailing any safeguards that could be put in place.

Step 3: Submit the declaration form
The line manager submits the form to the Assistant Director.

Step 4: The decision
The relevant Assistant Director will be responsible for deciding whether or not a conflict of interest exists.
They will need to be satisfied that this would neither interfere with your performance or duties nor lead to any suspicion of improper influence. Each set of circumstances will be considered on an individual basis. If there is a conflict identified, the relevant Assistant Director will decide how best to manage it.

Step 5: Confirmation
The relevant Assistant Director will write to you outlining their decision. All declarations will be recorded on your Departmental Register of Interests.

Step 6: Appeal
If you wish to appeal against the relevant Assistant Director's decision, you should use the County Council's Grievance Policy.

Step 7: Changes
If your circumstances change it is your responsibility to tell your manager immediately and make a new declaration as above.

Step 8: Reminder
A reminder will be issued to all staff annually for a declaration to be made.

Appendix 2: Declaration form

Declaration form for conflict of interests

This form will be given to the appropriate Assistant Director who will need to be satisfied, in giving their consent that the declaration would neither interfere with the employee's performance or duties nor lead to any suspicion of improper influence. Each set of circumstances will be considered on an individual basis.

Employee's name				
Employee's job title				
Department		Working location:		
Manager's name				
Do any of the following apply to this role?	LMG Manager		Legal Services Officer	
	Non-LMG Manager		Procurement Officer	
	Finance Officer			

Part 1 – to be completed by the employee			
Please outline your declaration OR state 'Nil Return' below. It is then your responsibility to pass this form to your line manager for his or her comments.			
Employee's signature		Date	
Part 2 – to be completed by the employee's line manager			
Please detail any supporting information with regard to your member of staff's declaration. This should include your views and comments, what involvement you anticipate having and detailing any safeguards that could be installed. Please also include the views of your manager if appropriate.			
Line manager's signature		Date	
Part 3 – authorisation by the Assistant Director			
Authorised? (delete as appropriate) Yes No Additional comments			
Authoriser's signature		Date	

On completion by the line manager of a **Positive return**, return this form in an envelope marked 'Private and Confidential' to the relevant Assistant Director.

On completion by the line manager of a **nil return**, return this form to your Departmental Coordinator as outlined below.

Adult Social Care	Kirstie Battrick	Governance Services	Caroline Hodge
Children's Services	Flis Wright	Communities, Economy & Transport	Lauren King
Business Services	Robyn Hunter	Chief Executive's Office	Caroline Hodge
		Public Health	Tracey Houston

Appendix 3: Declaration of gift or hospitality

Declaration Form for gift or hospitality Once you and your Manager have signed this form, you need to send it in an envelope marked 'Private and Confidential' to your Assistant Director. East Sussex County Council eastsussex.gov.uk			
Employee name			
Employee job title			
Team and/or department name			
Manager's name			
Part 1 – to be completed by the employee			
I have been offered the following gift / invited to the following: (Where relevant, include details of what has been offered, reason for offer, place, date and time of the event, likely business benefits and frequency of the event.)			
Estimated value			
Offered to me by			
Delete as appropriate: The gift/hospitality offered was not accepted I wish to accept the offer of hospitality for the following reasons:			
Employee's signature		Date	
Part 2 – authorisation by the Assistant Director			
Authorised? (delete as appropriate) Yes No If authorised, please record why it is acceptable: If authorised, are the costs being met in full by the Council? If not, please detail and explain why:			
Authoriser's signature		Date	

Appendix 4: Employment after working at the County Council

1. In order to safeguard the integrity of the administration of the County Council, and in order to counter any suspicion of impropriety in, among other things, the contracting process for local authority works and services, the County Council requires each of its employees to obtain the approval of their Chief Officer/Headteacher before accepting any offer of employment in business or other bodies outside the County Council which would commence within six months of leaving the employment of the County Council, whether full or part-time, or before establishing a consultancy in the following circumstances:

    a. If you have had any material official dealings with your prospective employer (who, for the purpose of applying any of the clauses of these rules could be any organisation, individual or related undertaking including parent and subsidiary undertakings and associated undertakings as well as partners in joint ventures) during the last two years of employment with the County Council; <u>or</u>

    b. If you have had any material official dealings of a continued or repeated nature with your prospective employer during the last two years of employment with the County Council; <u>or</u>

    c. If you have had access to commercially sensitive information of competitors of your prospective employer in the course of your official duties; <u>or</u>

    d. If you have been substantially involved in negotiations on behalf of the County Council in respect of any commercial or contractual arrangements with an external body or party; <u>or</u>

    e. If, during the last two years of your employment with the County Council your official duties have involved advice or decisions benefiting that prospective employer, for which the offer of employment could be interpreted as a reward, or if your official duties have involved developing policy, knowledge of which might be of benefit to the prospective employer; <u>or</u>

    f. If you are to be employed on a consultancy basis, either for a firm of consultants or as an independent self-employed consultant, and you have had any dealings of a commercial nature with outside bodies or organisations in your last two years of employment with the County Council.

    Chief Officers to whom the rules apply are required to obtain approval from the Chief Executive. The Chief Executive will need to obtain approval from the Governance Committee in the event that s/he proposes to take up an appointment which would lead to the rules applying to him/her. Headteachers to whom the rules apply are required to obtain approval from the Chair of Governors.

2. Approval for appointment to any position falling within the scope of these rules shall not be withheld unreasonably. In considering whether to approve an appointment, the Chief Officer/Headteacher will take into consideration the following matters:

    a. The relationship of the County Council to the prospective employer;
    b. The relationship between the applicant and the prospective employer during the course of the applicant's employment with the County Council;
    c. The possibility that the applicant may have had access to trade secrets and/or confidential information about one or more of the prospective employer's competitors during the course of employment with the County Council;
    d. The applicant's degree of seniority within the County Council; and / or
    e. Any other relevant factors.

3. It will be open to those considering applications to recommend unqualified approval or to recommend approval subject to any waiting periods less than two years or other conditions which are appropriate to the particular circumstances of the applicant (e.g. seniority of the employee and the prospective employer).

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Orbis Supplier Code of Conduct

On behalf of East Sussex County Council, Surrey County Council and Brighton and Hove City Council

Author: Anna Kwiatkowska, Head of Procurement, Surrey County Council

Version: 3.0

Date: February 2020

Approver: Keith Coleman, Deputy Director of Procurement

1. Introduction

This document sets out a short Code of Conduct to which we in Orbis Procurement expect suppliers to adhere when bidding for and delivering contracts for goods, works and services for our partners and customers. It is complementary to our Ethical Procurement Statement, which sets out our own standards and commitments.

Our aim is to adopt and ensure ways of working in our supply chains which:

- Respect fundamental international standards against criminal conduct (such as bribery, corruption and fraud) and human rights abuse (such as modern slavery), and respond immediately to such matters where they are identified, and
- Result in improvements to the working lives of people who contribute to our supply chains

Our purpose in doing this is to ensure that contracts are being delivered responsibly by our suppliers, and to build the trust of the public by promoting a culture of high ethical standards that deter or expose poor behaviour and practice.

2. Supplier Code of Conduct

We expect any supplier providing goods, works or services for our Partners or Clients to maintain high standards of integrity and professionalism in their business dealings, adhering to the law and taking action where necessary to minimise negative impacts and potential risks.

We will therefore expect our suppliers to agree to abide with the following principles, where proportionate and directly relevant to the subject matter of the contract. These are not normally included explicitly in the subject matter of contracts as most are governed by employment law and, as such, are legal requirements which if breached would be grounds for excluding the supplier from further contracts for non-compliance.

Further, we expect suppliers to ensure, as far as is proportionate, reasonable and practicable, that these principles are followed by suppliers in their own supply chains.

During a public procurement process we do not set standards which exceed the law, though we may work with suppliers post-award, and on a voluntary basis, to pursue wider ethical issues together to deliver additional improvements or added value.

We expect that:

Acting with integrity and transparency

- Procurement processes are conducted in an transparent and equal way in accordance with the latest Public Contracts Regulations
- There is transparency and honesty in the spending of public money
- Suppliers will have systems and processes in place to ensure public money is used for the purpose it is intended.

- Suppliers will maintain a gifts and hospitality register relating to Coucnil contracts to be made available upon request.

Taxation

- Pay the required taxes responsibly and fairly, and not to seek to evade tax by the use of unethical practices

Working conditions are safe

- Operate appropriate health and safety policies and procedures overseen by a senior manager responsible for compliance and monitoring and ensuring employees have the necessary training and health and safety equipment.
- Provide comfortable and hygienic working conditions with clean toilets and water suitable for drinking and washing. Where worker housing is provided it should meet the same standards for health and safety as the workplace.

Good health is promoted

- Invest in measures for tackling ill health as healthy employees experience a better quality of life and tend to be more productive.

Employment is freely chosen

- Afford employees the freedom to choose to work and not use forced, bonded or non-voluntary labour.
- Afford employees freedom of association with the right to join an independent trades union or other workers' associations and to carry out reasonable representative functions in the workplace.
- Put in place alternative means of democratic representation for workers where laws restrict freedom of association and collective bargaining.
- Do not use illegal blacklists to deliberately or unfairly exclude some sub-contractors or workers.

Working hours are not excessive

- Comply with national and international law or industry standards on employee working hours, whichever affords greater protection for the employee.
- Employees should not be expected to work more than 48 hours a week on a regular basis and, on average, receive at least one day off in every seven days. Overtime should be voluntary and not be demanded on a regular basis and where required it should be remunerated at an appropriate rate or be recoverable as time off in lieu and not exceed 12 hours in any week.

Performance Management

- Provide clear, easily understood disciplinary, grievance and appeal procedures that are lawful and appropriate. Any disciplinary measures should be recorded and suppliers should not seek to deprive employees of their legal or contractual rights.

Wages and Contracts

- Provide wages and benefits at rates that meet at least national legal standards of the country in which the services are performed.
- Provide employees with an easy to read contract of employment clearly explaining wage levels and other benefits. Where employees are unable to read, the contract should be explained to them by a union representative or another appropriate third party.
- Work with us post-award to ensure zero hours contracts are used only when clearly beneficial to both employer and employee.
- Wages should be monetary and not in kind (e.g. goods, vouchers) with no deductions made unless permitted under national law or agreed by the employee, without duress.
- Ensure that relevant criteria or standards for workers to be treated as self-employed are followed.

Training is provided

- Raise employees' skills through training and access to professional development as befits their role to improve quality and secure greater value for money.

No discrimination

- In relation to age, disability, gender reassignment, marriage/civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation, to practice no discrimination in hiring, compensation, training, promotion, termination or retirement either directly or indirectly.

Mediation and Disputes procedure

- Provide clear and accessible processes for resolving disputes with employees and follow them.

Child labour is eliminated

- Support the elimination of child labour.
- Provide for any child found to be working to attend and remain in quality education until adulthood
- Ensure no children and young persons are employed at night or in hazardous conditions, as defined by the International Labour Organisation.

No inhumane treatment is allowed

- Prohibit physical abuse, the threat of physical abuse, sexual or other harassment, verbal abuse and other forms of coercion.

Operating sustainably and responsibly for your environmental impact on local communities

- Support the reduction in operational carbon emissions
- Support the switch or further use of renewable energy
- Work towards zero avoidable Single Use Plastic use (wherever possible),
- Encourage and participate in environmental programmes with local groups, schools and colleges,
- Encourage voluntary time to the sustainability of local green areas to increase biodiversity and keep green spaces clean.

3. Monitoring compliance with this Code

We aim to work with our suppliers to make improvements and deliver a more ethically-based supply chain for our partners and customers, taking a positive and supportive approach to compliance.

We will do this in two main ways:

1. As a standard agenda item at existing regular contract review meetings, we will note progress and discuss any issues arising. Clear action plans will be put in place to drive further improvement. Where relevant key performance indicators are agreed in relation to specific contracts we will monitor trends.
2. On an annual basis, we will invite a small number of suppliers to share good practice and case studies, and identify initiatives for continuous improvement

Whistleblowing

Our partners each maintain a Whistleblowing Policy for all employees and supplier, see Surrey County Council, East Sussex County Council, Brighton and Hove City Council. Our suppliers are encouraged to use these policies when appropriate, and also to ensure an appropriate policy is in place in their own organisation.

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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 East Sussex Pension Fund ("the Fund"). It is intended to provide an overview of some considerations surrounding the Fund's preferred approach to managing risks of ill health early retirements and the associated additional costs of these, including requested experience analysis based on the data provided. This paper is not intended to provide advice 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

For comparison purposes, a summary of the overall experience across the whole of the fund is set out in Appendix A.

The Fund's present 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 pays 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 via 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 management approach

The Fund has been considering its preferred approach to manage ill health risk. As part of this process the Committee has requested further information on employer experience in order to consider different insurance policy options.

Ill health liability insurance

In exchange for a premium, ill health liability insurance involves an external insurer paying a lump sum equal to the fund calculated strain cost in the event of an employer's member retiring on Tier 1 or Tier 2 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 covering around 1,500 employers.

The Administering Authority has considered two possible policy options:

- Partial Fund insurance covering a group of employers selected by the Fund (e.g. small/medium employers); and
- Employer "Choice" insurance where each employer holds its own policy, should it elect to do so.

The "Choice" option puts the decision on employers but we understand 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. This may apply most to those small and medium sized employers most at risk. The "Partial Fund" approach has been discussed as an option to mitigate this danger by compelling or automatically opting-in employers into using the insurance to manage the risk.

As part of initial discussions, the Fund has suggested the following tiered approach:

- Group 1 will be compelled to have the cover in place.
- Group 2 will be automatically covered unless they opt-out.
- Group 3 will only be covered if they opt-in.

The Fund's suggestion is that (i) "small" employers with less than 50 active members and (ii) employers with weaker covenant should be included in Group 1. Group 2 would include "medium" sized employers and the remaining "large" employers with strong covenants would constitute Group 3.

However, one of the key decisions for the Fund is in determining where to draw the line between medium and large, and therefore, Group 2 and Group 3 employers. There are a variety of ways of doing this such as assigning them by type of body or based upon the number of active members.

We have provided additional information below which may aid the Fund in their decision-making regarding allocation of employers to groups.

Allocating employers to Groups

The table below illustrates how the employers would be allocated if the Fund chose 50 active members as the cut-off for Group 1 and results for both 100 and 200 active members as the cut-off between Groups 2 and 3.

Employer/Pool name	No. of active members (using 2019 valuation membership data)	Group (if using 100 active members as cut-off for Group 2)	Group (if using 200 active members as cut-off for Group 2)
All individual employers and employers in pools where total active membership is less than 50 active members (including Town and Parish Councils) Other "high-risk" employers: Bexhill College Brighton, Hove & Sussex College Group Plumpton College University of Brighton Varndean Sixth Form College	Less than 50, except where employer deemed "high risk"	Group 1 - Compelled	
Cavendish Academy	59	Group 2 - opt-out	Group 2 - opt-out
Eastbourne Academy	60		
Aquinas Trust	61		
Seaford Academy	63		
Glyne Academy	66		
Langney Primary Academy	71		
Hailsham Academy	84		
Torfield and Saxon Mount Academy Trust	94		
The South Downs Learning Trust	143	Group 3 - opt-in	
The Southfield Trust	170		
SABDEN Multi Academy Trust	174		
Aurora Academies Trust Pool	177		
ARK School Hastings Pool	197		
East Sussex Fire & Rescue Service	227		Group 3 - opt-in
Rother District Council	242		
Diocese of Chichester Academy Trust	267		
Hastings Borough Council	310		
Wealden District Council	353		
University of Brighton Academies Trust	520		
Eastbourne Borough Council	738		
Brighton and Hove City Council Pool	7,035		
East Sussex County Council	7,795		

It can be seen from the table above that if you were to group employers simply by size then some academy trusts would be in Group 2 and others in Group 3. The Fund may therefore instead wish to use the above table as a guide but determine the final groupings by also considering the type of body (and their associated risk) to include within each Group. For example, choosing to include only Councils (County, Borough and Districts) and the Fire Service in Group 3, with all academy trusts and other employers with more than 50 active members covered in Group 2. This may result in a more consistent approach for employers with similar overall risk.

It is important to reiterate that the employers in Groups 2 and 3 will have the final say as to whether they wish to be covered, so any decision on groupings will not be finalised until the communication exercise is completed.

It is also worth noting that the Fund is currently undertaking employer covenant analysis to further consider the "high risk" employer group. The results of this work can be used to review which employers might be included in Group 1. In addition, we would suggest that the employers which constitute this "high risk" group is kept under regular review e.g. at least at every formal valuation.

[Note that Royal Pavilion & Museums Trust is not listed in the table above. This is because the employer was not present in the Fund at the valuation date. At their request, the employer is currently going through the quotation process for an individual policy which could be subsumed into the partial fund policy from April. If this employer was to proceed with an individual employer policy, then they should be included in Group 1. If they do not proceed, it may be more appropriate to include them in Group 3. We understand that this employer has c150 active members.]

Ill health exposure level of groups

For ease of comparison, the exposure analysis uses the following three groups:

- A – Group 1 employers;
- B – Group 1 employers plus all employers with less than 100 active members; and
- C – Group 1 employers plus all employers with less than 200 active members.

The tables below summarises individual member exposure stats within each of the groups detailed above. The figures are based upon the estimated strain costs if each of the members was to be awarded Tier 1 ill health early retirement.

Group	Exposure (£000s)		
	Average single member exposure within Group	Median single member exposure	Maximum single member exposure
A	232	175	1,518
B	221	166	1,518
C	207	156	1,518

From the above, the average (mean) exposure, at around £220k, is relatively similar across all groups. These are also comparable with the overall fund average of £218k. However, the average strain cost is impacted more by the larger strain costs for younger and/or higher paid members. The median exposure may be a more appropriate measure, at around £165k.

The maximum exposure relates to a Plumpton College member with estimated exposure of £1.5m. However, this is not an outlier. There are a further 19 members in Group A alone with exposures of over £1m, at employers ranging from WDC – Wealden Leisure to Uckfield Town Council. Further, University of Brighton has 9 members where a strain cost of over £1m could be triggered if any one of these members retired on serious ill health.

The table below illustrates the proportion of active members with 'large' strain costs, for different definitions of 'large'.

Group	Proportion of members with strain costs exceeding…			
	£100k	£200k	£300k	£500k
A	67%	46%	31%	12%
B	65%	44%	28%	10%
C	63%	41%	25%	9%

This table shows that a material proportion of the membership can produce a strain cost that would significantly impact an employer's funding costs.

Insurance premium rates

Indicative insurance quotes were obtained prior to the September Pension Committee meeting. These quotes included two partial Fund options, along with the employer "choice" option, as set out below:

- "Partial Fund" insurance
    - *All employers excluding Councils and Fire* – 0.9% of pay
    - *All employers with less than 150 active members* - 1.5% of pay
- Employer "Choice" insurance – 1.6% of pay

The rates above are not directly comparable with the approach chosen by the Fund, due to the differing insured groups. However, they can provide an indication of the likely range of the premium rate. E.g. the insured group that is subject to a rate of 0.9% is broadly similar to the group of employers with less than 200 active members (i.e. a possible classification of Groups 1 and 2).

Typically, as you would expect, the smaller the size of the insured group, the larger the variability in ill health strain costs for the group from year to year. A larger insured group tends to reduce the volatility. There is a corresponding impact on the premium rate to cover this uncertainty, with smaller insured groups tending to have higher premium rates (and vice versa), as can be evidenced from the above rates. In addition, with a larger group, the insurer can spread the risk over a larger payroll, which also tends to result in a lower rate. Note that this may not always be the case. For example, if there was a particular large employer with poor experience who opted to be included in the cover, this may result in a slightly higher rate for the insured group compared to the rate if this employer was not included.

Once the decision has been made regarding the approach and the employers' communication exercise is complete, we will request a final quote from Legal & General.

Next steps

1. Consider which employers should be allocated to which groups
2. Conduct employer opt-out/in communication exercise
3. Obtain quotation from insurer based on final employer coverage
4. Implement risk management approach from agreed date (e.g. 1 January 2021)
5. Regular review and monitoring of approach going forward

Reliances and limitations

This paper has been commissioned by East Sussex County Council. It intended for the use by East Sussex County Council only for the purposes of considering its options to manage ill-health early retirement risk.

The information contained herein should not be construed as advice and should not be considered a substitute for specific advice. This paper is written for commercial customers as defined by the Financial Conduct Authority and should not be shared with any other third party without our prior written consent. Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. Hymans Robertson LLP accepts no liability for errors, omissions or opinions contained herein nor for any loss howsoever arising from the use of this paper.

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The following Technical Actuarial Standards[1] 100 and 300 are applicable in relation to this report and have been complied with where material.

Prepared by:-

Robert McInroy FFA   Richard Warden FFA

October 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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LOCAL GOVERNMENT PENSION SCHEME (LGPS)
ANNUAL EMPLOYERS FORUM – EAST SUSSEX PENSION FUND
FRIDAY 20 NOVEMBER 2020, VIRTUAL EVENT

AGENDA

9:30 Chairman's Address
Cllr Gerard Fox - Chair of the East Sussex Pension Committee
(Commenting on Good Governance Review)
9:45 Pension Board
Ray Martin - Chair of the East Sussex Pension Board
(Commenting on Data Improvement and ABS)
10:00 A guide to Outsourcing and Admission Agreements in the LGPS
Eversheds
10:25 LGPS Investment Topic
Storebrand
10:50 – 11:00 comfort break
11.00 Pensions Administration
Paul Punter – Head of Pensions Administration
(Current issues inc. McCloud; 95k cap; GMP; data improvement & team disaggregation into sovereign team)
11.20 I-Connect
Heywoods & PAT
(Reminder of the system, potential roll out timetable, testing completed by ESCC)
11.50 Introduction to the new actuary
Barnet Waddingham
12:20 Launch of Administration Strategy and Future Relationship with the Pensions Team
Sian Kunert – Head of Pensions
(Launch of the Administration strategy after one-month consultation period, highlighting key areas to note of the employers within the Strategy.

New team structure, support to employers - changing the service delivery in Pensions)

12:40 Closing remarks

Sian Kunert – Head of Pensions

12:45 Close

East Sussex Pension Fund: Communications Review

Background Information:

The East Sussex Pension Fund (ESPF) has undertaken a Good Governance Review over the last 12 months to reset its strategies, policies and procedures, together with establishing a new Fund team structure and starting to bring Pensions Administration back "in-house" from the Surrey Shared Services Pension Team. All this is to ensure the effective operation of the ESPF comprising 77,000 members and 130 employer organisations, supported by investments of £3.8bn.

ESPF Communication Issues (not exhaustive)

It has been identified that improvements are required in how the ESPF communicates with its members, employers and outside interested parties.

The Pension Administration Team, as part of Surrey Shared Services Pension Team, were able to assess the Surrey Pensions Communications Team. This will not now be available.

The ESPF has a website, currently maintained by Hymans Robertson (the Funds current actuaries, but this is changing), but this is very static and under-utilised.

The ESPF is challenged by a number of pressure groups for which there is not a consistent approach to responding.

The ESPF and Administration Team send out communications to members and employers, but it is not consistent in format, language and style.

The ESPF does not have a communication brand.

The ESPF does not have a specific member of the team whose responsibility is Communication.

The Purpose and Requirements of the Communication Review.

Purpose: Help ensure communications are timely, engaging, accessible, accurate, clear and of good quality. To promote engagement with members and employers and improve understanding.

Requirements:

To review existing communication provision within the ESPF, including the Pensions Administration Team, and report back to Pension Board and Pension Committee.

Engage to with members of the Pension Board, Pension Committee, members and employers to assess views on current experience of communication and how it may be improved.

To provide recommendations for future communication approaches and the means to achieve this, including, but not exclusively:

- ESPF communication brand and style
- Websites and social media
- Staffing structure to support recommendations
- Designing the communication objectives for the Scheme
- Consideration of how the communications will be delivered, including:
  - E-communications – whether and how to move to paperless/online communications.
  - Use of alternative media – such as online materials, webinars, AGM style meetings, blogs.

- Overall design & style of communications – for example use of Scheme branding, design and/or artwork.
- Consideration of appropriate accessibility criteria and objectives

- Consideration of the Scheme's membership and potential target audiences including nudge emails and SMS updates in developing the strategy
- Cost/benefit considerations, including seeking indicative budgets proposals to achieve the strategy, and
- Development of Key Performance Indicators (KPIs) in relation to measuring the success of the Scheme's communication strategy

Timescales:

- A briefing report to Pension Board (16 Nov) and Pension Committee (30 Nov)
- Conclusion report to Pension Board and Committee in March 2021, with recommendations for implementation from 1 April 2021, including a 12 month plan:
    - List of existing communications in 12 month cycle
    - Identifying additional (regular and/or ad hoc) communication items and or changes to existing communications approaches
    - Development of timing, number of communications, audiences, key messages (where/if applicable)
    - Dovetailing with the existing newsletters and other projects
    - Understanding the implications of communication on the pensions' helpdesk and administration team
    - Liaising with key stakeholders regarding implementation of the agreed communications plan

Ian Gutsell

28 October 2020

Report to:	**Pension Committee**
Date of meeting:	**30 November 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 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 7);

3) Note the proposed Pension Administration structure and costs following transition from share service arrangements (Appendix 3) and make any comments for feedback to the Pensions Committee.

---

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 East Sussex Pension Fund (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 Local Government Pension Scheme (LGPS).

2. Key Performance Indicators

2.1 The Performance Report, for the period February to September 2020 can be found at **Appendix 1**.

2.2 Under the Good Governance review documents were developed and updated covering the Service Level Agreement (SLA) and Roles & Responsibilities with the future "in-house" Pensions Administration Team rather than provided through Orbis Business Services An overview of the proposed all-encompassing, high-level insight of the administration service was shared at the last Committee meeting. Transition to the new performance measurements from the new sovereign database will go live in the new year, in the meantime, the Key Performance Indicator's (KPI) presented continue to be from the shared Altair database. Note – the hardest task to achieve this year has been the "Employer estimate provided" as this has a 7 days target whilst under the new proposed SLA the target is10 days, same as "Employee projections provided". In early October we ceased to provide redundancy quotations.

2.3 The Orbis Pensions Helpdesk was introduced in November 2019 and their performance is shown in **Appendix 2**. Management of the service recognise the results have been poor since lockdown and are actively working to improve resourcing, telephony tools, staff training, back-up plans, smoothing peaks & troughs and ultimately the quality of the customer experience. Note – we are closely monitoring the increasing number of abandoned calls. Now the ABS peak is past, we expect the call received numbers to fall.

3. Pension Administration Transfer and Staffing Update

3.1 No staffing changes have occurred since the last Committee meeting. All administration staff are continuing to work from home and none have tested positive for COVID-19. Staff remain in good spirits and we closely monitor their wellbeing. It is not anticipated that staff will be returning to Lewes County Hall before April 2021 at the earliest.

3.2 A Transition Board has been set up to oversee the PAT return to East Sussex. The East Sussex plan has a target transfer date of 1 April 2021 but recognising this is an ambitious target. The key milestones are:

- Project governance & reporting – the principles of disaggregation, regular meetings
- Pension Admin budgets & recharges – reconciliation will take place as at 31 March 2021
- Design of Pen Admin function in East Sussex – structure and processes
- Staffing – TUPE transfer, implementation of team structure, recruitment & training
- Systems – re-procurement, new system approach, hosting, data configuration, data migration, user testing & pensioner payroll
- Projects – support where required
- Communications
- Regulatory & Compliance
- Helpdesk
- Post go live – ongoing support, Internal Audit review, lessons learnt

3.3 The proposed structure for the East Sussex PAT is set out in **Appendix 3**. Job descriptions and person specifications for all the existing Orbis roles have been collated and are being rewritten and will shortly be put through the East Sussex Job Evaluation process. Most of the recruitment will not begin until the existing staff have been TUPE as some of that team are very likely to wish to apply for other roles in the wider structure. The Surrey CC TUPE consultation with 19 staff commenced on 21 October 2020 and closes on 20 November 2020. Staff are expected to belong to East Sussex from 1 December 2020.The estimated full year salary cost of the proposed new structure is £825,000, an increase of 18% on the estimated costs for 2020/1.

3.4 The estimated additional non staff costs related to the PAT move back to East Sussex:

IT related expenditure	Estimated Cost
Heywood separating databases	£200,000*
East Sussex IT hosting data on Server	tbc
East Sussex IT hardware & Software	tbc
Other Costs	tbc

* Some of this will be met by Surrey

These costs will be presented to the Pension Committee for approval on 30 November 2020.

3.5 The Pension Committee is asked to note the report and make any comments for feedback to the Pension Committee.

4. Annual Benefits Statements as at 1 April 2020

4.1 The last Committee received an update as at 31 August 2020 (the statutory deadline) and this is set out in **Appendix 4**. The Chair positively commented on the low error rate and these mostly being caused by "gone aways" and four Employers who had not provided end of year returns. The number of breaches outside of casual workers and the four Employers amounted to 0.4%.

4.2 The update letter was sent to the Pensions Regulator (tPR) on 29 September 2020, see **Appendix 5,** which highlighted the significant progress made compared to 2018/19.

4.3 Work has continued to progress the end of year returns and data queries, with the plan to do a final run of ABS in early November 2020. Any outstanding work thereafter would, by default, become part of the continuing Data Improvement Project.

4.3 With regards to the 325 casual workers, it was agreed a policy was needed to deal with the members who are on casual contracts and who did not have pensionable service in the Fund during 2019/20. A briefing paper was prepared (see **Appendix 6**) and consultation with the Pension Board and Committee Chairs undertaken prior to the following actions being implemented:

(a) CARE Pay – these members who have received no pay of any kind in the period 1 April to 31 March, the decision is to use a value of £0.01 against pensionable pay, so effectively giving no accrual of CARE pension for that year.

(b) Final Salary Pay – This is only to be used in the calculation of benefits pre April 2014, so the decision is to roll forward the existing final pay value from the previous year, having the effect of calculating any final salary benefits as exactly the same as the previous year, by maintaining the same final pay value and accrued service. Applying the above would have the effect of producing an ABS of equal value to the previous year (ignoring CARE revaluation).

4.4 There will be a verbal update at the meeting as to the position as at 31 October 2020.

5. Internal Audit

5.1 **Appendix 7** updates the Pension Committee 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

Since the handover from Hymans to PAT progress has continued to be tracked by the Working Party. Queries on the quality of the data handover has caused delays and some work previously described as complete by Hymans actually requires more actions. The annual assessment using tPR data validator guidance has produced the following results, showing a significant improvement in scores:

Common Data scores

Fund	2018	2019	2020	Difference between 2019 & 2020
ESCC	87.20%	88.00%	96.90%	**+8.90%**

Conditional Data scores

Fund	2018	2019	2020	Difference between 2019 & 2020
ESCC	87.30%	89.80%	96.00%	**+6.20%**

The full reports will be available for the next Working Group meeting when the next Phase 2 DIP is expected to be considered in readiness for a January 2021 launch.

6.2 GMP Reconciliation, Rectification and Equalisation

Orbis commissioned JLT (Mercers) to undertake the reconciliation and rectification work. The project has been held up by HM Revenue & Custom (HMRC) provision of final data (received by Mercers late July 2020) but the final reconciliation report is still awaited. The existing Public Sector GMP Equalisation work around is likely to be extended are part of a consultation, in response to which is at **Appendix 8**.

6.3 Overseas pensioners biannual mortality exercise
This year we are issuing letter to ALL overseas pensioners, not just the incapacity and over age 70 members. 478 letters were issued on 25 August 2020 and as at the end October 2020 we have received 325 completed and appropriately verified returns. In addition, we have 2 gone aways, 9 deaths and 3 pay-slip returned cases (now suspended). This leaves 139 outstanding and we will send an email chaser (or letter where not possible) in early November 2020.

6.4 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 November 2020. It is not anticipated that it will be rolled-out any wider for a few months.

This will be a topic of discussion at the Employers Forum webinar on 20 November 2020.

6.5 Pension increases as at 1 April 2020
The annual pension increase for April 2020 was completed by Heywood's on 27th April 2020. As reported at the last Pensions Committee 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.

The April 2020 supplementary pension increases were overlooked and Heywood's were asked to undertake these in September 2020 and they should be processed in the October 2020 pensioner pay.

6.6 £95k exit cap
On 5 October 2020, we wrote to all the East Sussex employers to explain the exit payment legislation was passed by the House of Commons on 30 September 2020 and comes into force 21 days after its approval. There are a number of queries outstanding on how this will work for the LGPS and whether both sets of legislation (Exit Payment Regs from HM Treasury and Compensation Regulations from Ministry of Housing Communities and Local Government(MHCLG)) will be published at the same time, or what happens if they are not.

Due to the uncertainty on how these cases will be processed, the Orbis PAT has paused the provision of early retirement termination estimates with immediate effect, so as not to provide incorrect figures for pension benefits and strain costs.

On 4 November 2020 the Exit Payment Regs become law but the MHCLG consultation on Compensation Regs does not close until 9 November 2020 and the LGPS Regs are unlikely to be updated until the end of 2020. The conflict is Regulations is causing much confusion, concern and the calculation position remains uncertain.

IAN GUTSELL
Chief Finance Officer

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APPENDIX 1

These are Orbis internal targets and the ESCC targets agreed in Sept 20 as a result of Good Governance review cannot commence until April 21 or until we go live with a separate database.

East Sussex Pensions Administration - Key Performance Indicators

	Activity	Measure	Impact	Target	Oct-20		Sep-20		Aug-20		Jul-20		Jun-20		May-20		Apr-20		Mar-20		Feb-20	
	Scheme members	Pensioners, Active & Deferred			77,920		77,944		77,619		77,706		77,429		75,196		76,851		76,885		76,762	
	New starters set up				299		239		205		409		358		128		162		283		413	
					Volume	Score	Volume	Score	Volume	Score	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%**	34	100%	29	100%	17	100%	35	100%	16	100%	33	100%	43	100%	21	100%	26	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	**95%**	18	100%	9	89%	8	100%	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%**	63	96%	52	97%	73	91%	74	92%	68	98%	46	98%	48	96%	94	99%	70	100%
2b	Payment of lump sum made	within 5 days	H	**95%**	140	94%	114	94%	127	94%	103	97%	82	97%	88	99%	121	97%	89	100%	75	99%
3	Calculation of spouses benefits	within 5 days	M	**90%**	23	100%	13	100%	10	100%	12	100%	16	100%	12	100%	16	100%	11	100%	20	100%
4a	Transfers In - Quote (Values)	within 10 days	L	**90%**	21	96%	37	100%	20	95%	12	92%	12	100%	19	95%	6	84%	21	100%	21	100%
4b	Transfers In - Payments	within 10 days	L	**90%**	22	100%	10	90%	15	60%	16	88%	12	100%	9	100%	20	95%	28	97%	39	100%
5a	Transfers Out - Quote	within 25 days	L	**90%**	33	100%	41	91%	18	100%	20	95%	16	100%	10	100%	18	100%	30	100%	33	97%
5b	Transfers Out - Payments	within 25 days	L	**90%**	11	100%	13	85%	8	100%	11	100%	7	86%	6	100%	11	100%	12	100%	24	96%
6a	Employer estimates provided	within 7 days	M	**95%**	10	100%	12	84%	54	73%	45	49%	25	72%	7	72%	11	91%	34	92%	24	100%
6b	Employee projections provided	within 10 days	L	**95%**	31	94%	19	79%	17	94%	18	84%	12	100%	5	100%	5	100%	22	91%	25	100%
7	Refunds	within 10 days	L	**95%**	39	100%	23	100%	32	100%	31	100%	38	98%	16	100%	12	100%	26	100%	39	100%
8	Deferred benefit notifications	within 25 days	L	**95%**	146	100%	122	100%	117	100%	160	100%	78	99%	102	100%	139	100%	202	100%	239	100%
	TOTAL TASKS COMPLETED				**591**	98.31%	**494**	95.34%	**516**	92.64%	**543**	92.63%	**394**		**359**		**454**		**598**		**642**	
	Missed target cases				10		23	5>3days	38		40											
9	Complaints received- Admin				2		0		6		0		1		0		1		0		0	
	Complaints received- Regulatory						0		0		0		0		0		0		0		0	
13	Compliments received						0		1		0		0		0		0		0		1	

OVER DUE CASES	RED-AMBER	Oct-20	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20
1b	Award dependent benefits (Death Grants)		1 overdue - 2 days							
2a	Retirement notification acknowledged, recorded and documentation sent			7 overdue - average by 12 days	6 Overdue - Average 2 days		1 task overdue by 16 days			
2b	Payment of lump sum made	8 Overdue by average of 7 days		9 overdue - average by 3 days	9 Overdue - 1 by 348 days		1 task overdue by 17 days			1 case overdue by 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			8 overdue - average by 32 days	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		1 overdue - 7 days	15 overdue - average by 3 days	28 Overdue - Average 8 days	7 Tasks, 4 Days overdue average	2 tasks overdue by 2 days on average		3 tasks overdue on average by 1 day	
6b	Employee projections provided	2 Overdue by average of 6 days	4 overdue - average 2.5 days	1 overdue - by 37 days	5 Overdue - 1 by 73 days				2 tasks overdue by average of 2 days	
8	Deferred benefit (DB5YE)									1 case overdue
	Summary for failed cases	Half the late lumpsums are where retirements returned paperwork early. Redundancy quotes stopped early October.	More intense training. TV in/out activity high. Projects - DIP, overseas mortality, ABS queries.	39 days holiday = 288 hours. Retirements & Employer estimates at high level. Training new starters.	Overall post up 38% on last month. Team encouraged to take leave.					
				7/8 Aaron Martin left Mubu Mubukwanu joined	Job Robinson promoted	12/6 Simon Bathurst left	Will Bamber joined			
		Two vacancies	Two vacancies	Two vacancies	Two vacancies	Two vacancies	One vacancies	Two vacancies		

Appendix 1

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Appendix 2

Helpdesk performance

Introduced the call centre for ESPF in November 2019 (not taken on managing the corporate email box). Currently about 2 FTE 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 30/09/20	7,300*	6,051	1,249	17.1%	Jul 22% Aug n/a Sep 24%	Jul 74% Aug 81% Sep 73%	Jul 6.42 Aug 7.57 Sep 6.19

* Since lockdown the telephone service opening times has been restricted (with NO back-up – phone line is still only open from 10am to 2pm and 2pm to 4pm). First few months there was no call recording and logging was inconsistent. All staff did not initially have laptops and only got Jaba software from June 2020.

Following ongoing challenge from East Sussex PAT the telephone opening times are being reviewed alongside the capacity planning. Prior to the pandemic the telephone open times have always been 9am to 4pm.

The service has always been susceptible to high staff turnover and four staff have resigned in the last six weeks.

Helpdesk - Top five reasons for ESPF calls:

July 20		Most popular calls	Sept 20	
Number	Reason		Reason	Number
71	Self-service on-line activation	1st	Self-service on-line activation	129
67	Login to website issues	2nd	Guidance with forms	70
45	Guidance with forms	3rd	Login to website issues	48
35	Updates on benefit settlements	4th	Updates on benefit quotations	46
31	Member options guidance	5th	Updates on benefit settlements	45

Helpdesk (website) performance

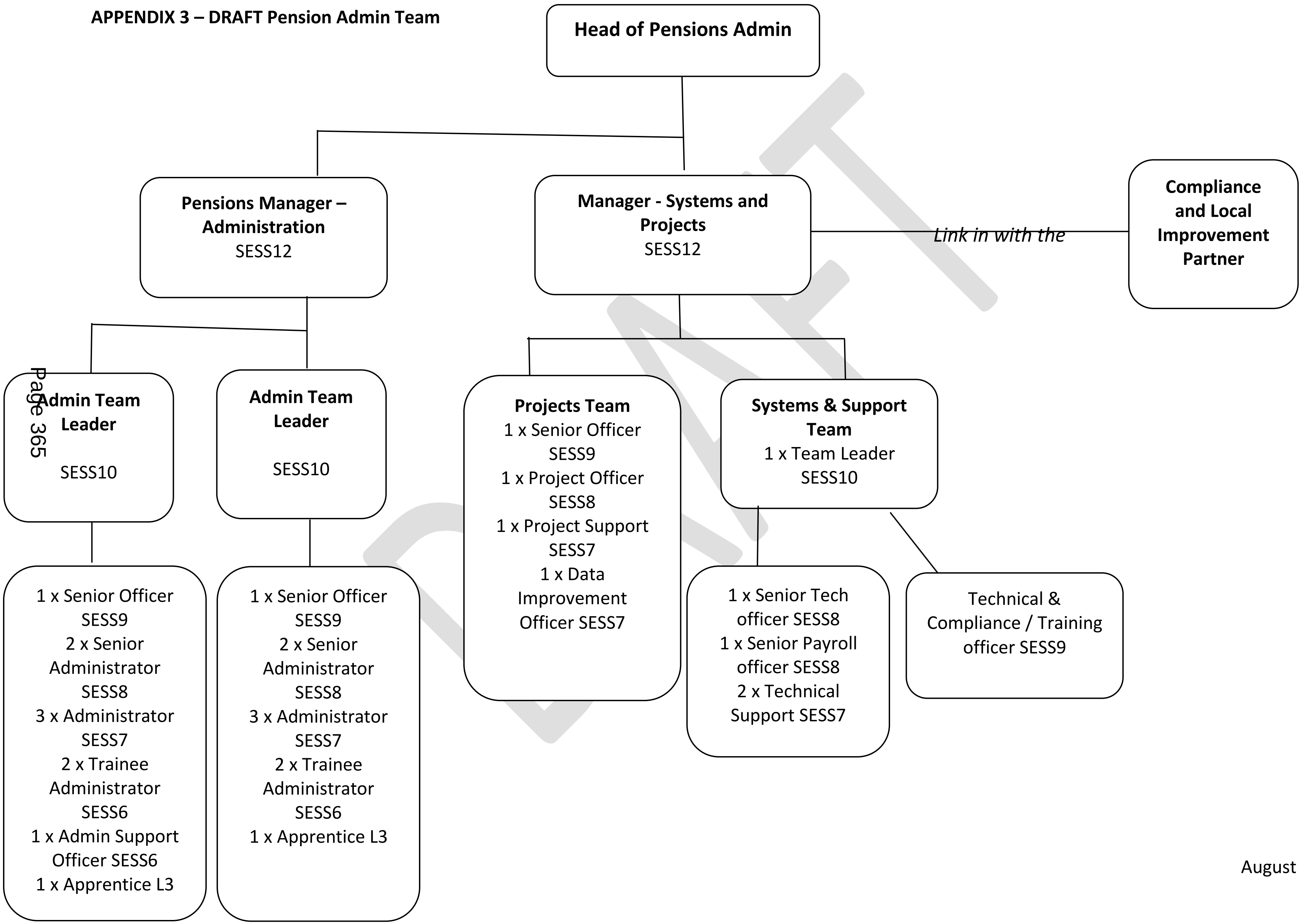
Period	Calls received	Handled	Abandoned	Abandoned %	SLA %	Queue %	Abandoned Time
01/01/20 to 31/03/20	697	574	123	17.64%	Jan 24% Feb 28% Mar 28%	Jan 52% Feb 49% Mar 37%	Jan n/a Feb 5.08 Mar 1.17
01/04/20 to 30/06/20	1,320	871	449	34.02%	Apr 28% May 28% Jun 0%	Apr 43% May 56% Jun 75%	Apr 2.59 May 2.27 Jun 4.13
01/07/20 to 30/09/20	1,032	926	106	10.27%	Jul 1% Aug n/a Sep 39%	Jul 41% Aug 46% Sep 26%	Jul 4.45 Aug 3.28 Sep 1.37

Helpdesk Notes from Sept 20 meeting:

- 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.
  BT cannot offer these facilities and Surrey IT&D need to do more exploratory work before they research alternative options.

- 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.
  The helpdesk have confirmed no complaints have been received since August 20.

APPENDIX 3 – DRAFT Pension Admin Team



Appendix 3

August 2020

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

DEFERRED STATEMENTS 2020									
			Number "errored" breakdown						
Fund	Total Nos Produced	Total Nos errored	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	Other	Total Errors
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										
		EOY return		Missing 19/20 CARE Pay		Other reasons - East Sussex specific				
Fund	No. of active statements run by 31 August	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	Total no. of statements produced	Total no of records that are eligible to have a statement run
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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LGPS Supervision & Frontline Regulation
The Pension Regulator
Napier House
Trafalgar Place
Brighton
BN1 4D

29 September 2020

Our Ref: Scheme Reference (Pension Regulator) PSR Number: 10079157

Dear Sir/Madam

This letter provides a breach report for the East Sussex Pension Fund. The exchange portal could not accept the breach report due to technical issues hence this letter.

This breach report concerns the following matter:

1. the 2020 Annual Benefits Statement breach report for the scheme year ending 31 March 2020.

Since the Fund's last report to the Regulator in November 2019, it has secured good progress in improving the quality of records and data improvement more generally. As we previously advised, the Data Improvement Programme commenced in November 2019 spearheaded by Hymans Robertson and overseen by the Data Improvement and Annual Benefit Statement Working Group (comprising Officers, Pension Board representatives and the Chair of the Pension Committee). This programme formally concluded in June 2020 with data improvement functions transitioning to business as usual within the Administration. The high of engagement with Fund employers successfully increased the quality and level of returns. The Fund's results are set out in Appendix A and summarised below:

Active Members:

Eligible members:	22,262
Statements produced:	21,639
Shortfall:	623

The Fund was unable to provide statements for 623 active members, due to a total of five employers failing to submit or extremely late submission of the EOY return and/or missing 2019/20 CARE Pay details. Notably, two employers accounted for over 86% of attribution. These employers are: the East Sussex College Group (31.6%) and Brighton and Hove City Council (55%). Since these employers perform without compliance year on year, the Fund Officers escalated the matter to the Pension Board for review.

The Pension Board reviewed this matter at its meeting on 7 September 2020 and made a recommendation to report the East Sussex College Group and Brighton and Hove City Council to the Pension Regulator for failure to comply with the statutory provisions of the Annual Benefit Statements. This decision was upheld by the Pension Committee at its meeting on 21 September 2020. This letter is considered as a formal breach report on this matter.

The Fund did not provide any statements to 325 Casual Employees, for which 2019/2020 CARE pay was not provided (this is not included in the totals above). Whilst the Fund is seeking to regularise and review its approach to Casual Workers, it would be useful for the Regulator to confirm its understanding and position in relation to Casual Workers and specifically the Fund's treatment of this category in 2020. Any advice or guidance would be very useful.

In summary, this year's performance was markedly improved from the performance in 2019 which reported a shortfall of 7,900 statements. Whilst this is an excellent result for the East Sussex Pension Fund, the Fund is not complacent and continues its commitment to continuous improvement and better outcomes for our members.

Deferred Members

Eligible members:	31,023
Statements produced:	29,727
Shortfall:	1,296

The Fund provided statements to 29,727 deferred members, with a shortfall of 1,296 (Shortfall 2019:15,815). This strong result was attributable to the Data Improvement Programme work of resolving cases assigned to Status 2 and Status 9 within the Altair system and improving track and trace capabilities, including increasing the level of mortality tracing.

This year's shortfall was mainly attributable to members for which the Administrator no longer held a valid address, classified as Gone Away (87.3%) and those members who were not eligible for receipt of a statement (7%).

As from 30 September 2020, replies will need to be addressed to my successor, Sian Kunert, Head of East Sussex Pension Fund contactable Sian.Kunert@eastsussex.gov.uk. I trust that this breach report provides the assurance that the Authority is giving proper consideration to these matters and committed to delivering an accountable service.

Yours sincerely

Michelle King
Interim Head of Pensions
East Sussex County Council

Appendix 6

East Sussex County Council - Decision Report

Annual Benefits Statements – 325 casual workers

<u>Background</u>

The options for treatment of casuals were discussed at the last Pension Board and Pension Committee – see **Appendix 4**.

<u>Options</u>

<u>View A from Surrey CC:</u>

Active members with no earnings cause an error and no ABS can be produced. Options proposed:
(i) Input the salary as £1 and this will allow a statement to be produced – approach used historically
(ii) Change their status to 2 and request a leaver form, saying £0 salary can't stay in but can re-join if earnings recommence
(iii) Leave as active, recognising they have a contract of employment that has not been terminated & send letter saying can't have a statement

<u>View B from The Royal county of Berkshire Pension Fund</u>

Head of Pensions advised Active members with no earnings CAN still have an ABS produced.

<u>View C from Southern Area Pension Officers Group (SAPOG)</u>

At SAPOG meeting on 30/09/20, two Authorities said their approach was to add £0.01 to the contributions and roll forward the pensionable salary from the previous year. They recognised the employer has a contract of employment and Authorities are not able to break that. Both LAs do produce ABS for casual workers. No one else challenged the view presented (and there were reps from Berks, Bucks, Hamp, Isle of Wight, Oxford, Surrey, West Sussex plus guests from LGA and MHCLG).

<u>View D from Heywood</u>

The Altair 9.1 Release Guide - section 11.4.1 - explains how to produce Annual Benefit Statements for Non-Casual members who do not have CARE Pay at the relevant date. It also mentions that the same change was made in the Altair 8.1 Release for Casual members, but that release guide failed to mention this - it was due to an update for a problem. Heywood confirmed ABS can be produced for members with no pay.

<u>Timing of Decision</u>

Orbis Pension Administration is looking to do a sweep-up of cases where data was received or corrected post 31/08/20. To get the decision included, it would need to come in by 23/10/20; this will allow sufficient time to get the data sorted the week after that and run the final batch of members in the week commencing 02/11/20, with a summary report produced thereafter.

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Appendix 7

OPEN ACTIONS

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	01/01/2021	Nick Weaver	Partial	Heywood's Altair software has a payroll module which has two non-core modules we are looking to introduced to resolve the issue. 1. 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 and 2 is also implemented. 2. We are looking to implement "Admin to Pay" integration module for payroll but there are a number of actions that need to be completed first: (a) The introduction of Immediate Payments cause the subsequent monthly data transfer from Altair to SAP to crash. The existing Altair extract reports were double counting some transactions from the immediate payments. Its transpired that ESPF set up is different to the other five Orbis funds. Result was we needed Heywoods to prepare two new Altair data extract reports which were prepared, tested and live in September. Meanwhile this created a backlog of data to be entered into SAP. When the June data was imported it was rejected as the system was expecting the current data. This is being resolved with IT - how to open closed periods. (b) The Altair admin and payroll sytems need to contain the same "pensions in payment" data. It transpired that this was not the case for approx 130 pensioners and the records needed investigating. Decision was made to fully investigate the cases greater than £100 p.a. and these cases were completed in August and payroll updated where appropriate in September. For differences less than £100 p.a. the decision was to accept the payroll data as correct and overwrite the data into the admin system. The original admin data would be stored in the notes section and be investigated further as part of the next phase of Data Improvement Project. (c) Due to a key man risk issue (long term sick) the April 2020 pension increase exercise was outsourced to Heywoods to perform. The main pensions increase were completed but created approx 3,000+ warnings that need to be investigated. Heywoods first need to undertake the supplementary pension increases.
		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: • 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) • redundancy payments (including for non-LGPS employees). The PAT does not perform these calculations for other employers and such activities are not and should not be within the remit of the PAT who operate on behalf of the Pension Fund. We understand that this practice arose as a result of staff in the PAT being co-located with payroll staff and having access to the ESCC payroll system.	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	20/11/2020	Kevin Foster	Partial	SCC payroll developed a leavers report that is run monthly against SAP and then passed to the pensions admin team. The report provides CARE and final pay calcs which in turn removes the need for payroll staff to undertake calculating pay details manually. There are some exceptions on specific types of cases (unpaid leave in the last three years etc.) where a warning indicator is added to the entry on the report so the pensions admin team know to query this with the payroll team and ask for the calculation to be undertaken manually. The Orbis IT SAP development team are currently working on the leavers report for ESCC payroll. The SCC and ESCC payrolls are not identical, so whilst the SAP development team are using the SCC report as the first iteration of the ESCC report it doesn't "fit perfectly" and is currently at the amending and testing stage. The i-Connect file will automatically record new entrants, changes, contributions, CARE and final pay and leaver notifications but it will not provide the final pay calcs for the three year period. Once operational, both i-Connect and the Leavers Report are run monthly going forward. The SCC i-Connect file has just been tested against the Altair test environment, with good initial results, and the i-Connect file for ESCC is ready to be tested, and Amy and Mandy are working together to progress this at the moment. For the employers on the ESCC payroll, HR prepare the redundancy quotations but PAT prepare the final actual numbers (even for non-pension scheme members). PAT have confirmed 80%+ of the quotations are correct and differences are usually down to changes in overtime in the last few months. Discussions to move all calculations to HR are now complications by the Govt introduction of the £95k cost cap and MCHLG redundancy regulations. There has been some slippage on the handover date. Actions and plans are in place to deliver the technical solution (which is now in final testing); assigning tasks within the payroll team to undertake the work and transfer of knowledge and process from pensions team to payroll team and assurances have been given that the target date is deliverable subject to positive final testing which is anticipated.
		3.2		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 undetaken and no action no required
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	20/11/2020	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	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	Tom Lewis	Partial	Systems and Support Team to document a process for maintaining system access and levels in Altair for both internal and external access users. (a) create three lists of users - PAT, other internal users (Fund / Authority) and External (advisers) (b) review users list against current staff and ensure named individuals in Fund, Authority & external advisers are still employed and access is deemed appropriate (c) despite (b) if users have not used the system for 3 months their access should automatically be disabled and at six months be deleted (d) all new access or reaccess requests must be pre-approved by a Manager East Sussex Head of Pensions Administration has offered to perform the review of users and approve/challenge their access rights - the first review in due in Q4, 2020. The primary responsibility for informing IT and systems of joiners and leavers resides with HR. So check referred to above should simply be a safety net.

CLOSED ACTIONS

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	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 rather than making the member retire at a later date. The issue is where the member 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 chech 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	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	Yes	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 15 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. Hymans produced a DIP closure as at 31 July 2020. The project will be finalised as BAU by 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 31 August 2020. An update report was provided to the Board & Committee in September 2020. The committee minutes stated "***The PAT should be congratulated for the improvements it has made to the Annual Benefit Statement (ABS) process. Excluding a few issues due to employers not responding, 99.6% of statements were issued on time*** ."
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. • 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	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	Yes	See 4 above. Significant data quality improvement work has been achieved by Hymans; the work has been handed back the the East Sussex PAT to finalise as BAU. Data quality retention & improvement is an ongoing challenge, anew phase will begin in Q1, 2021. We produce tPR validator common & conditional reports annually (next due November 20) to continually monitor the data quality levels. ***We are confident the data & quality has improved across the PAT service and therefore happy to close this action - data will never be 100% accurate.***
		5.2		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	Yes	1. Improvements to procedures and policies impacting the quality of data including the use of statuses is complete. 2. ISO9001 accreditation was a commitment by Orbis that has not materialised. This is a best practice item and nice to have but not a priority so will be revisited in a few years when some of the significant urgent projects are finalised. 3. The Compliance Local Improvement Partner (CLIP) was appointed 3 August 20 and he will oversee quality. The Orbis data quality team has not materialised and the restructure for ES will not include a specific team. Quality should be owned by every individual. ***We are confident the data & quality has improved across the PAT service and therefore happy to close this action - data will never be 100% accurate.***

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 superviser status to "delete" records where appropriate.
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 in cases remaining indefinitely in a suspense account.	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	Yes	On 30 January 2020 a full cut of scheme data was provided to Hymans to commence the DIP and significant improvement have been made since then (outlined in the 31 July 2020 Hymans closure report): **Status 2 (unresolved leavers)** Initally 977 cases identified & at the point of handover back to ES PAT 532 had been resolved & a further 117 were ready to be validated. This left 323 remaining to be followed to seek missing data from Employers (8 Employers accounted for 282 cases or 87% and 16 Employers for the remaining 41 cases or 13%). To put in perspective the 2020 ABS has identified 865 new status 2 cases that will need investigating **Status 9 (frozen - undecided refunds)** Initally 4,650 cases and all validated as true cases (except 6) - these are with ES PAT to settle as requested by members. New process in place to automatically prepare to settle these three months before the five years anniversary of leaving. The new process includes address tracing where necessary and providing a
		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 3 August 2020
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	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	Yes	See 5 above
		9.2		High	See Action 5, above.	01/04/2020	01/10/2020	Ian Gutsell	Yes	See 5 above
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 assessible (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 yearas 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	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	Yes	The Good Governance Working Party proposals for the roles and responsibilities was agreed by ES Pensions Committee on 21 September 2020 but cant be fully implemented until been consulted upon with Employers and we have our own Altair database (Orbis will not permit new different SLA/KPIs for the PAT to be set-up. The decision to move the administration back in-house means there will be a more holistic approach and joined up processes. The ES Head of Pensions Administration has completed a review of "suspended" pensioners during September and the remaining cases are appropriate. He has also taken on responsibility of authorising the suspension of new cases, including a number of pensioners being suspended from September 20, whose payslips between March & May 2020, and appropriate letters and chasers were issued (including via banks) in the intervening period.
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.
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	16/03/2020	01/07/2020	Michelle King	Yes	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	Yes	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 8

Public Service Pensions: GMP indexation consultation: Proposal to extend full indexation - Response to questions put by the consultation

No	Question	Response
1	Do you consider an extension of full indexation until April 2024 to be appropriate to ensure that the government can meet its existing commitments, re-evaluate conversion as a long-term solution and resolve the handling of those cases where conversion could not be undertaken on a £1:£1 basis?	Given the timeframe available, and the absence of a fully determined methodology for an alternative approach, the extension of full indexation is the only practical means of dealing with those reaching State Pension Age beyond 5th April 2021.
2	Should the government consider an extension of full indexation to cover those reaching SPa beyond 5 April 2024? If so, how long should the government extend full indexation for, and why?	A continuation of established practices would be the simplest way of covering those reaching State Pension Age beyond 5th April 2024, requiring no amendments to systems and relying on existing and understood methodology. Given that all three of the options proposed require the cost burden for the indexation of pensions to remain with scheme employers of the LGPS, the extension of the existing full indexation approach will minimise disruption and be the least costly from an administration perspective. It is for those reasons East Sussex would favour this approach.
3	Should the government consider making full GMP indexation the permanent solution for all members due to reach SPa after 5 April 2021? If so, why do you think this is the most appropriate solution?	Yes - See response to question 2.
4	Do you consider full GMP indexation to be an appropriate method in most cases to avoid unequal pension payments to men and women?	The consultation document itself acknowledges that although suitable for a significant majority of cases, for a small number of members, benefits will remain unequal despite full indexation having been applied. The development of an alternative solution for this small group should be developed for application in those cases alone.
5	How could the delivery of any of the policies outlined in this consultation, by way of a direction made under s. 59A of the SSPA 1975, impact on wider public sector or private sector schemes which are not providing 'official pensions' under the PIA 1971?	This response is limited to the Local Government Pension Scheme only which does follow PIA 1971 and the Social Security Pensions Act 1975.

6	If wider public sector or private sector schemes which are not providing ‘official pensions’ are impacted by any of the policy options set out in this consultation, why were their pensions originally designed to mirror official pensions?	See response to question 5.
7	Should the government take action to avoid any read across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering ‘official pensions’ under the PIA 1971?	See response to question 5.
8	What considerations should the government take into account when deciding whether to take such action? In particular, why should government act so that the members of these schemes do not receive the benefits which they would otherwise receive under the scheme rules?	See response to question 5.
9	Are there actions the government could lawfully take to avoid any read-across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering ‘official pensions’ under the PIA 1971?	See response to question 5.
10	Are there wider issues relating to the GMP that are not mentioned here and which should be considered when the government decides its policy?	It is clear that the adoption of any of the proposed solutions detailed in the consultation, result in the transfer of further liabilities from central to local government. Placing an additional financial burden of the scheme employers. Further consideration should be given to a solution that does not increase still further the liabilities of LGPS Funds.

Report to:	**Pension Committee**
Date of meeting:	**30 November 2020**
By:	**Chief Internal Auditor**
Title of report:	**Internal Audit Report: Pension Fund: Governance, Strategy and Investments 2019/20**
Purpose of report:	**This report provides the Committee with the outcome of the above audit**

RECOMMENDATIONS

The Committee is recommended to note the Pension Fund Governance, Strategy and Investments 2019/20 audit report

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1. Background

1.1 The review of Pension Fund: Governance, Strategy and Investments 2019/20 (Appendix 1) was completed as part of the Internal Audit Strategy for Pensions 2019/20. The audit report aimed to provide assurance on the overall effectiveness of the system's controls and to identify areas of concern or weakness where improvements could be made.

1.2 As a result of our work, we were able to provide an opinion of Reasonable Assurance over the controls in place. Where areas of improvement were identified, management actions were agreed, together with timescales for their implementation.

2. Conclusions and Reasons for Recommendation

2.1 The Pension Committee is recommended to note the Internal Audit report.

RUSSELL BANKS
Orbis Chief Internal Auditor

Contact Officer: Nigel Chilcott, Audit Manager
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BACKGROUND DOCUMENTS:
Internal Audit Strategy for Pensions 2019/20

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Appendix A

Internal Audit Report

Pension Fund: Governance, Strategy and Investments 2019/20

Final

Assignment Lead: Jodie Lulham, Senior Auditor
Assignment Manager: Danny Simpson, Principal Auditor
Prepared for: East Sussex County Council
Date: October 2020

Report Distribution List

Draft Report:
Michelle King, Interim Head of Pensions
Ian Gutsell, Chief Finance Officer
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Final Report:
Sian Kunert, Head of Pensions
Ian Gutsell, Chief Finance Officer
Kevin Foster, Chief Operating Officer
Russell Wood, Pensions Investment Manager
Pension Committee
Pension Board

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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1. Introduction

1.1. East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 134 employers.

1.2. The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations.

1.3. The Pension Committee is responsible for making arrangements for the administration of the Fund and its investments, receiving advice as appropriate from the Pension Board, which is a statutory requirement to assist the Scheme Manager (ESCC) in securing compliance with all relevant pensions' law, regulations and directions. The administration of the Pension Fund is carried out by Orbis Business Operations.

1.4. The Fund is a member of the ACCESS Pool, a collaboration of 11 LGPS Administering Authorities who are working together to reduce investment costs and gain economies of scale; this was implemented in line with the 1 April 2018 deadline set by Central Government. The ACCESS Pool currently has a value of £46 billion, with the Fund having invested £2.8 billion.

1.5. We reviewed the adequacy of governance arrangements over the East Sussex Pension Fund, covering strategy and the arrangements to manage investments, including pooling arrangements, and the internal controls of external fund managers.

1.6. This review was part of the agreed Internal Audit Plan for 2019/2020.

1.7. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- To ensure that investments (inside and outside the ACCESS Pool) are well managed and that all income due is received promptly and intact;
- To ensure that governance arrangements provide sufficient and effective oversight;
- To ensure that risk management arrangements are robust;
- To ensure that communication is efficient and effective; and
- Accounting provides an accurate representation of Fund's financial position.

2.2. The findings in this report are based on a review of the control environment before the national response to COVID-19. Any assurance given does not extend to interim measures or changes to management arrangements implemented due to COVID-19.

3. **Audit Opinion**

Reasonable Assurance is provided in respect of **Pension Fund - Governance, Strategy and Investments 2019/20**. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. **Basis of Opinion**

We have been able to provide Reasonable Assurance over the controls operating within the area under review because:

4.1. Appropriate governance structures are in place, including a Pension Committee and Pension Board, supported by up to date terms of reference. Meetings are held in accordance with the Council's Standing Orders and are minuted effectively. Both bodies' members are adequately qualified and knowledgeable in order to fulfil their roles in accordance with their respective Terms of Reference.

4.2. Investment performance is regularly reported to the Board and Committee and reviewed as appropriate.

4.3. There is an independent advisor in place with the relevant knowledge and skills to support the Fund and its decision making.

4.4. However, we identified some areas where improvement is required:

4.5. Governance arrangements within the ACCESS Pool could be strengthened. There is no agreed and formalised process to manage the performance of Fund Managers or Investments. A Governance Manual has been prepared but still awaits approval by the ACCESS Pool, meaning that it has not yet been implemented. In addition, External Control Assurance Reports from fund managers have not yet been reviewed by Link Fund Solutions, meaning that any control weaknesses affecting investments may continue to exist without the Fund's awareness.

4.6. There is a high level of reliance placed upon the knowledge of individuals within the Fund as opposed to formally recorded processes, which may lead to a loss of such knowledge should individuals leave the role or be unavailable due to illness.

4.7. The Fund has lent money for short periods to the main ESCC group bank accounts in order to avoid the Council's bank account becoming overdrawn. Email evidence exists to demonstrate that the Fund was made aware of the transactions before they happened. No concerns were raised by the Pension Fund team at the time that this was against Local Government Pension Scheme Regulations and there was no evidence of formal approval from the Fund for the transactions. They did, however, follow normal

ESCC treasury management processes, with approval from two members of the ESCC Treasury Management team on each occasion.

4.8. A small number of officers have out of date or no declarations in the register of interests.

4.9. Records in SAP and those held by the Fund's Custodian are not reconciled frequently enough, increasing the risk of error.

5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation	0	N/A
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	4	1, 2, 4, 5, 6
Low	Represents good practice but its implementation is not fundamental to internal control	3	3, 7
	Total number of agreed actions	7	

5.1. As part of our quarterly progress reports to Audit Committee, we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

6. Acknowledgements

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	**Governance of the ACCESS Pool** Although there are a number of processes in place designed to provide good governance over the Fund, there are no controls in place to ensure that these measures are effective and operational. To support robust and effective oversight of the ACCESS Pool, a Governance Manual was drafted by the partnership, but it is yet to be agreed and implemented. The Governance Manual for the ACCESS Pool has not yet been implemented, meaning that governance measures over the Pool may not be effective. However, we acknowledge that the agreement and implementation of the Governance Manual is the responsibility of the Pool as a whole, as opposed to the East Sussex Pension Fund in isolation.	Without generally agreed procedures, governance of the ACCESS Pool may be weakened.	Medium	The Fund will work with its partners in the ACCESS Pool to ensure that the Governance Manual for the ACCESS Pool is agreed and implemented.
Responsible Officer:		Head of Pension Fund	**Target Implementation Date:**	31 January 2021

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	**Review of Inadequate Performance** An ‘operator’, Link Fund Solutions, has been appointed to manage investments in the ACCESS Pool on a day to day basis. However, the performance of the Link Operator has not always met the expectations of the Fund. For instance, the Link Operator transferred assets of an ineligible class into a sub-fund and subsequently had to transfer them out. Whilst the error arose through a misunderstanding between a fund manager and the Custodian, we would have expected Link to query illegitimate investment instructions. There is no formally established process within the ACCESS Pool for following up inadequate performance, although work is in progress to draw up a process for this purpose. However, we recognise that, as one member of the ACCESS Pool, the ESPF is unable to resolve any issues without the collaboration of the other funds.	Without a robust mechanism for managing the performance of the Link Operator, there is an increased risk of error which may lead to financial loss.	Medium	The Fund will work with our partners in the ACCESS Pool to establish a process to manage the performance of the Link Operator and investments within the ACCESS Pool. The Head of Pensions will raise the issue with the Interim Director of the ACCESS Support Unit.
Responsible Officer:		Head of Pension Fund	**Target Implementation Date:**	31 January 2021

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	**Review of External Control Reports** To provide assurance that fund managers, responsible for the Fund's investment assets, have robust controls in place, reports from their auditors are obtained. It is important to ensure that these External Control Assurance reports are reviewed in a timely manner in order to identify any weaknesses in control that could put the Fund's investments or data at risk. As part of the pooling arrangements, it should be the responsibility of Link Fund Solutions, as the operator, to obtain and review External Control Assurance reports and provide assurance or feedback any concerns to the Pool, which, in turn, should advise individual funds. However, the operator has provided no such assurance and, whilst the Fund has obtained the most recent sets of External Control Reports for itself, they have not yet been reviewed.	Failure to ensure that External Control Assurance reports are reviewed in a timely manner may result in risks to Fund investments going unnoticed, thus increasing the potential for financial loss or reputational damage if investments are held by non-compliant managers.	Low	The Fund will request that Link undertake a review of External Control Assurance reports and report back any findings as soon as possible. The Head of Pensions will raise the issue with the Interim Director of the ACCESS Support Unit.

Responsible Officer:	Head of Pension Fund	**Target Implementation Date:**	31 October 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	**Segregation of Fund and Non-Fund Accounts** We found two occasions on which the Fund has lent money to the main ESCC group bank account, overnight on one occasion and for two nights on another, to prevent the ESCC bank account becoming overdrawn. These movements were carried out by the ESCC Treasury Management Team and records confirm the amounts borrowed and the interest paid to the Fund. Email evidence exists to demonstrate that the Fund was made aware of the transactions before they happened. No concerns were raised by the Pension Fund team at the time that this was against Local Government Pension Regulations and there was no evidence of formal approval from the Fund for the transactions. They did, however, follow normal ESCC treasury management processes, with approval from two members of the ESCC Treasury Management team on each occasion.	The transfer of funds between the Pension Fund and County Council main group accounts, or payments being made on behalf of the employer from the Pension Fund, is non-compliant with the Local Government Pension Scheme Regulations 2009.	Medium	We will apply the breaches policy to assess the implications of this. We shall cease paying unfunded benefits from the Fund account. The Pension Fund shall introduce access and approval controls to ensure that no loans are made from the Fund to the Council.

	In addition, the Fund became overdrawn on one occasion, when a payment that was due to the Fund to cover an employer's liability for unfunded benefits to members, was not received before the pension payroll was run. This payment was subsequently received in full.			
Responsible Officer:		Head of Pension Fund	**Target Implementation Date:**	31 October 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
5	**Declarations of Interest** We found that a number of officers in the Fund had either not completed an entry in the on-line register of interests, or had not updated their declarations, annually, in accordance with the Employee Code of Conduct.	Failure to ensure that all officers maintain an up to date declaration within the Register of Interests may result in undeclared conflicts materialising, or public perception that a conflict is present, thus resulting in reputational damage to the Fund.	Medium	All officers will be reminded to maintain an up to date declaration within the register of interests.
Responsible Officer:		Head of Pension Fund	**Target Implementation Date:**	1 October 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
6	**Reconciling SAP and Custodian Records** There is an expectation, based on previous practice, that information will be journaled and reconciled between SAP and the Custodian's data source, 'Passport', on a quarterly basis. This, however, is not undertaken and the data is, instead, journaled over on an annual basis to join up with end of year accounting procedures. This process relies on the cumulate experience of individuals throughout the year to identify any errors.	Reliance upon personal knowledge in order to reconcile Fund accounts to SAP on an annual basis increases the risk of error, or financial misstatement.	Medium	Reconciliations between the Custodian's Passport system and SAP will be carried out on a quarterly basis.
Responsible Officer:		Head of Pension Fund	**Target Implementation Date:**	1 October 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
7	**Fund Accounting - Contingency** There are no individual process notes in place specific to Fund accounting for the East Sussex Pension Fund. This may mean that, should anyone other than the usual officers be required to undertake any part of the accounting process, errors may be made due to their unfamiliarity with the process. It is noted that the Interim Head of Pensions is able to undertake Fund Accounting should contingency be required.	Failure to provide comprehensive legal guidance for Fund accounting may mean that accounting is not completed to the required standard should a change in officers occur, increasing the risk of error or misstatement in the accounts.	Low	Relevant legal guidance, including Pension Fund Accounting Manuals, will be made available to all undertaking Fund Accounting. In addition, the Interim Head of Pensions is able to undertake Fund accounting as a contingency should the usual officer be unavailable.
Responsible Officer:		Head of Pension Fund	**Target Implementation Date:**	1 January 2021

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Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Report to:	**Pension Committee**
Date:	**30 November 2020**
By:	**Chief Finance 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 2 for the East Sussex Pension Fund.**

RECOMMENDATIONS – The Committee is recommended to

1. **note the revised forecast outturn position;**
2. **note the update on deliverables from the Business Plan in Appendix 1**

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, East Sussex County Council is required to maintain a pension fund, known as the East Sussex Pension Fund (the 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 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 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. In addition, the Fund has not received a quotation for pension administration costs for this financial year for approval by the Pension Committee.

2. 2020/20 Investment and Administration Expenses Outturn Report

2.1 The forecast outturn for 2020/21 is £4.741M, against a budget of £3.730M resulting in an overspend of £1.011M, an increase of £1.039M from the outturn position reported at the last meeting in September 2020.

2.2 The overspend mainly relates to the expected change to the invoiced investment manager fees after the transitions set out in below in Para. 2.3 to 2.5.

2.3 Since the last report the decision was taken to change the equity structure of the Fund and to appoint 4 new managers. This is a move away of circa £880M of assets from our current passive provider (UBS) into two active impact managers (£400M in total), one smart beta passive like manager (£400M) and one infrastructure equity manager (£80M). It has been calculated on the fees set out by the managers during the selection process that this will add a further £0.967M to manager fees, assuming the asset values stay the same for the remainder of the year from the initial budget of £1.2M.

2.4 The Custodian forecast has been reduced to be in line with the activity that they currently do for the Fund and anticipated increased costs based on the new equity structure. The underspend on this item is £50K from an initial budget of £150K.

2.5 The investment consultant costs have been increased to cover the additional costs the Fund has incurred as part of the equity manager restructure. This overspend on this item is £80k for an initial budget of £120K.

2.6 The cost of providing democratic services support to the Fund is an addition this quarter, to ensure the Fund is picking up all costs incurred by ESCC for the Fund; as a result, this is showing an overspend of £18K.

2.7 Arrangements around the Pension Administration Service provided by Orbis Business Operations are not included in the revised budget and forecast outturn position as there is still uncertainty around these activities. The delivery of this service is currently undergoing a review, the project Turnaround board advised at their meeting on 28 October that the final position for costs will not be known until the end of the year when this has been concluded.

2.8 The 2020/21 outturn against line items is shown at Table 1 in Para. 3 below. The table also shows the budgeted expenditure and variance in forecast from the September Committee.

Table 1 2020/21 Outturn Report Q2

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Actuals to September £000	2020/21 Forecast September Committee £000	2020/21 Forecast Outturn November £000	Variance to last reported Forecast £000
	Pension Fund Oversight and Governance					
345	Actuarial Fund Work	250	75	250	250	-
97	Actuarial Employer Work	150	8	150	150	-
-97	Employer reimbursement	-150	-3	-150	-150	-
88	Good Governance Program	47	25	47	47	-
75	Data Improvement Program	100	40	40	40	-
8	Independent Pension Board Chair	5	4	5	13	8
307	Fund Officers*	385	33**	385	392	7
30	External Audit – Grant Thornton	26	-7	30	30	-
0	Democratic Services Support *	-	-	-	18	18
17	Internal Audit*	19	-	37	37	-
119	Legal Fees	115	84	115	115	-
11	Subscriptions and other Expenses	70	50	70	70	-
1,000	**Sub Total**	**1,017**	**309**	**979**	**1,012**	**33**
	Investment activities					
114	Investment Consultant	120	123	120	200	80
-	PIRC ESG Report	11	-	11	11	-
-	EIRIS Carbon Report	24	25	24	25	1
11	Independent Advisor Basic	12	3	12	12	-
5	Independent Advisor Project work	8	4	8	16	8
54	Custodian	150	15	150	100	-50
3,003	Investment Manager Fee Invoices	1,200	421	1,200	2,167	967

3,187	**Sub Total**	**1,525**	**591**	**1,525**	**2,531**	**1,006**
	ACCESS					
67	ACCESS Support Unit	98	35	98	98	-
-3	Fund Officer Time Rebates	-20	-2	-10	-10	-
64	**Sub Total**	**78**	**33**	**88**	**88**	**-**
	Pension Board/Committee Training:					
-	Training Costs	30	1	30	30	-
-	**Sub Total**	**30**	**1**	**30**	**30**	**-**
1,106	**Pension Administration*:**	**1,080**	**34**	**1,080**	**1,080**	**-**
5,357		**3,730**	**968**	**3,702**	**4,741**	**1,039**

* 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

3. Conclusion and reasons for recommendation

3.1 The Business Plan set at the beginning of the year 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. Appendix 1 shows actions taken during the year in relation to key deliverables in the Business Plan.

IAN GUTSELL
Chief Finance Officer

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Business plan deliverables by key theme

Theme	Tasks	2020/21 activity	Action Update
Fund Oversight and Governance activities	Fund/Employer actuarial work	2019 Valuation close-off	Actuarial Valuation completed by the 31 March 2019 and submitted by the Actuary to MHCLG.
		Employer accounting reports/Employer requests/Bulk Transfers calculations	SLA between Orbis and Pension Administration awaiting agreement by Orbis.
		Regular meeting attendance / Officer Support	Actuary attendance on 8 June 2020 and 22 June 2020. Officers have regular calls with Actuaries.
		Employer asset tracking (HEAT)	Employer FRS102 and IAS 19 reporting generated through HEAT with returns due by July 2020
		Benefits Consultancy and Governance support/Club Vita longevity analysis	Actuary consultancy undertaken in regard to errors in Pension Increase calculation and to agree the deferral of contributions policy and exit credit policy.
	Fund external legal advice	LGPS specific legal advice provided by external specialist lawyers.	Legal consultancy undertaken in regard to deferral of contributions and exit credit policy and employer admissions and cessations.
	Pension Fund Annual Report and Accounts	Statutory documents produced once a year providing information on the Pension Fund activities over the past year.	Annual report and Accounts are being brought to the November meetings along with the audit report by Grant Thornton.
	External audit	External Audit: statutory audit of the 2019/20 Pension Fund accounts.	Draft accounts due to be submitted to Grant Thornton in July 2020.
	Internal audit	Internal Audit: delivery of the 2020/21 Internal Audit Plan	Internal Audit update being present at the November meetings.
	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 final report to the board and committee took place at the September 2020 meetings. Conflicts of interest policy and log to be presented at November 2020 meetings.
Theme	Tasks	2020/21 activity	Action Update

	Procurements	Strategically important procurement of Investment Consultant and Actuary	The Investment Consultancy and Actuarial procurements have been awarded and work to transfer services to the new providers has begun. In addition, a contract has been awarded to PWC as covenant advisor.
Investment activities	Review and implement agreed changes to the Fund's equity structure	Implement any strategic changes agreed at the Q1 2020 strategy review.	Asset Liability Model took place in May 2020 to determine passive/active mix; private markets; infrastructure, protection and ESG assets.
		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	Revised strategic asset allocation presented to the Committee in June 2020. Equity structure to was determined by the IWG and agreed at the September 2020 meeting. Work with Northern Trust our transition manager, due diligence with Eversheds is under way and detailed plans with aim to be invested in the new managers by the end of the week commencing 30 November.
	Review and implement new investment strategy	Discuss strategy at the annual strategy day.	Investment strategy has been discussed at regular IWG meetings and revision to ISS to be taken to November 2020 meetings.
	Develop the Fund's ESG credentials	Consider requirements under the UK Stewardship Code and PRI, with a view to the Fund becoming a signatory.	This action has commenced with a report to September Committee
		Undertake the transition pathway analysis in respect of the Longview holdings.	Action in progress – Sept 2020 Committee Report
		Collate quarterly analysis of fossil fuel exposure and voting & engagement records.	Q2 Report to November 2020 Committee
	Assistance with annual accounts completion	Prepare the usual information for the Report & Accounts, including performance and private markets summary	Substantially complete final audit queries are being responded to allow audit sign off.
Theme	Tasks	2020/21 activity	Action Update

ACCESS	ACCESS Support Unit	The size and scope of the ASU will be reviewed during 2020/21.	Initial discussions with authorities are being undertaken by the ASU.
	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	Creation of a sub-group to consider all actions for active listed investments.
	Alternative / non listed assets	The initial implementation of pooled alternative assets.	Sub-group implemented and has put forward a proposal to the November Joint committee to initiate the procurement of an adviser to implement the proposed structures.
	Passive assets	Ongoing monitoring and engagement with UBS.	Investment user group has been created to meet with ACCESS managers on a regular basis.
	Governance	The application of appropriate forms of governance throughout ACCESS.	Revised IAA to be provided to the November 2020 meetings. Essex CC have reported they have completed an Internal Audit review of the ASU - the fund is awaiting detail from this review
Pension Board/Committee Training	3 joint Training days	Provision of speakers to deliver East Sussex Pension Fund lead training.	Training strategy delayed awaiting completion of training needs assessments. Strategy to be discuses and approved as part of the November Committee.
	2 Investment Strategy days	Commissioning work to examine the current investment strategy	In place in section on ALM. Work with the IWG is currently replacing the formal strategy days.
	Third party training	Identifying useful third party provided session that will be useful for ESPF to attend.	Training strategy delayed awaiting completion of training needs assessments. Strategy to be discuses and approved as part of the November Committee.

Theme	Tasks	2020/21 activity	Action Update
Pension Administration	Performance Management Group	Overseeing the activities of the administration service.	Pension Admin update reports cover - update on Management Actions arising from Internal Audit reports; Data Improvement Working group managed the Data Improvement Programme including Annual Benefit Statements. Provision of Best practice on ABS to causal workers to be provided at the November 2020 meetings
	Maintaining Member Data / Data / Improvement Plan	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.	
	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.	

Report to: **Pension Committee**

Date: **30 November 2020**

By: **Chief Financial Officer**

Title of report: **Annual Training Plan 2020/21**

Purpose of report: **Annual Training Plan for the East Sussex Pension Fund**

RECOMMENDATIONS

The Committee is recommended to:

1. **Note the report from Hymans on the Knowledge Assessment results**
2. **Discuss suggested training areas for the Annual training plan**
3. **Consider options in rollout of training to cover areas of training need**

---

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, maintain an approach to the delivery, assessment and recording of training plans to meet the requirements of the Scheme Advisory Board. The Pension Fund Training Strategy went to Pensions Committee on 21 September 2020.

2. Supporting Information

2.1 Members of both Pensions Board and Pensions Committee have been invited to complete a Training Needs Assessment (TNA). New members will be invited to complete upon commencing their role. 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 The TNA's on particular subjects will also be carried out as and when required by the Training Officer (once appointed – or alternative member of team where required) and will be used to inform subsequent training requirements.

2.3 All existing Pension Board members have completed their needs assessments and Cllr Druitt will be invited to complete the assessment shortly as a new member of the Pensions Board.

2.4 Three out of the four existing members of the Pension Committee have completed their needs assessments. Cllr Smith who is new to the Committee has looked into the assessment and will be initially be considered to have a limited knowledge in all areas until some training an experience has been achieved, to then formally assess alongside other members in the Committee.

2.5 As a result of the majority having completed the assessment, Hymans Robertson has now produced a detailed report in Appendix 1 laying out strengths and weaknesses of the Board and Committee to determine suggested areas of training focus over the coming year.

2.6 The East Sussex Pension Fund's knowledge score is aligned with other funds using the Hymans assessment model with slightly higher than average.

2.7 Results for the Pension Committee show that financial markets and product knowledge, the roles of the Committee and Governance have the highest levels of knowledge. Areas for specific focus should be actuarial methods, audit standards and investment performance.

2.8 Results for the Pension Board show that financial markets and product knowledge and the roles of the Committee have the highest levels of knowledge. Areas for specific focus should be actuarial methods and pensions administration.

2.9 In addition to the knowledge and skills areas members also highlighted specific topics in which training would be desirable. The areas with the most needs are McCloud impacts, Section 13 and Exit Credits.

2.10 Based on the results of the training assessment and further focus areas, Hymans have recommended a summary training for the next 18 months, this is outlined on page 16 of Appendix 1.

3. Next Steps

3.1 Officers will inform Pension Committee and Pension Board members of relevant external training opportunities that help support member development.

3.2 Based on members discussions over delivery timings of training, officers will design a more detailed delivery plan for the next six months training.

4. Conclusions and special recommendations

4.1 The Pensions Committee is asked to consider delivery of training for the training plan as to timings of sessions.

IAN GUTSELL
Chief Finance Officer

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LGPS

National Knowledge Assessment

HYMANS ROBERTSON

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Appendix 1

East Sussex Pension Fund

October 2020

National Knowledge Assessment

Overview

Following the success of the 2018 LGPS National Confidence Assessment, Hymans Robertson continued the journey to understand and develop knowledge levels in the LGPS with the 2020 LGPS National Knowledge Assessment (NKA). The NKA's key goal is to provide LGPS funds with an insight into the pensions specific knowledge and understanding of the people who hold decision making and oversight responsibility within their organisations.

21 LGPS funds and over 200 members have participated in this first ever National Knowledge Assessment of Pension Committee ('Committee') and Pension Board ('Board') members. The findings from this assessment provides East Sussex Pension Fund with a quantitative report of the current knowledge levels of the individuals responsible for running the Fund and aids the development of more appropriately targeted and tailored training plans for both groups. This report is also a key document in evidencing your fund's commitment to training.

Background

The East Sussex Pension Fund ("the Fund") agreed to participate in the NKA using our online assessment. This report provides the participants' results broken down into 8 key areas. The online assessment opened in late summer and closed in October, and there were weekly progress updates provided to the Fund confirming participation levels. Each participant received their individual results report following completion of the assessment.

Challenging test

This was a challenging multiple-choice assessment of participants knowledge and understanding of relevant subject areas. There was no expectation that participants would score 100% on each subject area tested. Rather the goal was to gain a true insight into members' knowledge in the areas covered by the CIPFA Knowledge and Skills Framework and the Pensions Regulator's (TPR) Code of Practice 14.

Why does this matter?

In recent years there has been a marked increase in the scrutiny of public service pension schemes, including the 100 regional funds that make up the LGPS across the UK. The Public Service Pensions Act 2013 introduced new governance legislation, including the requirement for Local Pension Boards to be set up and extended the remit of the Pensions Regulator to public service schemes as set out in its Code of Practice 14[1]. Additionally, the Ministry of Housing, Communities and Local Government ("MHCLG") in England & Wales and Scottish Ministers in Scotland, and their respective Scheme Advisory Boards have emphasised the need for the highest standards of governance in the LGPS. This includes ensuring that all involved in the governance of public sector funds can evidence they have the knowledge, skills and commitment to carry out their role effectively.

While fund officers may deal with the day-to-day running of the funds, members of the Committee play a vital role in the scheme, and to exercise their roles effectively must be able to address all relevant topics including investment matters, issues concerning funding, pension administration and governance.

[1] Governance and administration of public service pension schemes – issued April 2015

Recent events

The introduction of Markets In Financial Instruments Directive II (MIFID II) in January 2018 required Committee members to evidence their knowledge in order to be treated as professional investors. Also, in late 2019 the Scheme Advisory Board for England and Wales began a review of governance arrangements for LGPS funds. This project – termed 'Good Governance' – addressed stakeholder knowledge and skills. A clear recommendation of the Good Governance project is that the knowledge levels already statutorily required of Board members should also be required of Committee members. These recent events have reaffirmed that LGPS funds should evidence the training provided and current knowledge and understanding levels retained within their Committee and Board.

We would encourage the use of these results to better understand the areas where Committee and Board members feel comfortably informed, but crucially where further training may be of benefit.

In keeping with the theme of increased external scrutiny, it is important not only that the Committee and Board have confidence in their roles, but also that the Fund can demonstrate the steps taken to facilitate this. We would suggest you keep a record of the process used to assist the Committee and Board with training and development. This report should form part of the overall training records for both groups.

Approach

The members of the East Sussex Pension Fund Committee and Board were invited to complete an online knowledge assessment. In total there were 3 respondents from the Committee and there were 6 respondents from the Board. Each respondent was given the same set of 47 questions on the 8 areas below:

1	Committee Role and Pensions Legislation	5	Procurement and Relationship Management
2	Pensions Governance	6	Investment Performance and Risk Management
3	Pensions Administration	7	Financial Markets and Product Knowledge
4	Pensions Accounting and Audit Standards	8	Actuarial Methods, Standards and Practices

Under each subject heading, there were at least 5 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct. This allows us to build a picture of the knowledge levels of each individual member in each of the topics, but crucially to help inform you of the overall levels of knowledge in each area.

Results

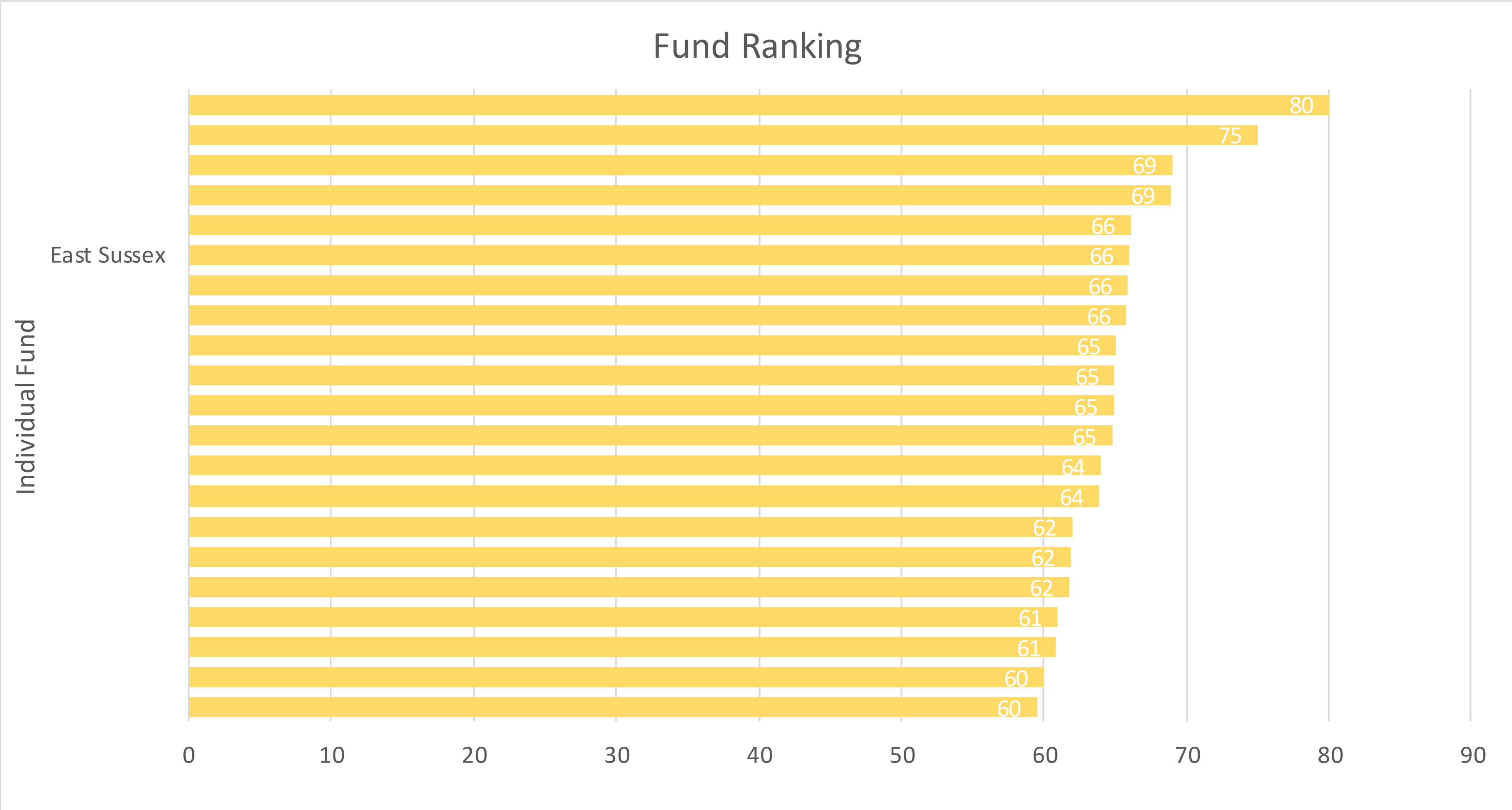
The responses for all members who participated have been collated and analysed. For each section we have shown:

- The Fund's overall ranking against other participating LGPS funds
- The average score for each of the 8 subject areas, for both the Committee and Board.
- Each average score benchmarked for both groups against the other NKA participant funds' Committee and Board for each of the 8 subject areas
- Engagement levels for both the Committee and Board and how these levels rank against other LGPS funds

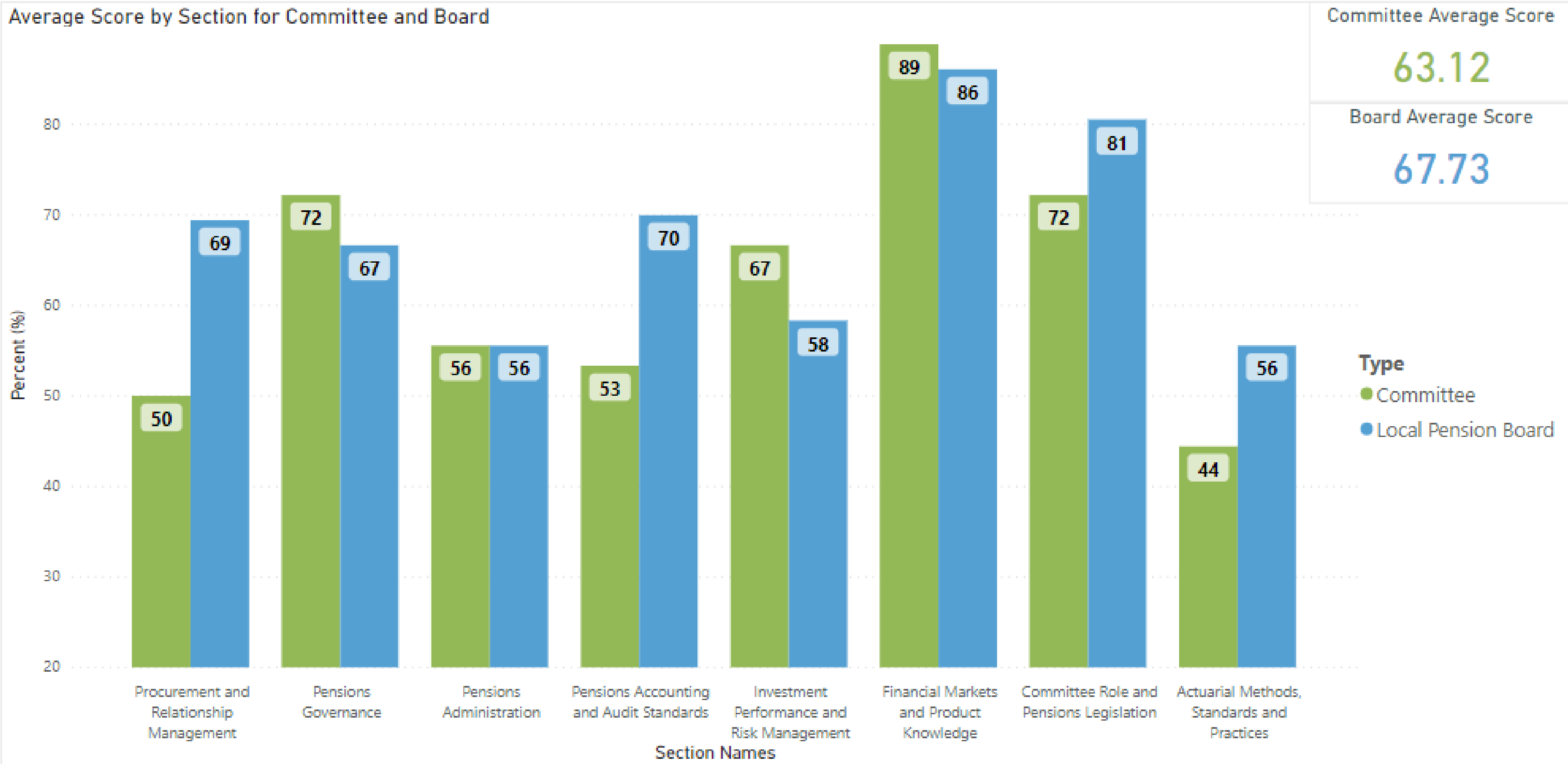
Based on the results and the responses received from participants we have also completed a proposed training plan for the Fund over the next 18 months, as well as some other "next steps" to consider.

Overall Results

The table below shows how the overall average score for your Fund compares with that of all other funds who took part in the Assessment. The "score" shown below is the average score of all participating Committee and Board members from each Fund. The East Sussex Fund is 6th out of 21 Funds.



For each of the assessment's 8 areas we have shown the results of both the Committee and Board. These have been shown in the order in which the sections appeared in the survey. There is also a summary showing the average scores across all sections for the Committee and Board.

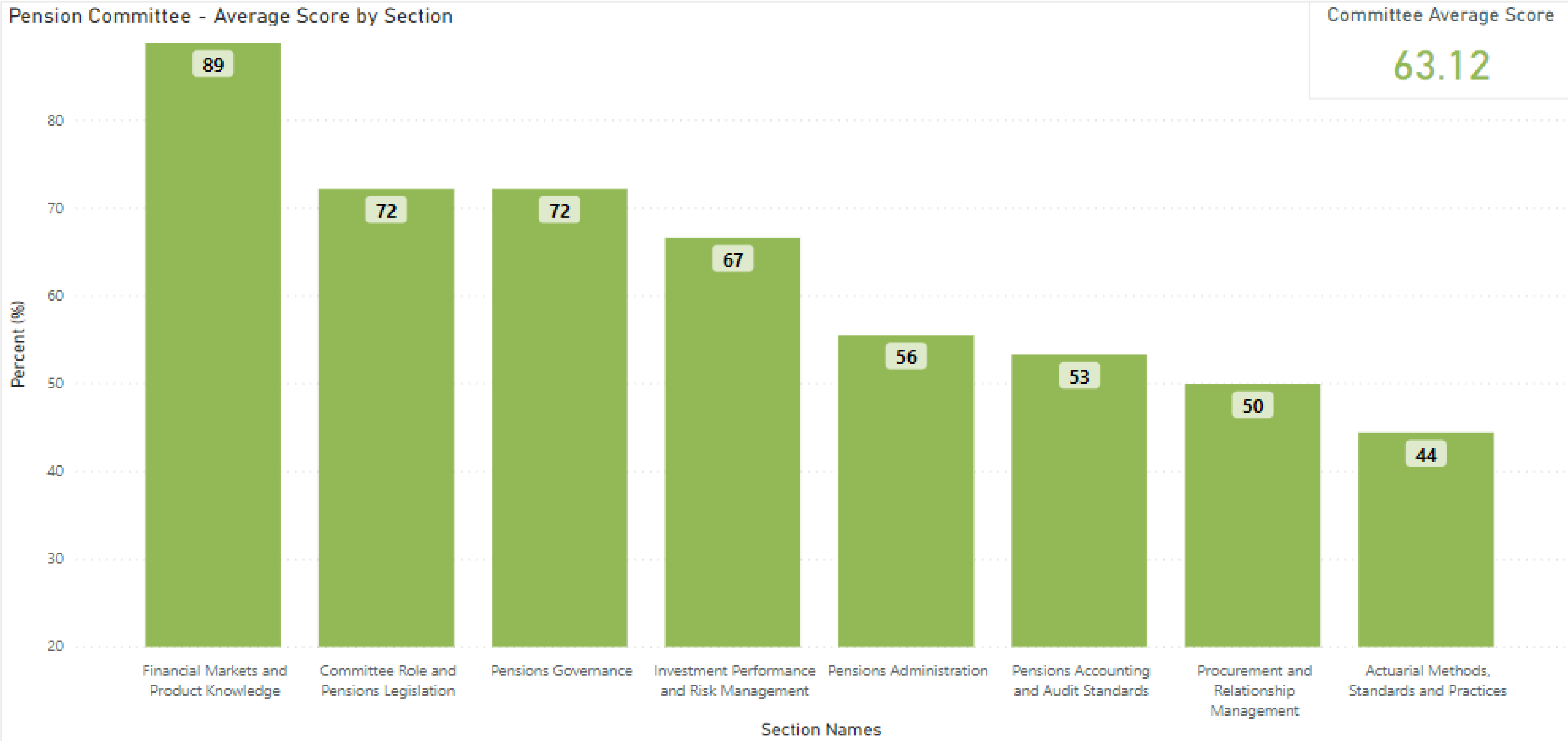


The participants from both groups scored highly on average over many of the topics assessed. The Board scored highly in the Committee's role and legislation, as you might expect, as well as in financial markets and investment performance. The Committee also scored highly in both of these sections as well as with pension governance.

Performance in each area

The results can be ranked for each section from the highest score (greatest knowledge) to lowest score (least knowledge). This is shown separately for both the Committee and the Board. The intention is that training plans and/or timetables can be tailored to focus on the areas of least knowledge, whilst ensuring the Committee and Board maintain the high level of knowledge in the stronger areas.

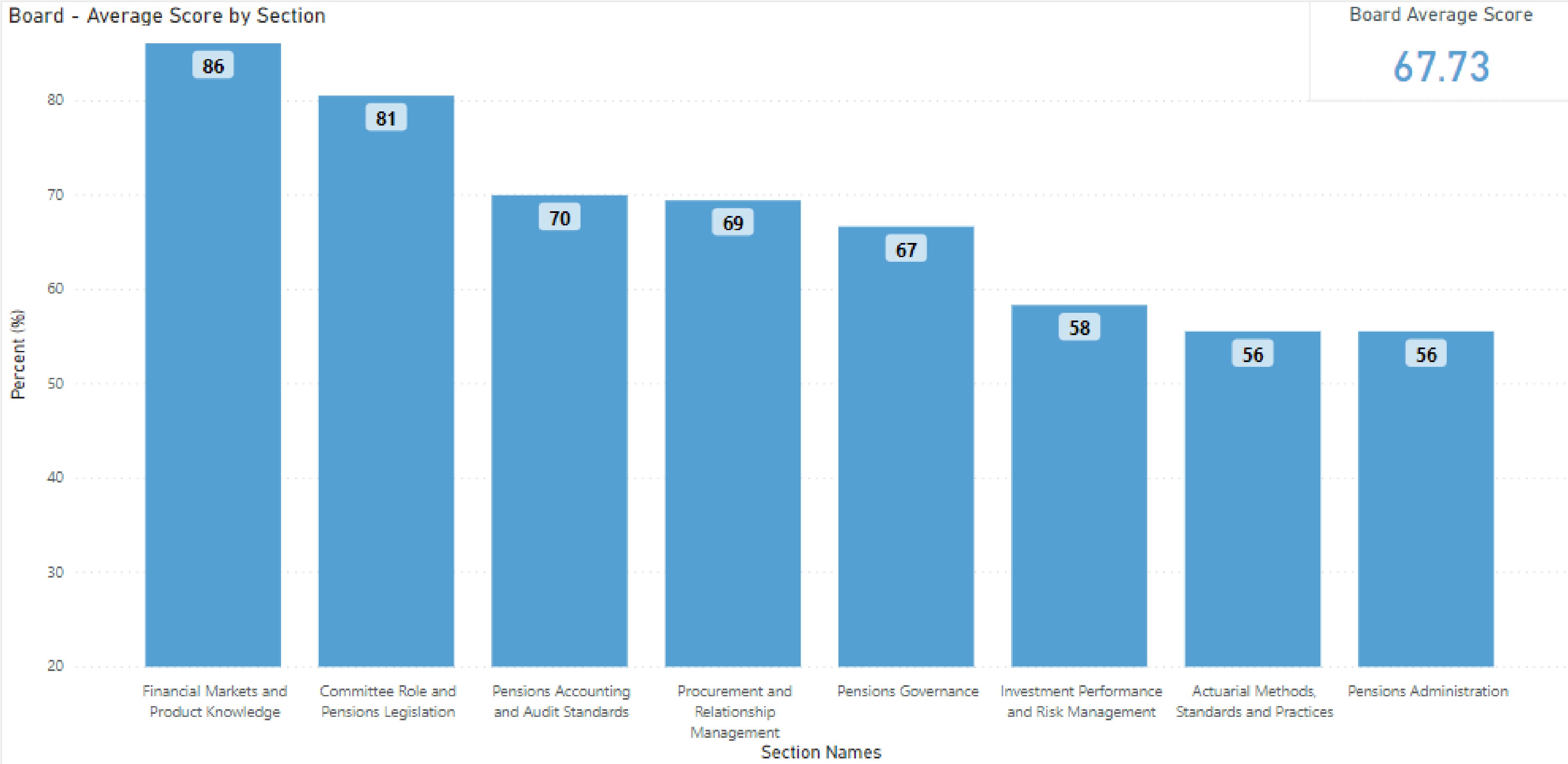
Pension Committee



The results show 3 areas in particular (financial markets, role of the Committee and pension governance) which were very strong for the Committee participants. There was a generally good spread of knowledge across other areas too.

Actuarial methods, standards and practices was the area with lowest score – significantly lower than all other areas.

Pension Board



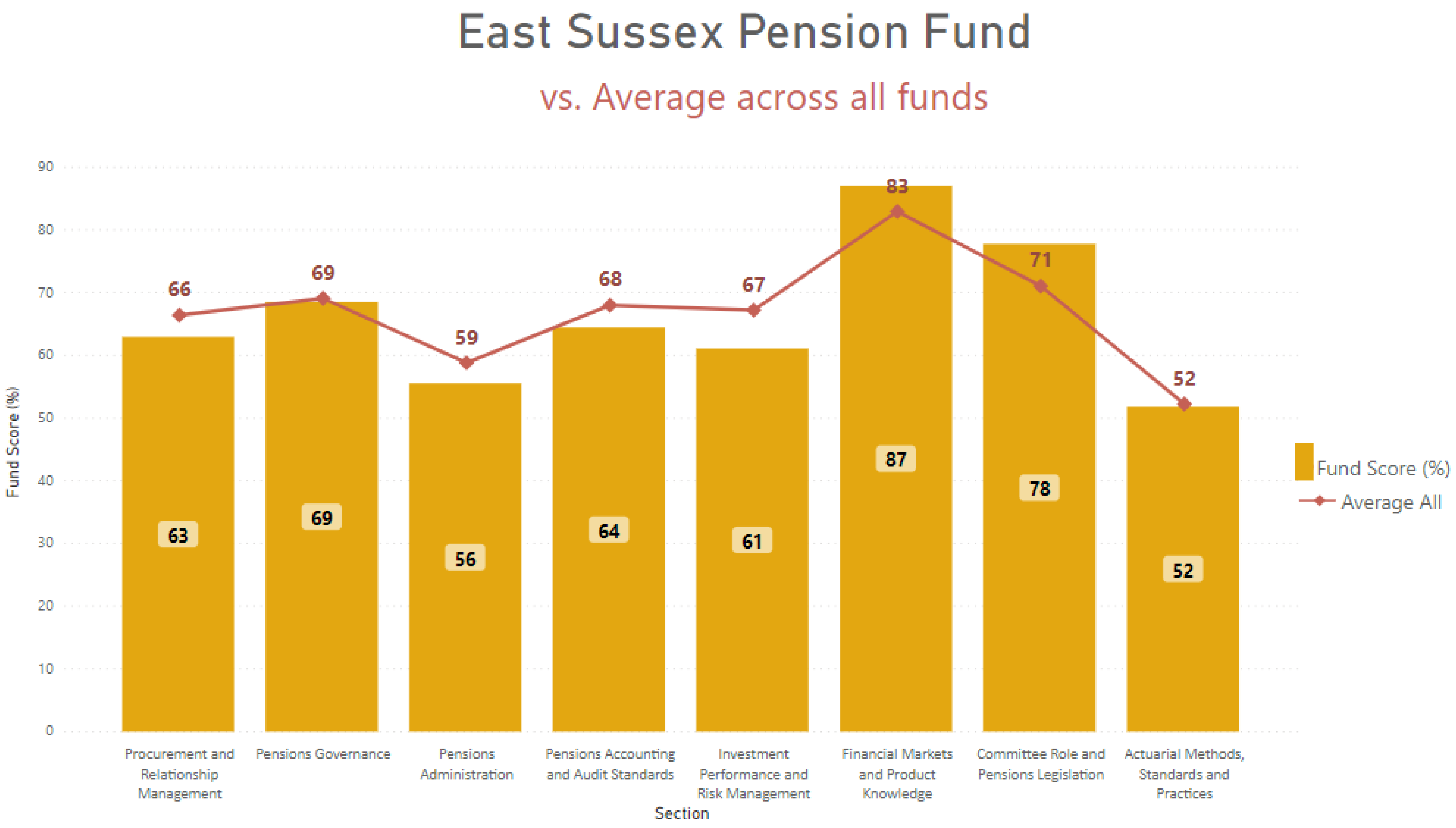
Financial markets and the Committee's role and Pension Legislation were the highest scoring areas for the Board, which is very encouraging. The scores for pensions governance were perhaps lower than expected.

It does appear that the Board's knowledge in the most areas is generally good, Actuarial methods and pension administration would be the key areas to focus on. This is highlighted further in the following section which compares the East Sussex results, with all participating funds' results.

Benchmarking

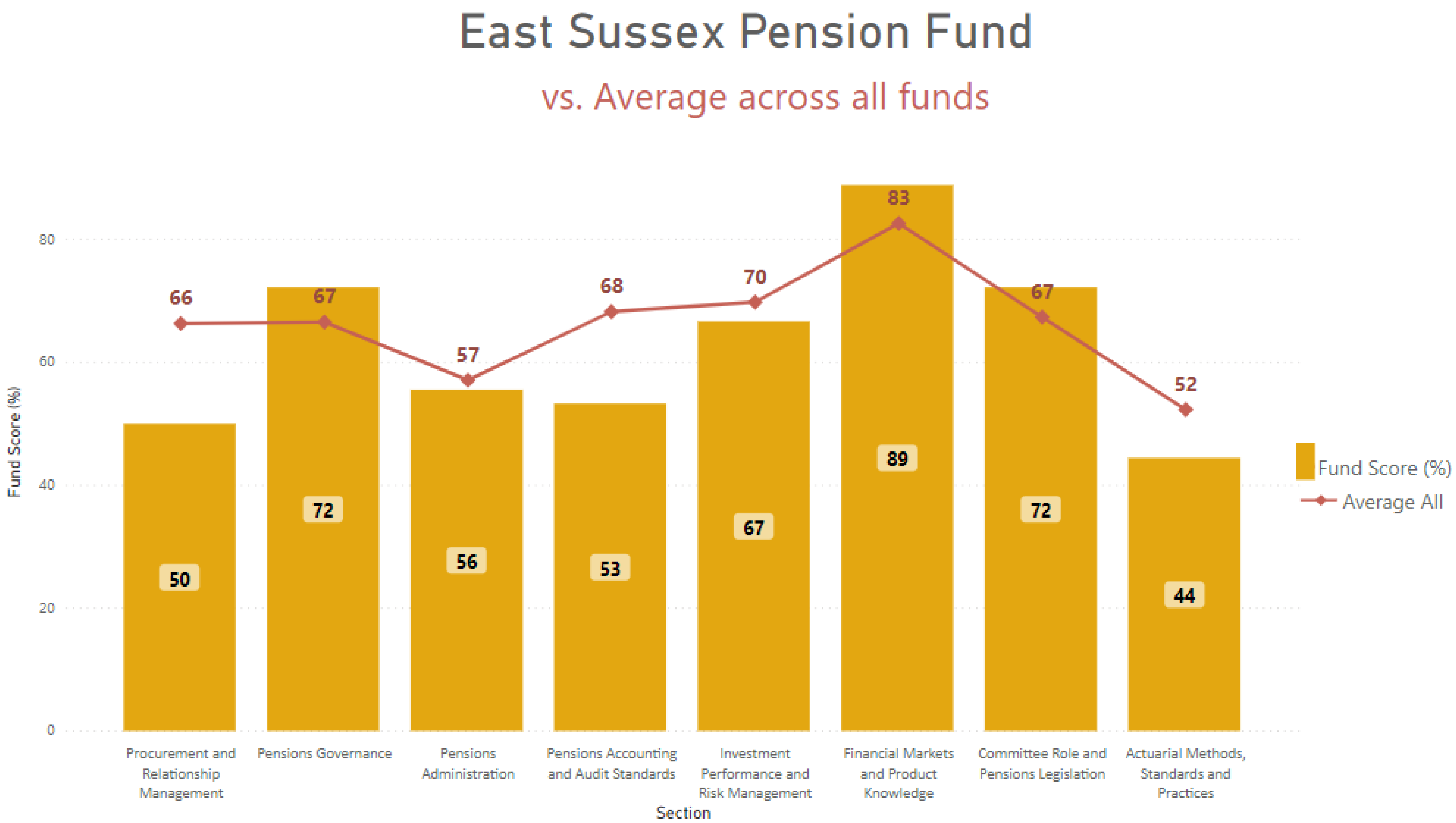
As this assessment is being conducted at national level across a number of LGPS funds we are able to provide details of how your Fund's results compare to those across the average of all funds who have taken part to date. We have provided a comparison of the results for both your Fund's Committee and Board, versus the average scores nationally for each group. This gives an idea of the knowledge levels across these groups, relative to the national average.

Committee and Board combined



Pension Committee

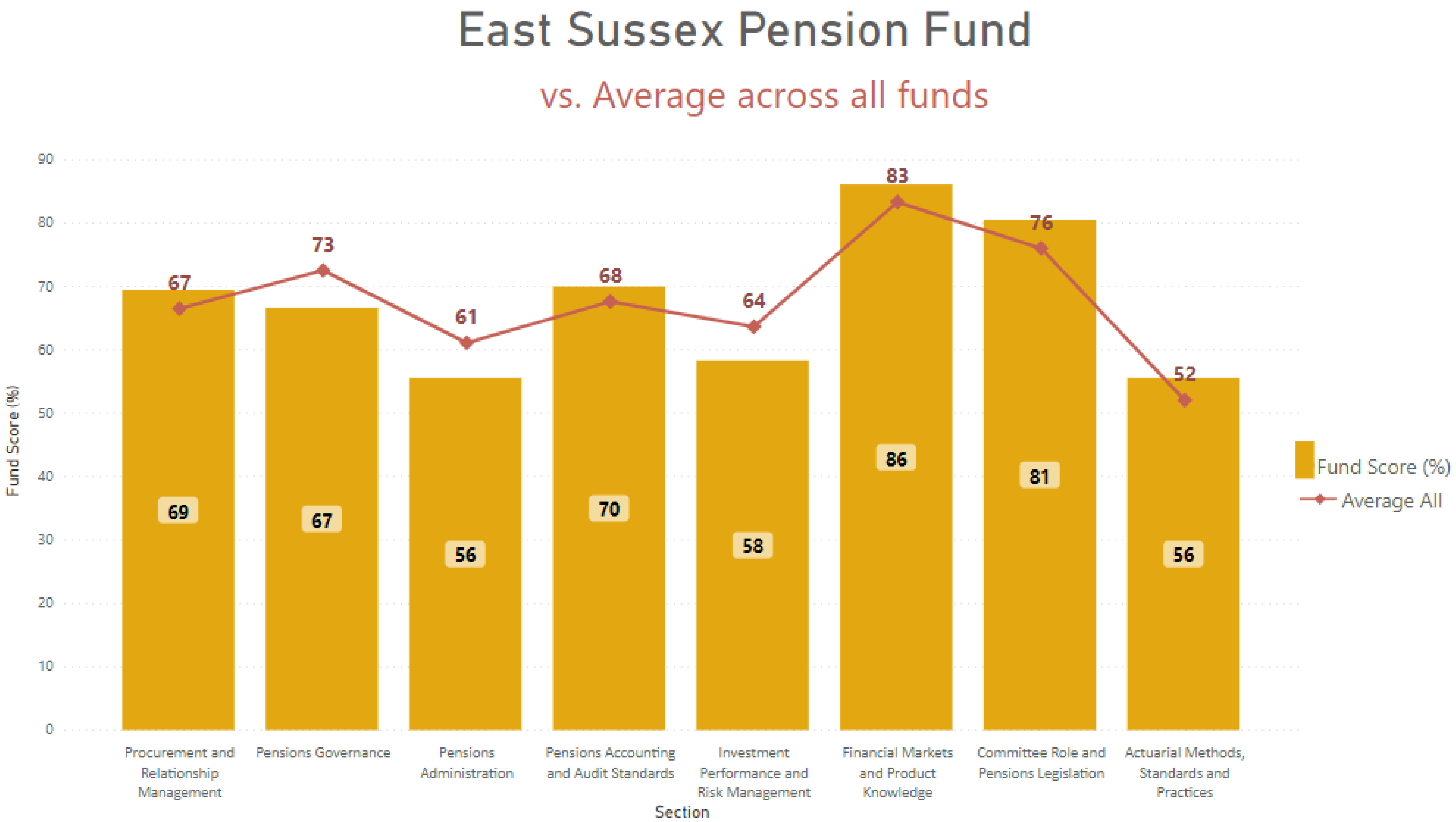
The following chart shows how your Fund's Committee scored in each section, versus the national average of all Committee members who took part.



The Committee ranked 10 out of 21 Funds' Committee results

Pension Board

The chart below shows how your Fund's Board scored in each section, versus the national average of all Board members who took part.



The Board ranked 9 out of 21 Funds' Board results.

Commentary

Overall the results from participants were positive and it is clear that there are topics of greater knowledge but also areas that should be developed over time. We would fully expect there to be gaps in the knowledge of all members, no matter their role on the Committee/Board, their tenure or indeed their background in terms of pensions experience. The most important thing to emphasise is that not everybody needs to be an expert in all areas, rather there should be a spread of knowledge across your Committee and Board which is supported by advice from officers and professional advisors.

Just as important as gaining the relevant knowledge and understanding expected of a Pension Committee or Board is the application of that knowledge and understanding, including the utilisation of an individual's own background and perspective. To supplement a Fund's training plan, we recommend that a case study analysis is also included as part of both the Committee and Board training plans, allowing time for reflection on how both groups react and act on a case study scenario.

Committee

The results show that financial markets & product knowledge, the role of the Committee and governance have the highest levels of knowledge. The areas to focus any specific training on might be actuarial methods, audit standards and investment performance, which you might expect to be stronger for the Committee.

Local Pension Board

The results show that the highest levels of knowledge relate to financial markets as well as the role of the Committee, but that the areas to focus any specific training on might be actuarial methods and pensions administration for the Board.

The next step would be to try and develop the knowledge of the lower scoring areas. A training plan designed to do this is included on page 16.

Engagement

One of the key areas that we recommend funds focus on is Committee and Board engagement. With the ever-increasing pace of change in the pensions and investments world, member engagement is critical to maintaining strong collective knowledge. There is an expectation that they need to be not only willing, but keen to develop their knowledge and understanding across the raft of topics upon which they will need to make, or ratify, decisions.

Overall engagement

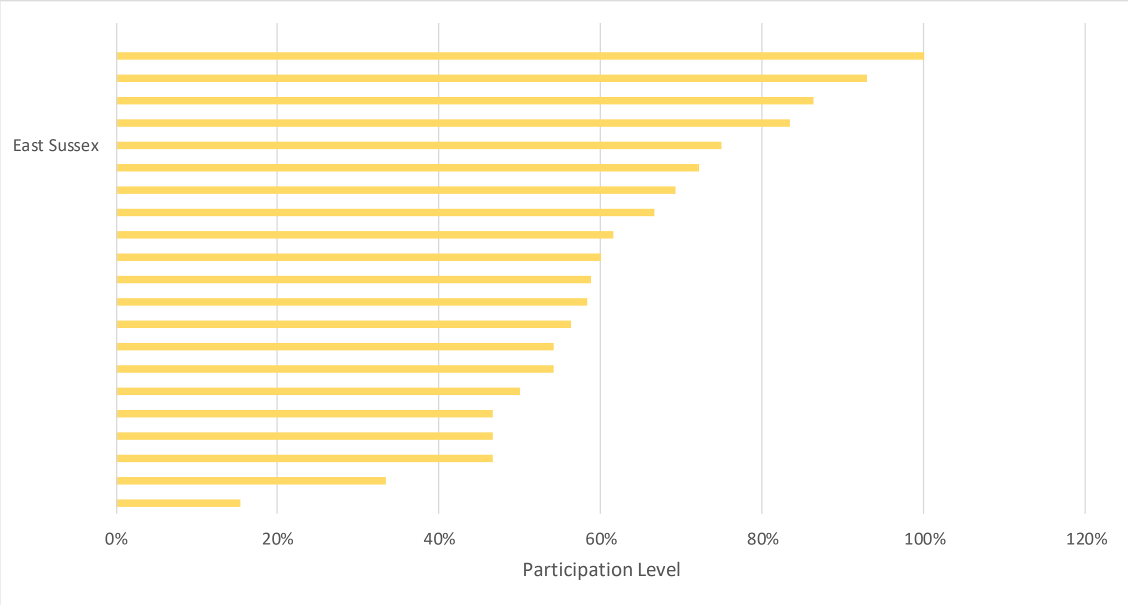
One measure of the engagement of members is their willingness to participate in training. As such, we have used the participation level of this survey to measure the engagement of your Committee and Board members. The table below shows the breakdown of the total number of participants from the East Sussex Fund, as a proportion of those who could have responded.

	Participants	Total Number	Participation rate
Committee	3	5	60%
Board	6	7	86%
Total	**9**	**12**	**75%**

We understand that different Committees function in different ways and have varying numbers of members. We therefore draw no conclusions or make any inferences from these results. The information is simply being provided to the Fund officers, as they will be best placed to draw any conclusions.

Engagement benchmarking

The chart below shows how your Fund's participation level compares with that of all other funds who took part.



Commentary on engagement

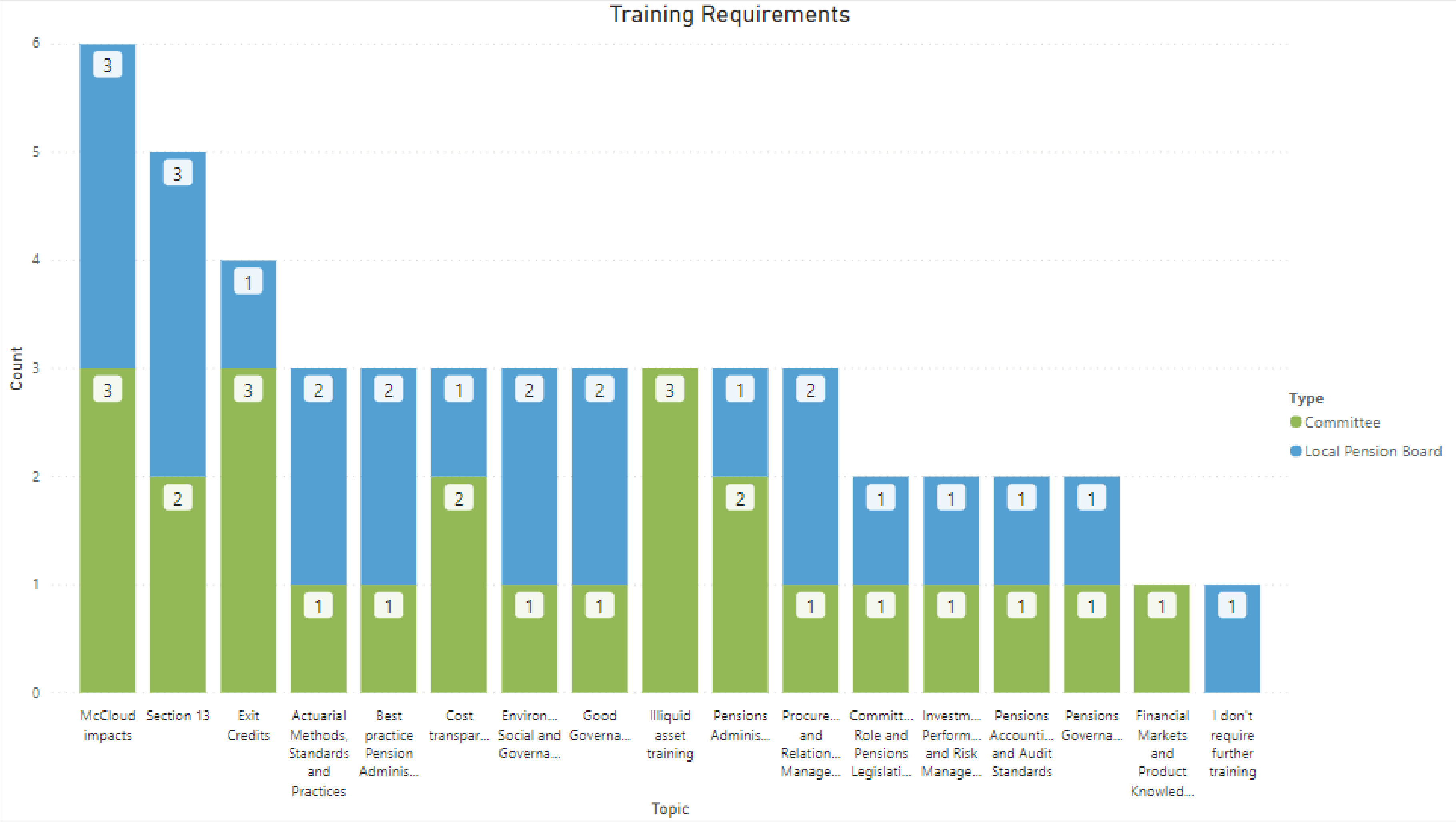
It is encouraging, in conjunction with the relatively strong results of participants, that 9 participants from the Fund took part in the assessment. With the number of changes to the LGPS in recent years, it is vital that Committee and Board members remain abreast of the latest developments and feel confident that they have the knowledge required to make the decisions required of them. Their level of engagement is a key driver of this.

Overall engagement is at the higher end. It is important to try to maintain and improve this position, particularly with current and known future challenges the Fund will have to navigate.

Training feedback from participants.

One of the final sections of the survey asked participants to indicate which topics they would like to receive training on. There was a list of options available, covering a broad spectrum of the topics we believe are most relevant to allowing Committee and Board members to effectively perform their roles. Members were also given the option to indicate any other areas in which they would benefit from further training.

The table below summarises the areas in which members indicated training would be beneficial.



In the addition to the pre-defined list of training, we also asked participants for comment and areas in which they feel further training would be beneficial. We have provided a selection of these comments below:

"I think maybe regular refreshers"

"Role of S151 and officers"

Suggested Training Plan

We have put together a summarised training plan below, picking out the key areas for development based on participant assessment results and the training requests.

2020/21 – Q3	• McCloud impacts + £95K Cap + LGPS exit reform
2020/21 – Q4	• Pensions administration – this was one of the most requested topics for training, which was also one of the lowest scoring sections for the Board and for the Committee + actuarial methods
2021/22 – Q1	• Pensions accounting and audit standards and good governance – for the Committee and Board
2021/22 – Q2	• Investment performance and product knowledge and ESG – for the Committee and Board
2021/22 – Q3	• Procurement and relationship management for the Committee. • Pensions governance and Section 13 for the Board.
2021/22 – Q4	• Valuation training sessions – purpose, role, outcomes etc. This has been timed to coincide with the 2022 Actuarial Valuations.

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Training support

Tools such as this online assessment offer different ways for members to take part in training. There might be more options for online training sessions which you could take advantage of. We have noted some training materials and websites below which might help you deliver focussed sessions to your Committee and Board and keep them informed on the most pertinent pension areas.

- CIPFA Knowledge and Skills Framework
- TPR Public Service Toolkit
- LGA fundamental training – currently a 'physical' attendance course
- LGA monthly bulletins
- Hymans Robertson Training videos for Committee and Board members (details noted below)

Next Steps

Based on the results we would suggest that there should be consideration to the following next steps:

- This report should be **reviewed** by the funds officers and results shared with the Committee and Board
- Set up a **structured training plan** for the next 18 months covering the main areas highlighted in this report
- Plan for the **delivery** of training over a 6-month period while meeting restrictions might continue to be in place
- Consider the most **pressing** training requirements in the coming months, to ensure members have the required knowledge such as the effect of COVID-19 on assets and liabilities and how this might develop over time
- **Assess** the tools available to the Fund to assist with training.
- Consider ways of **maintaining** and **increasing** the engagement of both the Board and Committee. This could include providing them with more information, training materials, briefing notes etc.
- Ensure that the Fund's training strategy is up to date and **appropriate** for purpose
- Look to conduct a **case study workshop** with your Committee and Board. This will gain officers a further insight into the **practical application** of both groups knowledge and understanding. This could be presenting various scenarios e.g. how the administration teams will deal with the McCloud judgement and allowing group discussion on how the Committee and Board would deal with selected case studies in their role as decision makers and oversight bodies. Hymans Robertson can facilitate a case study workshop for your Committee and Pension Board, as well as preparing an observation report for the Fund.

Hymans Support

We are happy to run training sessions, and/or provide training materials covering any of the topics covered in this report. The value of a face-to-face session for this type of training lies in members being able to ask relevant questions and interrogate the trainer on the specific areas they want to develop knowledge in. We understand that at present this will exclude physical attendance, but we are happy to set up video conference calls to assist with the ongoing training of both groups now. We will very soon be releasing our Hymans LGPS online training support that will give a comprehensive but bitesize training course.

If you wish to discuss the contents of this report further, please get in touch with me.

Prepared by Hymans Robertson LLP.

Ian Colvin

Head of LGPS Governance, Administration and Projects (GAP)

Reliances and Limitations

This report has been prepared for the East Sussex Pension Fund.

This report must 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.

Hymans Robertson LLP do not accept any liability to any party unless we have expressly accepted such liability in writing.

This report has been prepared by Hymans Robertson LLP, based upon its understanding of legislation and events as at October 2020.

Report to:	**Pension Committee**
Date of meeting:	**30 November 2020**
By:	**Chief Finance Officer**
Title:	**Risk Register**
Purpose:	**To consider the East Sussex Pension Fund's (ESPF) Risk Register**

RECOMMENDATIONS:

The Pension Committee is recommended to review and note the Pension Fund Risk Register.

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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 Risk 19 for Environmental, Social and Governance (ESG), has been amended in line with discussion at the 21 September 2020 Pension Committee to ensure the risk focuses on climate risk relating to the energy transition. This brings the risk in line with the Statement of Responsible Investment Principles approved on 21 September 2020 and highlights the funds focus on climate risk.

2.3 The risk owner has been refreshed across the risks to align with recent recruitment and restructure within the Pension Fund team.

2.4 Risk 6 for Annual Benefit Statements has been amended to reflect the completion of the 2020 exercise in the timescales and the impact the restructure will have on mitigations for the 2021 exercise.

2.5 Risk 13 for 2019 Triennial Valuation has been assigned as resigned from the risk register. The risk is no longer relevant as the 2019 valuation is complete. This risk will be removed in future reports and added when planning for the next Valuation begins.

2.6 Risk 17 for Coronavirus and Covid 19 has not been updated further as a result of entering a second lockdown as the risk is at the highest level for likelihood and impact. The mitigation actions still hold strong as actions were implemented earlier in the year when this was first identified, however this risk is still classified as a high-risk area.

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 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.

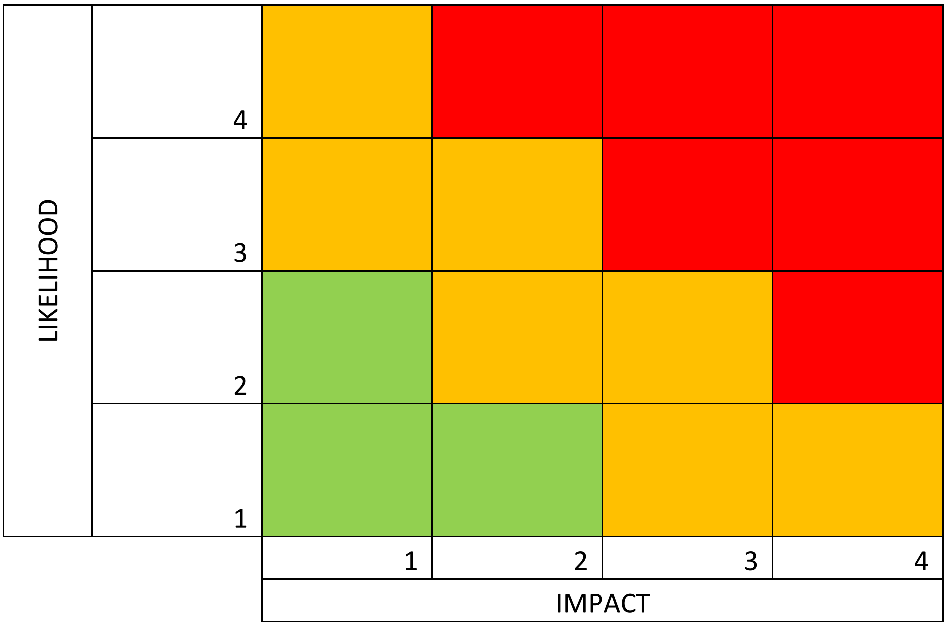
IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions
Tel. No. 07701394423
Email: Sian.Kunert@EastSussex.gov.uk

Appendix 1

Risk Register Risk Scores

The risk scores are calculated using the risk matrix below:



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

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

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

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day-today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comments.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties 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)											
1	**Pension contributions:** ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS17/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● 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 ● 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	● 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		Head of Pensions Administration	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	**Loss of key/senior staff and knowledge/ skills** • Damaged reputation • Inability to deliver and failure to provide efficient pensions administration service; major operational • Disruption and inability to provide a high quality pension service to members. • Concentration of knowledge in a small number of officers and risk of departure of key and senior staff. • The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.	3	3	9	●Diversified staff / team ●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		Head of Pensions	On-going
4	**Paying pension benefits incorrectly** • Damaged reputation • Financial loss Financial hardship to members	3	3	9	● Internal control through audit process ● Constant monitoring / checking ● In house risk logs ● SAP / Altair reconciliation ● Task management ● Vita cleansing	3	2	6		Head of Pensions Administration	On-going
5	**Guaranteed Minimum Pension (GMP) reconciliation** • Members of pensions scheme exposed to financial loss • Inaccurate record keeping • Damaged reputation	3	3	9	● Internal Audit ● Key performance indicators ● Reports to Pension Board and Committee ● Oversight via Data Improvement Working Group	3	2	6		Head of Pensions Administration	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation: Impact	Pre Mitigation: Likelihood	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Change since last review	Risk Owner	Timescales
6	**Failure to issue Annual Benefit statements 31st August** • Reputational risk and complaints • 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	● 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. ● Restructure of Pensions team to include an Employer Engagement team will support Pensions Administrator with end of year returns.	3	2	6	↔	Head of Pensions Administration	Complete for 2020, risk ongoing for future years
7	**Data Cleansing – failure to provide timely and accurate member data.** • 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	● Administration Strategy in place, revision of Strategy out for Consultation with Employers October to November; ● Employing authorities are contacted for outstanding/accurate information; ● User Guide and Training provided to Employers for outsourcing implications with LGPS November 2020 ● Regular meeting with administration services re updates, when required. ● A data cleansing plan completed in June 2020 lead by Hymans, PAT finalising outstanding areas handed over. New Data Improvement plan process to start in 2021.	3	3	9	↔	Head of Pensions Administration	On-going

Pensions Investment and Governance											
8	**Required returns not met due to poor strategic allocation** • Damaged reputation • Increase in employer contribution • Inability to Pay Pensions	4	2	8	● Investment Advisors ● Triennial review ● Performance monitoring ● Annual Investment Strategy Review ● Reporting to Pensions Committee and Board ● Compliance with the ISS/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** • Lower funding level • Increase in employer contributions • Employer forced to sell assets • Employer forced into liquidation • Increase in investment risk taken to access higher returns • Lockdown and Halted Economy Covid 19 Impact	3	3	9	● Valuation ● Regular communication with Employers ● Monthly monitoring of contribution payments ● Meetings with employers where there are concerns ● Covenant Assessments to begin November 2020 with new contractor based on high risk employers	3	3	9		Head of Pensions	On-going
10	**Cyber Security of member data - personal employment and financial data** • ESCC may incur penalties • Damaged reputation • Legal issues • Members of the pension scheme exposed to financial loss / identity theft • Members of the pension scheme data lost or compromised • Covid-19 Cybercrime Spike	4	3	12	● ICT defence - in-depth approach ● Utilising firewalls, ● Email and content scanners ● Using anti-malware. ● ICT performs penetration and security tests on regular basis ● Risk assessment completed with all new contracts with data transfer and new associated systems	4	2	8		Head of Pensions	On-going

11	**Cyber Security of third party suppliers** • Damaged reputation • Financial loss • Inability to trade • Lower funding level • Increase in employer contribution • Increase in investment risk taken to access higher returns	4	2	8	● Service level agreement with termination clause ● Regular Meetings ● Regular reports SAS 70/AAF0106 ● Investment Advisors ● Global custodian ● Risk assessment completed with all new contracts with data transfer and new associated systems ● ICT performs penetration testing on new hosted software	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: • 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	● 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** • 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.	0	0	0	**No mitigating actions - risk resigned from register as valuation complete.**	0	0	0	Resigned	Head of Pensions	Resigned

14	**Accounting - Failure to comply with CIPFA new pension fund accounting regulations.** • Risk of the accounts being qualified by the auditors.	3	2	6	● Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. ● Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations. ● Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. ● Internal Audits - carried out in line with the Pension Audit strategy. ● External Audit review the Pension Fund's accounts annually	2	2	4		Head of Pensions	On-going
LGPS Pooling - ACCESS Pool											
15	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.	3	3	9	● 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 appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled. ● Due Diligence completed to ensure no hidden costs not known at time of decision to invest.	2	2	4		Head of Pensions	On-going

16	**LGPS Investment Pooling & Sub Fund Issues** • Increase in investment risk taken to access higher returns • There can be size restrictions on certain investments. • 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.	3	3	9	● ACCESS Support Unit team to provide support. ● Officers have agreed Link should be allowed a reasonable time period to resolve issues. ● The ACCESS Contracts 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 ● KPI's to be introduced within revised operator agreements.	3	2	6	↔	Head of Pensions	On-going
17	**Coronavirus and Covid 19** • 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	● 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 Assessments to begin November 2020 with new contractor based on high risk employers. ● Contribution deferral policy approved by Committee in June 2020.	4	3	12	↔	Head of Pensions	On-going
18	**Pay awards higher than expected** • Inflation rises faster than the actuarial assumption as a result of Govt. response to COVID-19 • Liabilities are higher than expected. • Bond yields return to much higher levels	3	3	9	● Current weighting of 5% to index linked, 50% to equities, 3% to infra,9% to real estate all inflation correlated. ● Increase allocation to infrastructure assets if at acceptable valuation ● Monitor portfolio sensitivity to inflation	3	3	9	↔	Head of Pensions	On-going

	• Bond-equity correlations rise, and equities also fall in price • Fund’s solvency level falls				● Triennial Valuation assumptions include local knowledge of the Administering authority on anticipated pay inflation.						
19	**Environmental, Social and Governance Issues** • Increase in investment risk taken due to unassessed ESG issues • Weaker control leading to poorer governance. • Decisions being made on incorrect assumptions or in an unconsidered way 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 • uncertainty in energy transition impacts and timing	3	3	9	● Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors. ● Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions ● Restructuring of the equity portfolio to be able to avoid high risk companies and exploit opportunities ● Trim unconscious exposure to companies with poor ESG rating or fossil fuel companies, through reduction in index funds ● Tracking of the portfolio as underweight in fossil fuel exposure to benchmarks ● Decision to invest in impact fund in September 2020 ● Produce regular reports on the carbon footprint of the Fund ● Examine the transition pathway of companies our managers hold ● Challenge managers on their holdings with regard ESG issues ● Member of Institutional Investors group on climate change ● Member of Climate action 100+ ● Engaging via managers and investor groups with companies	3	2	6	↔	Head of Pensions	On-going

Risk Score Change Key –

= ***Reduced***

= No Change

= Increased

Agenda Item 14

Report to: **Pension Committee**

Date of meeting: **30 November 2020**

By: **Chief Finance Officer**

Title: **Work Programme**

Purpose: **To review the Pension Board and Pension Committee work programmes**

RECOMMENDATION

The Committee is recommended to agree its work programme in appendix 1.

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1 Background & Supporting information

1.1 The work programme contains the proposed agenda items for future Pension Board and Pension Committee meetings over the next year and beyond. It is included on the agenda for each Committee meeting.

1.2 The work programme also provides an update on other work going on outside the Board and Committee's main meetings, including working groups and a list of any information requested by the Board or Committee that is circulated via email.

1.3 The inclusion of the Board's work programme allows the Committee to see what work the Board will be undertaking in its role to assist the Committee.

2 Conclusion and reasons for recommendations

2.1 The work programme sets out the Committee's work both during formal meetings and outside of them. The Committee is recommended to consider and agree the updated work programme.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions
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Pension Board and Committee – Work Programme

Future Pension Board Agenda		
Item	**Description**	**Author**
Standing items (items that appear on each agenda)		
Pension Board Updates	Verbal updates on training events or conferences attended by Members of the Board	N/A
Pension Committee Agenda	A consideration of the draft agenda of the Pension Committee.	Head of Pensions
Governance and Employer Engagement Report	A report on governance issues effecting the fund, developments in the LGPS and Employer Engagement items of note	Head of Pensions
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration
Internal Audit reports	All internal audit reports on the ESPF are reported to the Board	Head of Internal Audit

East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget.	Head of Pensions
East Sussex Pension Fund (ESPF) Risk Register	A report on the ESPF's Risk Register	Head of Pensions
Work programme	A report on the Board and Committee's work programme	Head of Pensions
East Sussex Pension Fund (ESPF) Breaches Log	A report on the ESPF breaches log	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF.	Head of Pensions
15 February 2021		
Employer Contributions Report	Report on Employer Contributions including timing of payments and actions for occurrence of late payment – *to move to standing item from this meeting*	Head of Pensions
Covenant Review Report	Report from PWC on the covenant review project	Head of Pensions
Business Plan and Budget 2021/22	Report to set the Budget for the Pension Fund for the Financial Year 2021/22 including the Business Plan with key deliverables for the year.	Head of Pensions
Communications Report	Report from Head of ESCC Communications on recommendations for Communications approach for the Pension Fund and means to achieve this	Head of Communications and Marketing

1 June 2021		
Administration KPI best practice	Report on how the ESPF KPIs for pension administration compare with those of other local government pension schemes.	Head of Pensions Administration
Internal Audit Strategy and Plan	Draft internal audit Pension Fund Strategy and Audit Plan 2021/22	Internal Audit
14 September 2021		
Employer Newsletter	Review and consideration of content and design for annual newsletter to Employers	Head of Pensions
5 November 2021		
Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Head of Pensions
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Head of Pensions
10 February 2022		

Actions requested by the Pensions Board		
Subject Area	**Detail**	**Status**
Internal Audit reports	Revised Internal Audit Strategy and timetable circulated to the Board and Committee	Circulated by email 2 October 2020
Internal Audit reports	The Board requested that internal audit consider an audit of the common data sets provided to the Pensions Regulator	TBC
Employer contributions	The Board requested a list of employers that were making late payments	To be considered at 15 February 2021 meeting
Scheme administration	The Board requested a report on potential recommendations from the Scheme Advisory Board (SAB) that the Scheme Manager role is removed from local authority control**.**	Ongoing discussions
Scheme administration	The Board requested a future report on how the ESPF KPIs for pension administration compare with those of other local government pension schemes.	To be reviewed as part of service level agreement
Decision making	To revise the decision-making matrix (including a RACI model) and to circulate it for information.	To be provided by Head of Pensions

Future Pension Committee Agenda		
Item	**Description**	**Author**
Standing items (items that appear on each agenda)		
Investment Report	A Quarterly performance report of the investment managers	Head of Pensions and Investment Consultant
Governance and Employer Engagement Report	A report on governance issues effecting the fund, developments in the LGPS and Employer Engagement items of note	Head of Pensions
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration
Internal Audit reports	All internal audit reports on the ESPF are reported to the Board	Head of Internal Audit
East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget.	Head of Pensions
East Sussex Pension Fund (ESPF) Risk Register	A report on the ESPF's Risk Register	Head of Pensions
Work programme	A report on the Board and Committee's work programme	Head of Pensions

East Sussex Pension Fund (ESPF) Breaches Log	A report on the ESPF breaches log	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF.	Head of Pensions
1 March 2021		
PRI presentation to Committee	A presentation from the UN PRI in relation to the Pension Fund membership of this body.	N/A
Covenant Review Report	Report from PWC on the covenant review project	Head of Pensions
Business Plan and Budget 2021/22	Report to set the Budget for the Pension Fund for the Financial Year 2021/22 including the Business Plan with key deliverables for the year.	Head of Pensions
Communications Report	Report from Head of ESCC Communications on recommendations for Communications approach for the Pension Fund and means to achieve this	Head of Communications and Marketing
External Audit Plan for the ES Pension Fund 2020/21	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions
15 June 2021		
Internal Audit Strategy and Plan	Draft internal audit Pension Fund Strategy and Audit Plan 2021/22	Internal Audit

Investment Strategy Statement review	Report reviewing Investment Strategy Statement	Head of Pensions
12 July 2021		
Independent Auditors Report on the Pension Fund Account and Annual Report and Accounts 2020/21	A report on the External Audit findings of the Pension Fund financial Statements and the complete 2020/21 Annual Report and Accounts for review.	Head of Pensions
28 September 2021		
Contracts and Tenders	Appointment of Independent Advisor	Head of Pensions
25 November 2021		
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Head of Pensions
24 February 2022		

Actions requested by the Committee		
Subject Area	**Detail**	**Date completed**

Current working groups		
Title of working group	**Detail and meetings since last Pensions Board and Committee meetings**	**Membership**
Investment and ESG Working Group	The Investment Working Group and ESG working group has been amalgamated as agreed at Pensions Committee 21 September 2020. The group meet in ensure investment strategy changes are implemented and areas for strategy focus are processed in between Committee meeting when decisions will be made based on research and recommendations from the group. Recent meetings • 30 September • TBC w/c 2 November	Cllr Fox, William Bourne, Russell Wood, Sian Kunert, Representative from Investment Consultant

Data Improvement and ABS Working Group	Recent meetings • 17 September • Briefing note send out on status of outstanding work areas 23 October • TBC w/c 23 November	Cllr Fox, Ray Martin, Diana Pogson, Stephen Osborne, Paul Punter, Sian Kunert, Ian Gutsell
McCloud Working Group	The McCloud Working Group has been established to oversee the implementation of the McCloud ruling within a prescribed timeframe and addressing any gaps and barriers preventing progress and ultimately delivery of the project. Terms of Reference are being drafted by Hymans. A high-level impact assessment has been completed to identify those members of the scheme that will be affected by this ruling. The first meeting of The McCloud Working Group will take place in late November 2020	Cllr Fox, Stephen Osborn, Lynda Walker, Paul Punter, Sian Kunert, Dave Kellond

Training and Development		
Title of Training/Briefing	**Detail**	**Proposed Date**

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Agenda Item 17

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Appendix 1

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Agenda Item 18

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Appendix 1

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Appendix 1

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Appendix 1

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