East Sussex County Council

PENSION BOARD

FRIDAY, 5 NOVEMBER 2021

10.00 AM REMOTE MEETING VIA MICROSOFT TEAMS

++Please Note That This Meeting Will Be Taking Place Remotely++

MEMBERSHIP - Ray Martin (Chair)
Councillor Tom Druitt, Toby Illingworth, Stephen Osborn, Diana Pogson, Niki Palermo and Lynda Walker

A G E N D A

1. Minutes *(Pages 3 - 10)*

2. Apologies for absence

3. Disclosure of interests

4. Urgent items
Notification of any items which the Chair considers urgent and proposes to take at the appropriate part of the agenda.

5. Pension Committee Agenda *(Pages 11 - 14)*

6. Governance Report *(Pages 15 - 22)*

7. Employer and Contributions Report *(Pages 23 - 28)*

8. Pensions Administration Report *(Pages 29 - 40)*

9. Training Report *(Pages 41 - 44)*

10. Annual Report and Accounts 2020/21 *(Pages 45 - 176)*

11. East Sussex Pension Fund 2020/21 Budget Quarterly report *(Pages 177 - 180)*

12. Pension Fund Risk Register *(Pages 181 - 192)*

13. Work Programme *(Pages 193 - 208)*

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

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

16. Pension Fund Breaches Log *(Pages 209 - 214)*

17. Employer Admissions and Cessations Report *(Pages 215 - 222)*

18. Any other exempt items previously notified under agenda item 4

PHILIP BAKER
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28 October 2021

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Agenda Item 1

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 14 September 2021.

PRESENT	Ray Martin (Chair) Councillor Toby Illingworth, Stephen Osborn, Diana Pogson, Niki Palermo and Lynda Walker
ALSO PRESENT	Councillor Gerard Fox, Chair of the Pension Committee Ian Gutsell, Chief Finance Officer Sian Kunert, Head of Pensions Tim Hillman, Pensions Manager - Employer Engagement Michael Burton, Pensions Manager - Governance and Compliance Paul Punter, Head of Pensions Administration Dave Kellond, Compliance and Local Improvement Partner Nigel Chilcott, Audit Manager Danny Simpson, Principal Auditor Harvey Winder, Democratic Services Officer

36 MINUTES

36.1. The minutes of the meeting held on 1st June 2021 were agreed as a correct record.

37 APOLOGIES FOR ABSENCE

37.1. Apologies for absence were received from Cllr Tom Druitt.

38 DISCLOSURE OF INTERESTS

38.1. There were no disclosures of interest.

39 URGENT ITEMS

39.1. There were no urgent items

40 PENSION COMMITTEE AGENDA

40.1. The Pension Board considered a report containing the draft agenda of the Pension Committee meeting for 28th September 2021.

40.2. The Board RESOLVED to note the report.

41 GOVERNANCE REPORT

41.1. The Board considered a report providing an update on various governance workstreams completed and changes effecting the Local Government Pension Scheme (LGPS) and East Sussex Pension Fund (ESPF or the Fund).

Regulatory change

41.2. The Chair asked how the Department of Work and Pensions "Stronger Nudge" regulations could be explained to Members of the Fund.

41.3. Michael Burton (MB) said that the Communications Working Group (CWG) would consider how best to inform members about the Regulations, however, this would most likely be at the time the Regulations are issued, as they are currently only out for consultation.

Changes to the Pension Board and Committee

41.4. The Board welcomed Cllr Toby Illingworth as a new employer representative of the Board following the resignation of Cllr Chris Collier. He explained he is a Wealden District Council councillor and has a professional background in finance.

Abatement Policy

41.5. Stephen Osborn (SO) asked whether the new abatement policy had been clearly communicated to employers.

41.6. Sian Kunert (SK) said that it will appear in the new employer newsletter that is due to be issued after the Communications Working Group (CWG) meeting later today. It is also on the Fund website. In addition, the Pensions Administration Team (PAT) has been in contact with some of the members known to have been affected.

Communicating with Pension Board Representatives

41.7. The Chair asked whether the Board was happy with the new Pension Board mailbox as a method of being contacted via email by employees, members of the public and other outside organisations.

41.8. Lynda Walker (LW) said she is part of the CWG so is happy with the approach taken, as it is important that people can contact Board Members to ensure transparency. Doing it this way rather than publishing private emails ensures there are fewer issues.

41.9. The Chair asked who monitors the Pension Board inbox.

41.10. MB confirmed it is monitored by several staff across the Pension Fund Team.

41.11. The Chair advised that he had received an email from Divest East Sussex and had responded to it via the new email address, advising that the Board did not have responsibility for the investment strategy of the fund..

Privacy Statement and Data Retention

41.12. The Chair asked why the summary privacy notice published on the Fund's website was still three pages long (compared to six for the full version) and whether it could be shortened.

41.13. MB said both were based on templates supplied by Local Government Association (LGA).

41.14. The Board RESOLVED to note the report and its appendices

42 <u>PENSIONS ADMINISTRATION REPORT</u>

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

Key Performance Indicators (KPIs)

42.2. PP outlined how the PAT performance had improved over Q2, 2021 to 95.4% of key tasks being completed within target date, compared to 92% in the previous quarter. He added that the Board should note that for Q3, 2021 service levels are expected to fall due to resources being diverted to the ABS project and high holidays levels and high volumes of post/enquiries being received, both as a result of the pandemic.

42.3. The Chair asked why there had been a higher than average number of leave days taken by staff from the PAT during August.

42.4. Paul Punter (PP) explained that staff had been encouraged to take this leave during August and September in part because they had TUPED over from Orbis with a lot of carried forward leave plus the leave accrued through their position on the new in-house team; and also because many had wanted a holiday to improve their wellbeing after the COVID-19 lockdown.

42.5. The Chair asked whether the PAT will be able to provide a report to the Board, as previously requested for the November meeting, on service level targets for the Fund compared to other administering authorities of the LGPS.

42.6. PP confirmed that the PAT will be rolling out new fund specific Key Performance Indicators (KPIs) from 1st October, along with comparisons with statutory disclosure deadlines and those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). This will be as in addition to making comparisons with other administering authorities through various Groups.

42.7. The Chair asked whether the higher percentage of abandoned calls by the helpdesk, resulting in the team missing the gold standard, is a result of lockdown.

42.8. PP said that abandonment rates relate to the call answer time. Whilst a lot of calls are answered in the target of 20 seconds, some people are left on the call for a number of minutes and some of them will abandon the call as a result. PP clarified this waiting time was significantly lower than many utility firms where people may wait hours. The PAT is monitoring this performance and working towards the target of 75% of calls answered within 20 seconds.

Internal Audit

42.9. The Chair asked whether there was anything the PAT wished to highlight about its response to last year's Internal Audit review in light of the PAT now receiving reasonable assurance from Internal Audit following its latest review.

42.10. PP said the PAT is in a better place than last year in relation to the number and severity of issues, with all major issues resolved and the only outstanding being minor and largely in the process of being achieved. He said there will be other audits later in the year on other aspects of the PAT that should also be positive.

Annual Benefit Statement for 2020/21

42.11. PP clarified the latest Annual Benefit Statement (ABS) figures. He said he was impressed with the performance of the PAT in its first year as an in-house team, even if there could be improvements. PP said the number of deferred members who received their statement was 99.7% by the end of August, which is the same as last year, albeit last year the deadline had been extended to October due to COVID-19, so the same figure was achieved in less time. Active members, who are more challenging to send ABS to in time, because they are dependent on quality data being received from the employers as part of the year end process, saw a figure of 95.9% compared to 97.2% last year, again over a longer period. PP said there are 22,816 active members and 21,871 ABS were issued on time. There are 125 employers with active members and the Fund managed to get an end of year return from i-Connect or paper for all of them. This data generated 2,500 queries, of which majority had been cleared, however, circa 900 queries, remain outstanding in part due to some of the queries not being raised by the PAT until mid-August.

42.12. PP said that the final queries are being assessed and the Board will be given an update via email, including a breakdown of which employers the data is from and any error codes. The PAT will continue to resolve these outstanding issues over the next few weeks and has one member of staff dedicated to carry out this task to completion. This mean the total number of ABS issued will improve beyond 95.9%, however, the remainder will be prepared after the statutory deadline.

42.13. The Chair asked whether these outstanding queries were related to employer errors rather than problems with the Fund's system miscalculating pension entitlements.

42.14. PP said the majority of the queries were related to late provision of data and queries thereon supplied by employers. The largest number were from Brighton & Hove City Council (BHCC), who had around 1,000 queries, although the employer has improved since last year. The East Sussex College Group, another previous poor performer, are now on i-Connect and this has reduced the number of outstanding queries from the Group to a respectable 30-40, albeit with a full time PAT member assisting them. The 900 figure also includes casual workers where it is not clear from the data if they are still employed or have left. PP said there are at least 125 such 'casuals'. This issue should be resolved when the agreed two-year limit on retaining members in the system as casuals is reviewed. After that point, they will be changed in the system to leavers.

42.15. PP added that a few of the queries were due to ABS needing to be manually recalculated, but only where they were very complex, for example, issues around divorce calculations. These were fed back to Aquila Heywood, but the software provider felt the issue is not widespread enough to make any changes to their system. This is partly because many pension funds only state whether a pension has a divorce debit or credit rather than provide the actual figures like the PAT tries to do.

42.16. SO asked whether the ABS would need to be reported as a breach of the regulations as the number issued was not 100%.

42.17. PP said no Administering authority will achieve 100%. Last year's figures had been reported to the Pensions Regulator, but as more of an update to the Regulator from the Chair of the Board. The numbers are remarkably similar this year and, on that basis, PP felt that, although it was a breach, it was not a reportable breach. The Chair clarified it is up to the Board Members to determine whether a breach was reportable by them to the Regulator as a material breach. He suggested that the Board should consider this at the next meeting once they had received the full report, but it sounded like the PAT was in a good place and on top of the issues with employers. The Board agreed to consider it at the next meeting.

Abatement Policy

42.18. The Chair asked for an update on the number of employees who had been affected by the new Abatement Policy.

42.19. PP said that it was a work in progress. The new abatement policy was now in place and any new employees re-joining the Council will be told there is no abatement in place for their pension. There are two historical categories of abatements – those who had their pension stopped (suspended) totally, and those who had it partially reduced. The PAT has now identified the 20 members who had their pension abated fully and have reinstated it, backdated to April 2021. The second category is being looked at now and the PAT believes it is a bigger group but significantly more difficult to identify. The PAT has had conversations with Aquila Heywood about how to identify them and will do so over the next couple of months. There will also be communications to all employees (via newsletters) in the meantime about the abatement policy and how to contact the PAT if they believe it had been applied to them in the past.

Suspensions of pensions in payment

42.20. LW asked how many of the 16 pensions suspended in payment last year, due to the recipient being oversees and having not responded to attempts at contact, had resulted in the pensioner making contact.

42.21. PP said nine responded but the others remain suspended but on the system.

42.22. The Board RESOLVED to:

1) note the report;

2) congratulate the Pensions Administration Team on the ABS results, particularly due to the difficulties caused by COVID-19; and

3) request that details of the ABS performance be circulated to the Board by email.

43 INTERNAL AUDIT

43.1. The Board considered The Pension Fund Administration - People, Processes and Systems 2020/21 Internal Audit report.

43.2. The Board RESOLVED to note the report.

44 ENGAGEMENT REPORT

44.1. The Board considered a report providing updates on employer engagement activities including communications and the collection of employer and member contributions up to June 2021 which were due on 19 July 2021.

44.2. The Board asked when BHCC may be added to i-Connect.

44.3. Tim Hillman (TH) said it was hoped BHCC would be on the system by the end of the year. When BHCC eventually joins, an automatic comparison of data sets will be run and a data cleanse will be carried out. TH said this can be an arduous task, but the PAT is getting more proficient at it each time and from then on, the monthly data provided through iConnect will be more accurate. When East Sussex County Council was added to i-Connect, there were around 1,000 such queries and BHCC should have a similar number. PP added that BHCC is keen to resolve its data issues and has committed to upgrading its payroll systems, including agreeing to cover the cost of adding i-Connect back in March 2021.

44.4. LW agreed that the new website is much improved and clearer and more accessible than before, based on seeing a draft of it during the CWG. LW said clearly accessible answers on the website should help reduce officers' workload by enabling people to find the answers to their queries without needing to contact someone. She asked whether people can still give feedback on the site's accessibility when it is live.

44.5. TH confirmed that would be possible as the first step had been to move the old website information to the new format and the next step would be continuing to improve the presentation of the information once it is live.

44.6. The Chair asked why there had been a slight increase in the number of employers paying their contributions late in April.

44.7. TH explained that this was due to various reasons such as mistakenly paying the old contribution rates, as they increased on 31st March; one employer carrying out the payroll of several other employers and paying late, adding a further two late employers to the list; and some employers still paying by cheque and because of COVID-19 working practices the cheques not being picked up straight away in the office. TH said the team is in a better position with resolving employer contribution issues than it was in January 2021. The next step will involve being more proactive with nudging and chasing employers more promptly if they do not pay their contributions ahead of the deadline of the 19th. When a late or wrong payment occurs, the team will start chasing employers to find out why. The team will also encourage those employers paying by cheque to adopt electronic banking.

44.8. The Board RESOLVED to note the report.

45 REPORT OF THE PENSION BOARD TO THE PENSION COMMITTEE

45.1. The Board considered a report on the work it had completed over the previous year and considered whether to agree to submit it to the Pension Committee for consideration.

45.2. The Chair asked where the report would be published.

45.3. SK confirmed that it would be included in the Annual Report.

45.4. The Board RESOLVED to endorse the report for submission to the Pension Committee at its meeting on 28th September 2021.

46 PENSION FUND RISK REGISTER

46.1. The Board considered the Fund's Risk Register.

46.2. The Board RESOLVED to note the report.

47 WORK PROGRAMME

47.1. The Board considered its work programme.

47.2. SK confirmed the Employer Forum will take place virtually and likely on the 24th November. The proposal is to split the day into sections with breakout groups in the afternoon, rather than try to have it all take place in the morning. SK said this should improve attendance.

47.3. The Chair asked about the recruitment of vacancies in the Pensions Team. SK said the Governance Compliance Team is fully recruited; there is a Pension Fund Accountancy role vacant in the Pensions Investment Team that has proved difficult to fill due to the pay grades of finance positions in local authorities; and 10 vacancies in the PAT, which are being reviewed to ensure they are graded properly before being advertised.

47.4. The Board RESOLVED to agree its work programme.

48 EXCLUSION OF THE PUBLIC AND PRESS

48.1. The Board RESOLVED to exclude the press and public 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).

49 PENSION FUND BREACHES LOG

49.1. The Board considered a report providing an update on the Fund's Breaches Log.

49.2. The Board RESOLVED to agree the recommendations as set out in the report

50 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

50.1. The Board considered an update on the latest admissions and cessations of employers within the Fund.

50.2. The Board RESOLVED to note the report.

The meeting ended at 12.15 pm.

Ray Martin (Chair)

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Agenda Item 5

Report to: **Pension Board**

Date of meeting: **5 November 2021**

By: **Chief Finance Officer**

Title: **Pension Committee Agenda**

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

RECOMMENDATION

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

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1. Background

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

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

2. Conclusion and recommendation

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

IAN GUTSELL
Chief Finance Officer

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Appendix 1

East Sussex County Council

PENSION COMMITTEE

THURSDAY 25 NOVEMBER 2021

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

MEMBERSHIP - Councillors Gerard Fox, Ian Hollidge, Julia Hilton, Paul Redstone and David Tutt.

A G E N D A

1. Minutes

2. Apologies for absence

3. **Disclosure of Interests**

   Disclosures by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.

4. **Urgent items**

   Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.

5. Pension Board Minutes

6. Governance Report

7. Employer and Contributions Report

8. Pensions Administration report

9. Annual Report and Accounts 2020/21

10. Quarterly budget report

11. Training Report

12. Risk Register

13. Work programme

14. Investment Report

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 Report

18. Breaches Log

19. Employer Admissions and Cessations

20. Any other exempt items previously notified under agenda item 4

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17 November 2021

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Agenda Item 6

Report to:	**Pension Board**
Date of meeting:	**5 November 2021**
By:	**Chief Finance Officer**
Title:	**Governance Report**
Purpose:	**To provide an update on various governance workstreams completed and changes effecting Local Government Pension Schemes and the East Sussex Pension Fund**

RECOMMENDATIONS

The Pension Board is recommended to:

1) **Note the change to the central government department with oversight of Local Government;**
2) **Note The Pensions Regulator has requested the annual Scheme Return with work on this being in progress;**
3) **Agree the draft terms of reference of the Communications working group (Appendix 1);**
4) **Endorse the draft terms of reference of the Administration working group; and**
5) **Discuss membership of the Administration working group**

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1. Background

1.1 This report is brought to the Pension Board to provide an update on the steps being taken to adopt good practice and ensure compliance with regulatory requirements for the East Sussex Pension Fund (the Fund or ESPF).

1.2 This report outlines changes to Pension Fund policy for comment and noting.

2. Ministerial change

2.1 There have been changes made to the distribution of ministerial responsibilities in central government.

2.2 Guy Opperman MP has retained his position as Pensions Minister and Thérèse Coffey MP remains as the Secretary of State for Work and Pensions.

2.3 The Ministry of Housing, Communities and Local Government has been renamed as the Department for Levelling Up, Housing and Communities, with Michael Gove MP replacing Robert Jenrick MP as Secretary of State.

3. Changes in Legislation and Regulation

3.1 The Pensions Regulator (TPR) launched a consultation in September 2021 on how it will exercise the new powers introduced by the Pension Schemes Act 2021. The consultation ends on 22 December 2021 and can be found at https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/new-powers-consultation-document.ashx. The final policy is expected to be produced in 2022.

3.2 The consultation covers overlapping regulatory and criminal powers, the new ability to apply high fines and the expanded information gathering powers. TPR has said it will not pursue both criminal and regulatory penalties for the same act.

3.3 Where there is a breach of legislation, excluding employer related investments for private occupational schemes, TPR would initially seek to rectify the situation using an Improvement Notice unless there are aggravating factors. This is consistent with the current approach but TPR does now have a wider range of sanctions available to it.

3.4 High fines can relate to a number of issues. For the purposes of the Fund these would be limited to the failure to provide information about a Notifiable Event or misleading TPR. It is of note the new fines are significantly higher than those which could be previously levied.

3.5 When TPR seeks information from a scheme it would typically do so on a voluntary basis unless there is good reason not to, for example wishing to interview a person suspected of fraud under caution. The consultation outlines the circumstances its formal powers apply and how it would approach any failure to comply with formal use of powers.

4. Scheme Return

4.1 TPR has sent a request for this year's scheme return to be completed by 10 November 2021. The return includes:-

- Updated member statistics
- Member data quality scores
- Details of all employers
- Details of the Fund's insurers and auditors.

4.2 Completing the Scheme Return is a legal obligation. Failure to do so can result in a fine being applied by TPR. To date only one Public Service Pension Scheme has received such a fine. The Fund submitted the return on 20 October 2021.

5. Working Group Terms of Reference

5.1 The Fund has a number of working groups; these groups have agreed terms of reference setting out the objectives and membership of the working group. The Fund has recently set up a Communication working group at the request of the Board. The draft terms of reference are included in **Appendix 1** and, as it is a Board-led working group, are recommended for approval by the Board.

5.2 The Funds Annual Benefit Statement (ABS)and Data Improvement (DIP) working group was set up in 2019, this working group has now reached the end of its original purpose as outlined in the terms of reference approved in November 2019. In its place officers and the working group recommend this working group is replaced with an Administration working group. The Administration Working Group is an officer-led working group. The draft terms of reference are included in **Appendix 2** for endorsement by the Board, and by the Pension Committee on 25th November.

5.3 Board and Committee members are invited to be members fo the Administration Working Group Board members are asked to come forward if they wish to join the administration working group.

6 Conclusion

6.1 The Board is recommended to note the changes made by central government which impacts the people and departments connected to pensions and Local Government.

6.2 The Board is recommended to note the completion of TPR scheme return to meet the Fund's duties.

6.3 The Board is recommended to agree the draft terms of reference of the Communications Working Group, endorse the terms of reference of the Administration Working Group, and consider board representation on the Administration working group.

IAN GUTSELL
Chief Finance Officer

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Communications Working Group (CWG)

Terms of Reference

Objectives

The CWG has an advisory and review role. Its purpose is to:

1. oversee the communications of the fund and aim to improve the user experience of key stakeholders of the Fund

2. undertake reviews of communication based documents to consider how the materials will be interpreted from an employer or beneficiary perspective

3. advise the Pension Board and Committee of possible improvements in communications including policy and delivery methods.

4. carry out research and consider other ways to communicate effectively with the Fund's stakeholders

Exclusions

The CWG is not a sub-committee of the Pension Board or Committee. No functions of the Pension Board or Committee are delegated to the CWG.

The CWG will not:

1. take decisions in relation to policy matters that are the responsibility of the Pension Committee

2. take decisions in relation statutory materials that are required by law and delegated to the Chief Finance Officer under the Scheme of Delegations to implement to administer the Fund.

3. oversee or advise on any other matter other than in relation to communications of the Fund.

Membership

The CWG is a Pension Board working group to progress communications within the Fund to improve the experience of scheme members and employers of the Fund, first and foremost. The CWG has originated as a result of a number of recommendations presented to the Pension Board in March 2021 from the Head of Communications for ESCC on his finding from a detailed communications review.

The CWG is chaired by Head of Pensions.

Membership comprises:

- Head of Pensions
- Pensions Manager – Employer engagement
- Pensions Communications Manager (yet to be appointed)
- Chair of the Pension Board
- Pension Board Members

Pension Committee Members or technical advisors may be invited by the chair of CWG when appropriate.

The CWG is not a committee or sub-committee established under the Section 101 of the Local Government Act 1972, so political proportionality rules under the Local Government and Housing Act 1989 do not apply.

Quorate:

The Quorum of the Working Group will be four Members and must include two Pension Board members and two officers.

Meetings

The CWG meets at least quarterly between Pension Committee meetings, or more as required to visit communication issues and make recommendations to Pension Board and Committee on improvements. Or to consider the phrasing and presentation of publications and communications to scheme members and employers, due to be issued as part of the operation of the Fund in line with Schemes of Delegation delegated to the Chief Finance Officer when required.

Reporting

An update on each meeting will be provided within the Employer Engagement and Communications report produced quarterly for Pension Board.

The CWG is not a committee or sub-committee established under the Section 101 of the Local Government Act 1972, so access to information regulations do not apply.

Administration Working Group (Admin WG)

Terms of Reference

Objectives

The AWG has an advisory and review role. Its purpose is to:

1. Oversee the administration projects of the East Sussex Pension Fund (ESPF)(the Fund) and aim to improve the members experience by ensuring high data quality of membership data within the Fund.
2. Take responsibility for strategic oversight of the ESPF Data Strategy driving the better use of data in the Fund and addressing any gaps and barriers preventing it.
3. tackle the key cross-cutting employer related issues that continue to be a barrier to the effective use of data.
4. Provide strategic oversight of the Pension Regulator (tPR) guidance which relates to data, shaping advice to the Pension Board and Committee on implementation.
5. To continue to oversee a small portfolio of projects to deliver data-enabled change and continue to learn and work through solutions to ongoing barriers.

Exclusions

The Admin WG is not a sub-committee of the Pension Board or Pension Committee. No functions of the Pension Board or Committee are delegated to the Admin WG.

The Admin WG will not:

1. take decisions in relation to policy matters that are the responsibility of the Pension Committee

2. take decisions in relation statutory materials that are required by law and delegated to the Chief Finance Officer under the Schemes of Delegation to implement to administer the Fund.

3. oversee or advise on any other matter other than in relation to administration and data quality matters of the Fund.

Membership

Membership will comprise relevant officers. The Working Group membership is also open to members of the Pension Board and Committee, who will work with delivery partners to drive data-enabled change across scheme employers.

The Admin WG is chaired by Head of Pensions Administration.

Membership comprises:

- Head of Pensions Administration

- Chief Finance Officer
- Head of Pensions
- Chair of the Pension Board
- Chair of the Pension Committee
- Other Board and Committee members to be determined

Senior external representatives may also be invited by the Chair to provide expert advice and opinion on the ESPF data agenda and activities.

The Admin WG is not a committee or sub-committee established under the Section 101 of the Local Government Act 1972, so political proportionality rules under the Local Government and Housing Act 1989 do not apply.

Quorate:

The Quorum of the Working Group will be four Members

Meetings

The Admin WG meets at least quarterly between Pension Committee meetings, or more as required to visit administration project or data quality issues and make recommendations to Board and Committee.

Reporting

A note of meetings will be reported in the quarterly work plan to Board and Committee with details on projects discussed during any Admin WG meeting provided in the Administration Report produced quarterly for Pension Board and Committee.

As the Admin WG is not established under the Section 101 of the Local Government Act 1972, access to information regulations do not apply.

Report to: **Pension Board**

Date: **5 November 2021**

By: **Chief Finance Officer**

Title: **Employer Engagement Report**

Purpose: **This report updates the Board on Employer Engagement activities including communications and the collection of Employer contributions up to August 2021 which were due on 19 September 2021.**

RECOMMENDATION

The Board is recommended to note the report

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1. Background

1.1 This report is brought to the Pension Board to provide an update on employer engagement tasks that directly affect the East Sussex Pension Fund (the Fund).

1.2 Under the Local Government Pension Scheme (LGPS) Regulations, East Sussex County Council is required to maintain a pension fund for its employees and other 'scheduled bodies' as defined in the Regulations known as the East Sussex Pension Fund (ESPF or the Fund). The Regulations also empower the Fund to admit employees of other 'defined' (e.g. other public bodies) bodies into the Fund.

1.3 The Employers (scheduled and admitted bodies) are required to pay both employee and employer contributions to the Fund monthly. The contribution rates for members is set out in the LGPS Regulations. The Employer contribution rate is set at the triennial valuation and recorded in the rates and adjustment certificate issued by the Funds actuary.

1.4 The Employers are required by regulations to make the payment of contributions to the Fund be made no later than 19 days of the following month in which the contributions were deducted from payroll (22 days by means of an electronic communication).

2. Supporting Information

Employer Engagement

2.1. The Employer Engagement Team has continued to work alongside the Pensions Administration (PAT) technical team to help deliver the Annual Benefit Statements. The sweep up of employer queries has continued and the engagement team has been communicating with employers to clear up any issues.

2.2. The Employer Engagement team have been working alongside the PAT to help the onboarding process of the i-Connect project. We have so far fully onboarded 26 employers; with a further 16 employers where the initial process has begun; and further sessions are booked to go through the next onboarding steps. The team has encountered some issues with the i-Connect software on a few processes. These issues are being looked at internally to find the best processes and manage the data that is getting sent through the i-Connect system.

2.3. As a result of some unexpected issues arising from the roll out of i-Connect, the Fund has reached out to other authorities that have been using i-Connect for a longer period to review how they use the system to its full capabilities to take advance of any lessons learn that we can embed into our processes.

2.4. Before rolling out the project to other larger employers the Fund plan to ensure the existing onboarded employers are all set up and running well, with no new questions or challenges in the data input or reconciliation process. Instead, the next stage of the roll out will be carried out focussing on the 'Online Return' method of data uploading which will be applicable for some of the smaller employers. It has been a great opportunity for the team to engage and speak to different employers on this project and start to build good relationships.

Still to onboard	Initial enquiries ongoing	Started onboarding process	Onboarded
73	5	16	26

2.5. Where discussions have already begun with larger employers in the Fund, those larger employers have requested further time to build their monthly payroll files to ensure integrity of the system and data submissions.

2.6. The i-Connect project so far has helped to cleanse employee data for those already using the system and has provided some opportunities of engaging with employers on other matters. Although the anticipated benefit to the contribution reconciliation process has not transpired, as the i-Connect system does not yet account for secondary contributions, although this is planned for future development. The Engagement team is aware that some employers may find the transition to i-Connect problematic with limits on time and technology. The team will offer the relevant time and support to allow for a smooth transition alongside appropriate training.

Communications

2.7. The Autumn Employer Newsletter has been created and communicated across all employers. The newsletter has been updated with some suggested changes from the Communication Working Group and will continue to be reviewed and restructured. The active Autumn newsletter is currently being drafted and communicated to active employees by the end of October.

2.8. We can confirm that the new East Sussex Pension Fund website is now live. The feedback of the new website so far has been very positive. Most of the feedback highlights how much fresher and modern looking it is, as well as being much easier to navigate and find information. The Engagement Team will continue to monitor the documentation and information on the new website and will work alongside the wider Pensions team on reviewing the forms, documents and content currently held.

2.9. The covenant project being carried out by PwC with a selection of higher risk employers is continuing. We have had responses from the majority of employers in scope and are chasing the remaining few that are still to return questionnaires. The final reminders have been sent out to employers and the next stage of the project is due to commence in the upcoming weeks.

2.10. The Employer Annual Forum is to be held virtually on 24 November. Communications have been sent to employers providing the date, times and agenda for the event. So far we have received notification from many employers that they are going to attend the event. We are sure that the topics and themes covered on the day will provide plenty of scope for employers to build their knowledge and have the opportunity to get some questions answered. An agenda for the day is set out in **Appendix 1**.

Employer Contributions

3.1 In line with regulations, the Fund has set the 19 days following the month in which the contributions were deducted from payroll to determine if a payment has been received on time. The below table sets out the number of payments received after the 19 days have elapsed.

Table of Contributions received after the 19th day of the month following contributions deducted up to the 19 July 2021.

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	**Jul**	**Aug**
***Total payments due**	122	123	125	126	126	128	128	129	129	127	127	127
Payments received late	3	3	3	8	3	3	7	11	8	8	3	10

**Total payments shown in February report have been amended to show the full year.*

3.2 In the past 12 month period there have been 70 late payments of contributions out of 1,395 expected payments. The majority of the missed payments we have is still down to some employers that still pay by cheque. As outlined previously, due to Covid restrictions, cheques are not always paid into the bank on a daily basis; this can lead to some delays in the cheque being received and credited. There have also been instances of cheques not arriving in the post causing a delay in cheques being cancelled and resent. Six of the late payments in August were due to cheque payments. The Engagement Team is continuing to liaise with these employers to establish a more robust method of sending cheques via recorded delivery and providing e-mail copies of date stamped cheques. The Team is also suggesting the use of BACs payments wherever possible. As Covid restrictions are removed, the efficiency of collating and paying in of cheque payments should improve. The introduction to i-Connect may also provide an opportunity for cheque paying employers to review their processes.

3.3 Where no cheque payments have been received late, the team has communicated with the employers requesting payment and advising responsibility of the employer in relation to the regulations. Since September the team has started to assess each employers' conditions for lateness. We have sent official warning notification to late payments and outlined that if late again in a 12 month period administration charges will be sought in line with the administration strategy.

Improvements to the contributions monitoring

3.4 The Engagement Team now monitors all contributions paid and pick up on any discrepancies on a monthly basis, reverting back to the employer to amend as soon as possible. Through this process it has allowed the Engagement Team improve relationships with the employers so that any problems can be resolved quickly, and employers know they can also contact the Team for help.

3.5 The Fund will continue to engage with employers to understand the issues behind missed payments and providing support in order to reconcile. The Engagement Team is aware that it is essential the Fund reinforces the statutory obligation of employers to pay contributions on time or they suffer the risk of administration charges and any breaches are reported accordingly to the Regulator. The Fund is also assessing all 'new employer admissions' to the Fund and making sure any backdated contributions have been paid and reconciled, whilst also establishing the expectations of all employers in the Fund.

4. Conclusion and reasons for recommendation

4.1 The Pension Board is recommended to note the updates provided in the report.

IAN GUTSELL
Chief Finance Officer

Contact Officer:	Tim Hillman, Pensions Manager Employer Engagement
Email:	Tim.Hillman@eastsussex.gov.uk

Virtual Employer Forum Agenda

10am-3pm (with lunch break) - **24th November 2021**

……………………………………………………………………………….

10am Start:

- **10:00 - 10:10 am** Welcome – Tim Hillman (Employer Engagement Manager)
- **10:10 - 10:20 am** Introduction and update – Councillor Fox
- **10:20 - 10:30 am** Update from Pension Board Chair – Ray Martin
- **10:30 - 10:40 am** East Sussex Pension Fund Update - Sian Kunert (Head of Pensions)
- **10:40 - 11:10 am** Barnett Waddingham (Fund Actuaries)- Update on projects effecting employers
- **11:10am** Coffee Break
- **11:20 - 11:50 am** Investment Manager –Presentation
- **11:50 - 12:10 pm** Governance Review – Employer specifics Michael Burton (East Sussex Pensions Governance Manager)
- **12:10 - 12:30pm** Pension Administration update – Paul Punter (Pension Admin Manager)

LUNCH BREAK - **12:30pm – 1:00 pm**

Afternoon – Interactive session – Q&A and feedback

1pm start:

- **1:00 - 1:10pm** Introduction to the Engagement Team/ New Website – Izzy Widdowson (CIPFA Trainee)
- **1:10 - 1:30pm** I-connect – update on the project/ onboarding - Paula Jenner, (Includes Q&A from Colin Lewis at i-Connect Heywoods)
- **1:30 - 1:45pm** Reminder of employer obligations on Contributions/ LGPS31 forms Dillon Piggott (CIPFA Trainee)

- **1:45 – 2:30pm** Open discussions on the following topics:
    - Form completion/ Data requirements
    - Training needs
    - Upcoming Employer Projects
- **2:30 – 2:55 pm** Q/A, Feedback – Tim Hillman
- **3:00pm** Close meeting

Report to:	**Pension Board**
Date of meeting:	**5 November 2021**
By:	**Chief Finance Officer**
Title:	**Pension Administration - updates**
Purpose:	**To provide an update to the Pension Board on matters relating to Pensions Administration activities.**

RECOMMENDATION

The Board is recommended to note the updates and make any comments for feedback to the Pension Committee.

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1. Background

1.1 The in-house Pensions Administration Team (PAT) 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 (KPI)

2.1 The Performance Report for the period October 2020 to September 2021 can be found at **Appendix 1**. The PAT saw performance numbers during quarter three 2021, average at 98.37% (volume completed 2,370) improve from the previous quarter of 95.40% (volume completed 1,788). The numbers are quite different from the same period 12 months ago – 93.54% (volume completed 1,553).

2.2 Under the Good Governance Review, documents were developed and updated covering the Service Level Agreement and Roles & Responsibilities with the future “in-house” PAT rather that provided through Orbis Business Services. A fee has been agreed with Aquila Heywood to implement the new performance measurements and this work was completed in Altair in early October 2021. We are now creating a new Key Performance Indicator (KPI) reporting dashboard within Altair Insights and expect this to be presented in the new format. In the meantime, the KPI’s presented, whilst from the new East Sussex database, continue to be based upon the Orbis internal measurements.

2.3 The Orbis Pensions Helpdesk was introduced in November 2019 and their performance for the last 12 months is shown in **Appendix 2**. With effect from April 2021, we began the implementation of a new gold standard service provision. The final phase was the service improvement period before we commence formal performance management against the new East Sussex County Council (ESCC) KPI’s from October 2021.

3. Pension Administration Transfer and Staffing Update

3.1 All administration staff are continuing to work from home and only one team member has tested positive for COVID-19 (in September 2021) and fully recovered. Staff remain in good spirits and we closely monitor their wellbeing. The team did attend a team meeting in Lewes County Hall on 19 October 2021 followed by a lunch. It was lovely for everyone to meet, have a catch up and propose a team hybrid approach for a return to the office. It is, however, unlikely that the office will be widely available until early in 2022.

3.2 At the May 2021 meeting, we celebrated the Altair & MSS systems going live on time and budget. The Transition & Project Boards were closed down at the end of June 2021 when the IT Change Advisory Board approved the project closure and the systems are now business as usual (BAU). There were a small number of actions to be concluded and these are now been completed, including on 30 September 2021, the deletion of ESPF data from the Surrey County Council version of Altair.

4. Internal Audit

4.1 The Internal Audit team has now completed the 2020/21 Pensions Administration Audit to ensure compliance with Regulatory Controls. The Audit has included a review and evidence of the completed 2019/20 Audit Management Actions. We are very pleased with the Audit opinion improving from minimal to reasonable assurance. An update on progress against the new Management Actions are presented in **Appendix 3**.

5 Projects update

5.1 Data Improvement Project

We have continued to work on clearing historical issues as well as new discrepancies found since 2019 (when Hymans Robertson did the data cut). The current position as at 08/10/21 was:

Status 2 – 960 cases many of these have been found as part of the year end data cleansing. We anticipate that i-Connect will change this considerably going forwards. We have received 100's of leaver forms over the last two months – many currently being processed by PAT. Expect the number to reduce significantly by 31 December.

Status 8 – 114 cases we are trying to minimise the use of this status. New errors and duplicates are being actioned immediately they are discovered. 100's of duplicate records created in error as we on-boarded new employers to i-Connect (pay reference has to be 100% accurate or creates a new record on Altair).

Status 9 – 5,485 cases procedure in place to review cases three months before five years refund limit. In July 21 we asked ITM to trace 385 non-responders (wrote to twice to try to obtain bank account details to pay refund of contributions). Results have now been received and PAT are working through (139 same address – writing saying must have refund, 189 new address – writing to verify correct person before going through refund process, 56 could not find marked up as gone away).

CARE Pay – All gaps in pay have been investigated as part of the 2021 ABS project. The Team made 4,000+ queries on pre-April 20 data, mainly salaries.

Most of the other actions will be validated when we run the next Pensions Regulator validator reports to assess the Common and Conditional data scores before the end of 2021.

5.2 GMP Rectification

The project is on hold whilst the Orbis contract with Mercers is being agreed, it is anticipated this will be signed by the time the Board meet. We will then provide Mercers with a data extract of the 2021 pension increases for the pensioner population and possible access to Altair. Mercers can then start determining the over and underpayments for pensioners and looking at the draft communications. The project may not be concluded until after the 2022 pension increases.

5.3 Annual Benefits Statements (ABS) for 2020/21

All employers with active members provided year end data or submitted March 21 data via i-Connect. The data was verified and queries were raised on about 20% of employers' submissions. The data issues were passed back to employers and the vast majority corrected in time for ABS processing.

The ABS statutory deadline was 31 August 21 (31 October last year due to Covid-19) and the results of statements issued for eligible members were as follows:

Member category	2020	2021
Actives	97.20%	96.31%
Deferred	99.77%	99.69%

5.4 Abatement changes with effect from 1 April 2021
As agreed by the Pension Committee in June 2021, this process has ceased to be operated and the PAT has now run a report to identify cases re-employed over the last five years. 20 partially reduced cases have been manually identified from the 140 in scope and correct benefits calculated in October 2021. We intend to repeat the process for re-employed cases between five and ten years ago, in November. A letter has been issued to all pensioners informing them of the change in policy and asking them to contact the helpdesk if they believe they are impacted and have not already heard from us.

5.5 Annual Allowance historical review project
The project to correct the Annual Allowance for the period 2014/15 to 2019/20 has been awarded to Aon and a contract is in place. The PAT has provided them with the revised salary histories for the c.350 members in scope for review plus a couple of test cases prepared by Barnet Waddingham. We have now identified the cases impacted in 2020/21 and these have been contacted and added to the project scope.

5.6 Aon have queried the quality of the final pensionable pay data supplied by employers which is fundamental to the project. This will hold up the project until we have an opportunity to do some sample checks and determine the best way forward.

6 Conclusion and reasons for recommendation

6.1 The Pension Board is asked to note the report and make any comments for feedback to the Pension Committee.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Paul Punter, Head of Pensions Administration
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APPENDIX 1

East Sussex Pensions Administration - Key Performance Indicators

These are Orbis internal targets and the ESCC targets agreed in Sept 20 as a result of Good Governance review cannot commence until we go live with a separate database (AH currently installing).

	Activity	Measure	Impact	Target	Sep-21		Aug-21		Jul-21		Jun-21		May-21		Apr-21		Mar-21	
	Scheme members	Pensioners, Active & Deferred			79102		79,492		79,393		79,151		79,070		79,172		79,071	
	New starters set up				240		200		287		230		326		178		211	
					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%**	31	100%	15	100%	18	100%	16	100%	18	100%	22	100%	43	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	**95%**	16	100%	16	100%	8	100%	12	92%	21	96%	14	100%	9	89%
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	**95%**	95	95%	117	96%	128	99%	94	99%	104	100%	81	91%	84	95%
2b	Payment of lump sum made	within 5 days	H	**95%**	147	90%	113	100%	107	100%	112	100%	147	97%	136	95%	96	87%
3	Calculation of spouses benefits	within 5 days	M	**90%**	22	96%	15	100%	14	93%	18	95%	16	100%	20	100%	24	96%
4a	Transfers In - Quote (Values)	within 10 days	L	**90%**	38	90%	35	89%	42	96%	47	73%	22	64%	12	67%	19	79%
4b	Transfers In - Payments	within 10 days	L	**90%**	22	91%	27	100%	23	100%	34	65%	8	75%	14	93%	22	91%
5a	Transfers Out - Quote	within 25 days	L	**90%**	43	91%	48	100%	103	100%	63	91%	47	98%	23	100%	40	75%
5b	Transfers Out - Payments	within 25 days	L	**90%**	17	95%	9	89%	8	100%	33	100%	9	100%	21	91%	22	87%
6a	Employer estimates provided	within 7 days	M	**95%**	19	100%	10	100%	26	97%	33	97%	42	96%	23	83%	28	68%
6b	Employee projections provided	within 10 days	L	**95%**	14	100%	19	95%	23	100%	19	95%	33	97%	8	88%	14	93%
7	Refunds	within 10 days	L	**95%**	54	100%	32	100%	32	100%	33	100%	29	97%	8	100%	22	100%
8	Deferred benefit notifications	within 25 days	L	**95%**	329	100%	333	100%	202	100%	150	100%	147	100%	99	99%	127	100%
	TOTAL TASKS COMPLETED				**847**	97.17%	**789**	98.61%	**734**	99.32%	**664**	94.73%	**643**	96.89%	**481**	94.59%	**550**	91.45%
	Figures for the previous year				**494**	95.34%	**516**	92.64%	**543**	92.63%	**394**	96.70%	**359**	98.61%	**454**	98.02%	**598**	99.00%
	Missed target cases				24		11		5		35		20		26		47	
9	Complaints received- Admin				2		1		6		5		7		8		4	
	Complaints received- Regulatory				0		0		0		0		0		0		0	
13	Compliments received				1		0		0		1		1		0		0	

	Activity	Feb-21		Jan-21		Dec-20		Nov-20		Oct-20	
	Scheme members	79,027		78,990		78,448		78,426		77,920	
	New starters set up	211		176		232		530		299	
		Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	29	100%	64	100%	20	100%	28	100%	34	100%
1b	Award dependent benefits (Death Grants)	10	100%	9	100%	11	100%	7	86%	18	100%
2a	Retirement notification acknowledged, recorded and documentation sent	68	56%	74	94%	43	94%	56	97%	63	96%
2b	Payment of lump sum made	99	94%	82	93%	84	99%	85	97%	140	94%
3	Calculation of spouses benefits	19	100%	20	95%	8	100%	11	100%	23	100%
4a	Transfers In - Quote (Values)	26	74%	23	61%	18	95%	17	100%	21	96%
4b	Transfers In - Payments	17	95%	19	95%	5	100%	19	90%	22	100%
5a	Transfers Out - Quote	41	93%	28	90%	22	96%	27	97%	33	100%
5b	Transfers Out - Payments	12	92%	16	100%	8	100%	20	90%	11	100%
6a	Employer estimates provided	30	80%	33	79%	9	89%	12	100%	10	100%
6b	Employee projections provided	30	94%	9	100%	9	100%	22	96%	31	94%
7	Refunds	24	100%	37	100%	21	100%	32	100%	39	100%
8	Deferred benefit notifications	152	100%	203	100%	150	100%	150	98%	146	100%
	TOTAL TASKS COMPLETED	**557**	90.84%	**617**	93.70%	**408**	98.28%	**486**	97.53%	**591**	98.31%
	Figures for the previous year	**642**	99.53%								
	Missed target cases	51		39		7		12		10	
9	Complaints received- Admin	2		0		0		2		2	
	Complaints received- Regulatory	0		0		0		0		0	
13	Compliments received	0		0		0		0		0	

Performance for the year July 20 to June 21 inclusive		
Total	Fails	% pass
338	0	100
151	3	98.0
1007	64	93.6
1348	49	96.4
210	5	97.6
320	57	82.2
232	23	90.1
518	29	94.4
186	10	94.6
275	31	88.7
231	10	95.7
363	1	99.7
2188	2	99.9
7367	**284**	**96.1**

	Summary for failed cases	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20
1b	Award dependent benefits (Death Grants)				1 overdue			1 Overdue by 2 days				1 Overdue by 13 days	
2a	Retirement notification acknowledged, recorded and documentation sent							4 Overdue by average of 7 days	30 overdue	4 overdue			
2b	Payment of lump sum made	Switch to Admin2Pay module - immed paym't					7 overdue by average of 4 days	12 Overdue by average of 4 days	1 overdue	6 overdue			8 Overdue by average of 7 days
3	Calculation of spouses benefits							1 Overdue by 4 days					
4a	Transfers In - Quote (Values)		5 overdue by average of 3 days		13 overdue	8 overdue by average of 23 days	4 overdue by average of 6 days	4 Overdue by average of 7 days	7 overdue	9 overdue			
4b	Transfers In - Payments				11 overdue	2 overdue by average of 38 days		2 Overdue by average of 17 days	1 overdue				
5a	Transfers Out - Quote							10 Overdue by average of 15 days	3 overdue				
5b	Transfers Out - Payments		1 overdue by 2 days				2 overdue by average of 10 days	9 Overdue by average of 5 days	1 overdue				
6a	Employer estimates provided						4 overdue by average of 6 days	4 Overdue by average of 6 days	6 overdue	7 overdue	1 Overdue by 3 days		
6b	Employee projections provided							1 Overdue by 1 days	2 overdue				2 Overdue by average of 6 days
8	Deferred benefit (DB5YE)												
					Two issues with transfers-in: 1. PAT TUPE cases 2. Use of reply received task lists Both now resolved	Two bank holidays. Highest tasks completed since I started.	Blackout period closed 8/4/21.	Resources diverted to data migration to support UAT and Parallel runs. Blackout period commenced 20/3/21.	Resources diverted to data migration to support UAT and Parallel runs.	Post received and tasks completed at highest levels in the last 12 months (up 50% on Dec 20). No. of deaths also very high.			Half the late lump sums are where retirements returned paperwork early. Redundancy quotes stopped early October.
		Adam Lansley contract made a seasonal worker 10/6/21.			Adam Lansley contract starts 10/6/21.	Steve Plastow retired 12/5/21. Lewis Leslie started 26/5/21.	Michael Keogh started 8/4/21.	Jennie Shuttleworth commenced maternity leave		New structure chart showing new structure and agreed vacancies	Staff roles made permanent - Paul, Jennie, Julie & Joe		
		Eight vacancies	Eight vacancies	Eight vacancies	Eight vacancies	Nine vacancies	Nine vacancies	Ten vacancies	Ten vacancies	Ten vacancies	Two vacancies	Two vacancies	Two vacancies

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Appendix 2

Helpdesk performance

Introduced the call centre for ESPF in November 2019

The main helpline for all six Pension Funds

Period	Offered (Calls received)	Handled (Calls answered)	Abandoned (Caller hung up)	Aband %	SLA % (75% of calls within 20 seconds)	Queue %	Abandoned Time
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
01/10/20 to 31/12/20	6,881	5,975	906	13.2%	Oct 22% Nov 32% Dec 32%	Oct 75% Nov 64% Dec 63%	Oct 7.11 Nov 5.54 Dec 6.44
01/01/21 to 31/03/21	9,719	8,299	1,420	14.2%	Jan 12% Feb 21% Mar 48%	Jan 86% Feb 76% Mar 49%	Jan 6.35 Feb 6.51 Mar 4.19

Since lockdown the telephone service opening times has been restricted – phone line was open from 10am to 2pm and 2pm to 4pm.

From April 2021 the main helpline has been separated for ESPF

Period	Offered (Calls received)	Handled (Calls answered)	Abandoned (Caller hung up)	Aband %	SLA % (75% of calls within 20 seconds)	Queue %	Abandoned Time
01/04/21 to 30/06/21	2,561	2,417	144	5.7%	Apr 53% May 44% Jun 56%	Apr 44% May 52% Jun 39%	Apr 4.33 May 3.16 Jun 4.10
01/07/21 to 30/09/21	2,601	2,380	221	8.5%	Jul 43% Aug 31% Sep 23%	Jul 50% Aug 57% Sep 49%	Jul 3.30 Aug 4.51 Sep 5.01

East Sussex PAT the telephone opening times are being reverted back to the pre-pandemic opening times of 9am to 4pm.

Helpdesk (website) performance
All six Pension Funds

Period	Calls received	Handled	Abandoned	Abandoned %	SLA %	Queue %	Abandoned Time
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
01/10/20 to 31/12/20	451	362	89	19.73%	Oct 37% Nov 32% Dec 37%	Oct 35% Nov 39% Dec 32%	Oct 1.54 Nov 4.57 Dec 6.14
01/01/21 to 31/03/21	529	435	94	17.77%	Jan 17% Feb 43% Mar 53%	Jan 60% Feb 24% Mar 19%	Jan 3.29 Feb 2.19 Mar 2.36
01/04/21 to 30/06/21	796	505	81	14.00%	Apr 30% May 31% Jun 48%	Apr 38% May 44% Jun 20%	Apr 1.39 May 2.10 Jun 1.06

01/07/21 to 30/09/21	558	496	62	11.11%	Jul 39% Aug 44% Sep 49%	Jul 33% Aug 33% Sep 67%	Jul 2.28 Aug 3.50 Sep 2.48

A new dedicated ESPF website helpline was introduced 14 Aug 21, this will be presented separately from 1 October 21.

ES Helpdesk service levels for helpdesk services – new measurement approach post April 21

KPI	A	B	C	D
	First time fix	Call answer time	Abandoned call rate	Email response time
Gold	85% of enquiries dealt with at first point of contact	75% of calls answered in 20 seconds	Less than 5% of calls abandoned	100% of emails answered within 3 working days
Silver	80% of enquiries dealt with at first point of contact	50% of calls answered in 20 seconds	Less than 10% of calls abandoned	75% of emails answered within 3 working days
Bronze	70% of enquiries dealt with at first point of contact	30% of calls answered in 20 seconds	Less than 15% of calls abandoned	75% of emails answered within 10 working days
Below Bronze	<70% of enquiries dealt with at first point of contact	<30% of calls answered in 20 seconds	>15% of calls abandoned	<75% of emails answered within 10 working days

- Allow a three months' shadow period to adjust to the required higher standards where we will not consider applying performance penalties
- Thereafter quarterly performance assessed against the scoring mechanism with rectification plan for underperformance including penalty clauses for sustained underperformance.

Main Helpline for ESPF

Period	First time fix	Call answer time	Abandoned call rate	Email response time
GOLD TARGETS	85%	75%	5%	100%
April 21	96%	53%	5%	100%
May 21	95%	44%	7%	100%
June 21	95%	56%	5%	100%
July 21	91%	43%	9%	100%
August 21	88%	31%	9%	100%
September 21	86%	23%	6%	100%

Website Helpline (all six Pension Funds)

Period	First time fix	Call answer time	Abandoned call rate	Email response time
GOLD TARGETS	85%	75%	5%	100%
April 21	N/A	30%	18%	N/A
May 21	N/A	31%	15%	N/A
June 21	N/A	48%	10%	N/A
July 21	100%	39%	10%	100%
August 21	100%	49%	21%	100%
September 21	100%	67%	6%	100%

The Helpdesk suspect that there are some errors with the reporting which has caused the SLA% to be lower than expected in September for both helplines. It is currently under investigation with BT. They have started to manually capture daily data for October so that they can check for accuracy.

Appendix 3 - Internal Audit Report – Pension Administration - People, Processes and Systems 2020/21

Ref.	Finding	Potential risk implication	Risk	Agreed action	Owner	Target Date
1	**Indemnity from Admitted Bodies**					
	We reviewed controls over the admission of new bodies into the Fund and identified the following issues: 1. For 1 of 5 admitted bodies (N-Viro) tested, clause 9.3 & 9.4 of the signed addmission agreement indicated a requirement for a bond of £160k. The agreement, signed in Dec 20, was not accompanied by a completed bond. We understand the bond is not being chased because the contract will be terminated from 1 April 21. It has later transpired that no bond was actually required in this instance due to a subsequent agreement between all parties (see "Agreed Action" opposite. 2. Clause 9.3 of the signed agreement with Churchill (which relates to St. Paul's Church of England Academy) required either a bond or a guarantee (where the Administering Authority determines that a bond is not required.) However, in discussion with the Head of Pensions, that it had been agreed by both parties that a guarantee would suffice in this instance and no reference to a "bond" should have been made. To avoid confusion and potential future disagreement between parties, additional care should be taken in wording agreements. In addition, Clause 9.2 of the same agreement refers to the level of risk exposure arising on the premature termination of the service provision or assets by reason of insolvency, winding up or liquidation of the Admission Body, as the sum of £XXXXXX. Clearly, this should have provided a specific value to accurately reflect the overall financial risk to the Fund and guarantee required.	In both cases, it transpires that the bonds were not required despite the agreements indicating otherwise. It is therefore important that agreements are clearly worded, and subsequently amended are required and agreed, to avoid any confusion and uncertainty over the requirement to obtain bonds. Without, this, it may not be clear where bonds are required and they may not be obtained, therefore exposing the Fund to avoidable liabilities arising from potential financial difficulties.	Medium	Significant work has been actioned on admissions to ensure agreements outstanding are resolved and new admissions are managed effectively in initiation. Work in this area includes the production of an outsourcing guide which has been shared with all employers and a training session on this topic took place at the employer forum in Nov 20. Admissions status has been reported quarterly at pensions board and committee meetings to show transparency and progress. The N-Viro contract fails to have a bond in place, which would have been in line with the wording in the signed admission agreement. Prior to signing, all parties agreed that a guarantee from the parent company was appropriate instead of a bond. It appears the admission agreement was not changed to reflect this point prior to signing. The N-Viro contract is due for termination and a bond will not be sought to align with the agreement. The Fund has recruited into key posts now which means that new admissions are being managed more effectively and process notes to ensure all steps are fully documented will be created to ensure the Fund is complete in its actions in this area. In addition, after discussions with legal, the Fund have agreed to use a portal-based approach to admission agreements which will speed up and streamline the process and ensure, where bonds are required, this documentation is created at the outset. This new portal will also improve the Fund's ability to communicate with costs associated with admissions due to the flat fee structure for the legal side. Orbis Law will continue to execute admissions for the Fund.	Sian Kunert	01/11/2021 The new employer engagement officer is working on communicating progress in admissions in a more streamlined apprach and working with the governnace team to ensure a detailed robust prceedure in place. We are awaiting the launch of the online portal, although agreeing templates for use. Anticipate the portal and proceedures to be live by 31/12/21
4	**Lack of Formal Documented Pension Administration Procedures**					
	The processes and activities involved in the management of the Pension Fund are complex and involve regulations which evolve over time. In reviewing these processes, we found that: 1. Despite the complexity of the processes, we noted that there are no documented detailed procedures and/or flowcharts which define the end-to-end processes performed by the team. Examples of activities which require formal procedures include new starters, transfers in, leavers, transfers out, retirement benefit calculations for deferred, active and dependants of deceased members, change to member details such as bank, address death etc. 2. Currently, there is reliance on the use of checklists for tasks performed by the team. The checklists do not provide the team with an overall picture of the links between various tasks, teams or how the processes fit together, including key risks and controls to mitigate these risks. 3. From walkthroughs of the processes performed, we also noted that much of the knowledge and experience of team members is "in their heads" and gained over the years. To ensure consistency and to help new starters, this should be documented. Procedures help to identify gaps in controls and if in place often help to make processes more effective and efficient. They also serve to provide new staff with clear guidance and instruction.	Where procedures are not formally documented, staff may not be fully aware of their responsibilities and key tasks may not be performed.	Medium	ESCC PAT team have inherited the Orbis processes and agreed that processes are not well documented, but the checklists are in place for pretty much all tasks. It would be normal to review the processes and procedures as part of a data migration exercise and it's part of the Aquila Heywood standard project plan. However, due to the project's tight timeframe, we have to cut out non essential activities. It was always acknowledged the work would be looked at post go live over the Summer 2021. We will create a project plan to review these in August, with an expectation to complete many of these this year.	Paul Punter	01/08/2022 The first process to be reviewed will be the TV-out (including pension scams) and a small team are meeting in County Hall on 6/10/21 to document the current process and prepare a flowchart using Visio software.
8	**Key Person Dependence/Risk - Updates to Altair Factor Tables**					
	Our review of processes in place to ensure accuracy of retirement benefit calculations by the Altair system identifued a key person dependency within PAT. 1. Currently, only one individual withinthe ESCC has reponsibility for and can update the factor tables in Altair. At the moment,the alternative resource for this task is from the Surrey PAT. Discussions with the Fead of Pensions noted that this is a short term risk and the Surrey team will provide support until the end of June 2021 when it is anticipated that hew staffwill be recruited. 2. In addition, there is no evidence indicating that there is a independent review of the updates to the factors performed by the individuals above. 3. For career average revalued earnings (CARE) benefits, they are revalued annually through updates made to the factor tables in Altair.However, there was no evidence to indicate that the revaluations were subject to independent review to ensure the system calculations are accurate.	With the transfer of pension administration back to ESCC, should the key individual responsible for updating the factor tables in Altair be unavailable for any reason, there may not be appriate cover to undertake this function. Without independent checks of the factors unloaded, errors in calculations may not be detected timely.	Medium	We are all aware that following the TUPE transfer we have signification recruitment to undertake. Recruitment is now a priority for the Fund, particularly now support for the project work from Surrey ceased on 30/6/21. whilst we do currently have a few key person risks, we do endeavour to still have their work checked. As a last resort, the Fund are still able to call on SCC for limited support where SCC can accommodate. The Fund is aware of this key person risk and while recruitment is underway to fill the gaps in establishment from being PAT inhouse this risk is being tolerated. In addition, staff in the team are cross training each other where possible to mitigate this risk. This risk is also included within the risk register reported to Board and Committee quarterly. When factors are changed and revaluation tables updated, these are communicated to PAT and extra care taken to check the first few cases therefore to check factors	Paul Punter	Dec-21

Ref.	Finding	Potential risk implication	Risk	Agreed action	Owner	Target Date
2	**Processing of Changes to Addresses**					
	Members addresses represent personal data that should be adequately protected. We reviewed the controls for processing changes made to this information to validate that the change was valid and authorised. 10 changes to addresses were tested and we identified the following issues:	Lack of independent checking of changes to addresses in Altair increases the risk of errors or invalid changes being processed. Where acknowledgement letters confirming address changes are not sent to members following insructions from employers, any incorrect/invalid changes are less likely to be indentified.	Medium	1. The actions carried out during the period of audit were in line with the procedures set by the Orbis Pensions team managed in SCC. Orbis Pensions did not verify "Change of Address" for any of the six Funds in scope. When Surrey introduced i-Connect, again, they refused to allow a task to be created for the ESCC cases. Whilst disaggregating from Orbis to a sovereign ESCC Pensions function, additional controls were put in place as the ESCC pensions management team were concerned with the lack of check in this part of the process. In the ESCC version of Altair, which went live in April 2021, address changes created a workflow task (there is no checklist for COA tasks). In addition to the workflow check to confirm accuracy for the record change, the PAT always write a letter to the new address to verify the details.	Paul Punter	Complete
	1. Where changes to addresses are made by the Pensions Administration staff, there is currently no independent check (videnced through a checklist) to confirm that the change is valid or accurate (i.e. that the change is supported by a communication from the member and that it has been input accurately).					
	2. In one instance, a change to address was made on receipt of an email. Where emails are accepted for this purpose, it is not possible for the administration team to check signatures back to documentation held on file to confirm the person's validity, as happens where letters from members are received.			2. With much of Pensions communications moving towards e-comms we are encouraging members to selfserve via MSS website. Therefore, we accept COA by email as the MSS system informs PAT electronically of the change. Any changes via the portal are secure as the member has already passed the website password security to log-in.		
	3. One instance was identified where the wrong postcode was captured on the member record in Altair (TN31), but the correct address was reflected on the acknowledgement letter (TN21) sent after the change was processed. Management have advised that the correct postcode was captured on 2/1/20 and was changed on 24/4/20 to TN31bwithout any explanation on record.			3. This item has been corrected.		
	4. Three instances were noted where the addresses had been changed based on employer advice with no evidence on record indicating that acknowledgement letters were sent to themembers. Management have since advised that, historically, the Orbis process has been to accept and process all change requests received from employers, without sending acknowledgement to members.			4. Same as point 1, at the time the PAT correctly followed the Orbis process which has since been replaced.		
	5. One instance was identified where the employer notified the Fund about the change of address, but this was not processed. It is not clear why the change was not processed on this occasion.			5. This item has been corrected.		
3	**Controls over Changes to Bank Details**					
	A sample of 10 changes to bank details was tested. In one instance, we noted had a handwritten instruction dated 28/11/19 to transfer the bamk account to Nationwide, although the letter did not indicate the new sort code/account number. A review of the member's Altair payroll details indicates the request was processed using a new Nationwide account without the relevant supporting documentation on record. We understand that, in this instance, the documents to support the change were not uploaded to the Altair record.	Where supporting documents are not uploaded to the Altair record, it is not possible to check that bank detail changes are valid and have been accurately input.	Low	This case was valid and updated correctly, but the supporting documents were not oploaded to the Altair record. The team (including the Fund team) have been reminded of the wider importance of only acting once all the appropriate documents have been received & stored appropriately on Altair.	Paul Punter	Complete
5	**Altair User Access Review**					
	Following the previous audit of Pensions in 2019/20, management agreed to perform a review of Altair users access with a view to restrict access appropriately. Our review noted that the review of access was performed in December 2020. However, the list provided for review was not comprehensive and excluded some internal and external users (including Hymans).	Without a complete review of access/profiles, there is a risk of inappropriate and/or unauthorised changes to member records.	Medium	A complete review of Altair user access was undertaken as part of the new Altair database. Every user was reviewed and only a limited number of previous Orbis users now have access to the new ESCC database. We are working with ICT to create a documented Altair Access Monitoring Process. This willcover Altair i-Connect, Insights and MSS.	Paul Punter	Complete
6	**Processing of Tasks in a Timely Manner**					
	1. Five transactions were sampled from the list of outstanding tasks provided as of 2 Feb 2021. 3 of these had not been resolved at the time of our fieldwork (12 March 21).2 of 3 wereenquiries about being incorrectly recorded as working part time. In discussing this issue with management, it is clear that a noticeable fall in tasks completed should have been expected during Feb to April 21 due to the dissolution of Orbis Pensions and the implementation of Altair.	Where tasks are not resolved on a timely basis, this increases the risk of members disatisfaction and might potentially result in reputational damage.	Low	It is important to note on this finding that the PAT have an agreed set of KPI's which define the timeliness of processing many of the main activities completed by the team. The KPI's are not to achieve 100% within the desired timelines, the KPI acheivement target has to date been monitored against a a target of 90-95%. The KPI targets are reported quarterly to Committee and Board with explanations on service issues in acheiving the targets. The KPI target measures are tighter than the statutory requirements to complete these activities. Th KPIs currently in place were a handover from the standard reported Orbis Pensions targets managed by SCC.ESPF defined its own KPI/SLA targets in late 2020, however, these KPIs were not implementable while PAT was under the Orbis structure. In addition the PAT activity KPI reporting, the team also report Helpdesk monthly performance to the Pensions Board and Committee quarterly. The timing of the audit was unfortunate in that it coincided with the dissolution of the PAT from Orbis pensions and is not representive of the usual activity, as the team were carrying out dual pensioner payrolls, user acceptance testing and managing the dissoultion.The Fund agree that where tasks are not resolved on a timely basis,	Paul Punter	**target 30/09/2021 but went live 13/10/21** The new KPI's have been created by Aquila Heywood and put into the Altair System for review. These have been reviewed by the PAT and some minor changes made. We meet with
	2. In one of the three cases above, the member emailed on 15 Jan 20 enquiring about two items, one was addressed and the other was not. As notede above, the issue not addressed reflected the member service period as being part time instead of full time. Subsequently, the member made contact again on 19/02/21 raising the same issue, but as the time of our audit, the task was still outstanding.					
	As referrred to above, it is important to reflect on the potential reasons why these tasks might have slipped, including the dissolution project and the implementation of the new system, all of which has resulted in considerable pressure on the PAT. Managemet have been very vocal to the Pension Board and Committee that there would be a noticeable fall in delivery during this period.					
7	**Key Performance Indicators**					
	Each month, the PAT generates KPI scorecard which is reported to the Pensions Committee. This measures actual performance against a set of agreed standards	Where key performance standard are not monitored, this increases the risk that service and delivery levels might drop.	Medium	As noted in finding Ref 6 - the KPI's currently in place were a hadover from the standard reported Orbis Pension targets managed by SCC. ESPF defined its own KPI/SLA targets in the 2020 Administration Strategy which went live January 2021 after consultation with Employers in late 2020, however, these KPIs were not implementable while PAT was under the Orbis structure. To monitor against the new KPI activities as per the admin startegy, the Fund has had to request these be built into the ESCC version of Altair after it went live. These have recently been released into	Paul Punter	**target 30/09/2021 but went live 13/10/21** The new KPI's have been created by Aquila
	Whilst 13 activities are currently measured, some key service standards included in the pension's strategy document are not being tracked, including:					
	1. Letters/emails acknowledged within 10 days					
	2. Changes in member details including bank details within 9 days.					
	3. Calls to the pensions team answered within 3 rings.					

	4. New starters processed within 10 days of receipt of the notification.			the test vesion of Altair for review. Once these have been tested and loaded to the live system,the Fund will be able to start reporting against these KPI's. It is anticipated that there will be some reporting difficulties until these KPI's are fully established, but the Fund will continue to report and explain to Committee and Board during this process. In addition to the KPI targets, the Altair system currently does not indicate the statutory deadlines for tasks, and this is being addressed in the work Aquila Heywoods have been asked to implement for us. All calls should go via the Pensions Helpdesk and their performance is again reported to the Pensions Board & Committee. In addition, Altair Insights has been implementaed and the Management information module is live and includes a live performance dashboard.		Heywood and put into the Altair System for review. These have been reviewed by the PAT and some minor changes made. We meet with Aquila Heywood 29/9 (postponed from 23/9)
9	**Lack of Independent Validation and Retention of Supporting Documentation**					
	In completing our work, we identified some instances where there was no evidence of checks taking place or supporting documentation on file, including retirement benefit payments and death benefits (dependent pension payments). In terms of the Payment of Death Grant form (TM10), there is no specific checklist on the form for the checker to complete, as there is with other forms.	Without independent checks, there is a risk of erroneous payments. Where documentation is not retained on member records, this results in inadequate audit trails and potentially invalid transactions.	Medium	As previously stated, we currently have checklists as our key evidence of tasks being checked. The other is Altair itself as work passes from the doing to checkers task list so there is an online audit trail of who has done and checked tasks. We agree that copies of all documents should be retained on Altair and that is our expectation. This has been reiterated to staff across the whole Fund.	Paul Punter	Complete

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Report to:	**Pension Board**
Date of meeting:	**5 November 2021**
By:	**Chief Finance Officer**
Title:	**Training Report**
Purpose:	**To provide an update on training needs, opportunities undertaken and planned events**

RECOMMENDATIONS

The Pension Board is recommended to:

1) **Note the outcome of the self-assessment knowledge and understanding survey**
2) **Note the amount of training undertaken and made available in the past year**
3) **Note the type of events planned for the year ahead**
4) **Identify areas it would like training on as a priority**

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1. Background

1.1 This report is brought to the Pension Board to provide an update on the outcome of the knowledge and understanding survey, provide details of training undertaken by members of the Pension Board and Committee. It also outlines training plans for the year ahead.

1.2 In May 2021 the East Sussex Pension Fund (ESPF) appointed a Pensions Training Co-ordinator to assist with building an understanding of existing Pension Board and Committee members' knowledge and understanding. This role also covers the sourcing of training opportunities.

2. Knowledge and understanding levels

2.1 Members of the Pension Board have a legal duty to develop and maintain appropriate knowledge and understanding of pension matters to fulfil their role. Whilst this duty does not extend to members of the Pension Committee it has previously been accepted that, being decision makers, Committee members should have an equivalent level of knowledge. This is in line with accepted best practice in the industry.

2.2 On 19 August 2021 members of the Pension Board and Pension Committee were invited to complete a self-assessment of their knowledge and understanding of pension matters. This self-assessment was based on the guidance provided by Chartered Institute of Public Finance and Accountancy (CIPFA) and The Pensions Regulator.

2.3 At the time of writing, responses had been received from one of the six Pension Board members plus the independent Chair and four of the five Pension Committee members.

2.4 Completing the questionnaire has allowed Officers to assess the training needs of both the Board and Committee as a whole and individual members. As such, it has been instrumental in helping define subjects that should be covered by bespoke events, outside of those made available through third party organisations.

2.5 Overall, the Pension Board generally scored well across all the areas of knowledge. However, the low response rate means Officers cannot state that the reported knowledge levels are an accurate reflection of the current knowledge levels of all Pension Board members.

2.6 Pensions Legislation and Guidance has been highlighted as an area where Committee members would benefit from further training. The Pensions Board reported a slightly higher level of knowledge and understanding. An understanding of Pensions Legislations underpins other areas referred to in the questionnaire and was a relatively low scoring topic consistently.

2.7 Pensions governance scored well, with an average score for the Pension Board of 3.7/5 and Pension Committee reporting an average of 3/5. There was a range of results within this topic with a lack of certainty by Committee members about the level of knowledge and understanding required of their role.

2.8 The results of the questionnaire showed that there is generally a reasonable understanding of the Funding Strategy. Within actuarial matters the levels of knowledge and understanding were reduced by lower scores on questions relating to the triennial valuation. Training will be a priority in this area over the next year ahead of the 2022 triennial valuation.

2.9 Pension Administration was highlighted particularly as an area for development. This includes a reported need for additional training on the Additional Voluntary Contribution offering made available to Fund members. Within this topic area there is also significant cross over with the requirement to better understand underlying legislation.

2.10 The Pension Board is not heavily involved in the setting of the investment strategy but reports a good level of understanding in this area. Likewise, members of the Pension Committee are broadly comfortable with this topic. The aspect of investing which is least well understood is the ACCESS pool with Committee members showing a need for further training on the relevant legislation and the limits of the expectation to invest through the pool. A need for greater understanding of pooling was also identified as the key area of Financial Markets which needs to be better understood.

2.11 The final area covered by the questionnaire is pension services, procurement, management and relationship management. This topic further identifies a lower level of knowledge of investment pooling and the legal requirements surrounding procurement processes.

3. Training undertaken in the past year

3.1 In the past year members of the Pension Board and Pension Committee have been offered training opportunities covering a range of topics such as cyber security, employer covenant and the role of the Pension Committee and Pension Board.

3.2 Both the Pension Board and Pension Committee have had changes to their membership in the past year and the new members are in the process of carrying out their induction and initial training.

3.3 The induction training for the new members of both the Pension Board and Committee was particularly well attended by both new and existing members. It was also well received as an introduction to the role. All members of the Pension Board and Committee have also been asked to complete the Public Service Toolkit provided by The Pensions Regulator. To date three Pension Board members, the Pension Board Chair and three Pension Committee members have completed all of the modules in this course.

3.4 Members of both the Pension Board and the Pension Committee have also been recommended to sit a module from the Trustee Toolkit relating to fraudulent activity targeting members. Whilst the Trustee Toolkit is not designed overall to be relevant to Public Service schemes, this module provides insight into the approach that would be taken by the Pension Administration Team when dealing with a request to transfer out.

4. Training plans for the year ahead

4.1 In the next 12 months ESPF will go through the Triennial Valuation process, when a review of the Fund's assets and liabilities will take place with a view to setting employer contribution rates. The self-assessment questionnaire highlighted this as an area in which training would be required and Officers will look to source training on this topic by the end of the financial year and ahead of the Valuation process.

4.2 The self -assessment process has also identified a need for training to be provided on Pensions Legislation covering both governance and investments. As an understanding of relevant legislation was highlighted in a number of areas Officers will be looking into providing a training event covering this topic as a priority area.

4.3 In addition to these higher priority areas, training needs have also been identified covering the following topics:-

- Pensions Administration and best practice
- Investment pooling
- Procurement process
- Covenant reviews
- The Fund's AVC offerings
- The Communication Policy
- Cessations and Admissions to the Fund
- Cyber security
- The wider pensions landscape and regulators
- Budget setting

4.4 Over the course of the next 12 months Officers will look to source opportunities for the members of the Pension Board and Committee to develop their understanding of these areas. The training is likely to be a mix of external events, internal events led by service providers and Officer led internal events. Where a matter is expected to arise through the work plan, Officers will seek to provide "just in time" training as is anticipated ahead of the Triennial Valuation. It is likely not all items in the list, above, will be covered and items will be prioritised based on the work plan.

4.5 Where training has been provided recently, such as on covenant reviews, Officers will consider what additional information would be useful for members of the Board and Committee. Officers will continue to liaise with chairs to facilitate this decision.

4.6 Where training has previously been discussed but not yet provided, Officers will look to incorporate this into the outlined events. Where there is a specific event, if members of the Pension Board would like to be treated as a priority, they are encouraged to inform Officers so the request can be taken into account.

Conclusion

5.1 The Pension Board is asked to note the results of the research into Pension Board and Committee member training needs.

5.2 A variety of areas where further development would be of assistance. Officers will look to prioritise these needs and deliver appropriate events, however, the Pension Board is invited to raise areas they would like training on where this is seen as a particular priority.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Mike Burton, Pensions Manager Governance and Compliance
Email: Michael.Burton@eastsussex.gov.uk

Report to:	**Pension Board**
Date:	**5 November 2021**
By:	**Chief Finance Officer**
Title of report:	**Independent Auditor's (Grant Thornton) Report to those charged with governance and Annual Report 2020/21**
Purpose of report:	**To present the Grant Thornton report and to report on unqualified audit opinion on the 2020/21 Pension Fund Accounts**

RECOMMENDATION

The Board is recommended to:

1) **Note the draft Independent Auditor's (Grant Thornton) report to those charged with governance on Pension Fund Accounts 2020/21; and**
2) **Note the draft Pension Fund Annual Report and Accounts 2020/21**

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1. Background

1.1 This report summarises the key findings arising from Grant Thornton's (GT) audit work in relation to the East Sussex Pension Fund (ESPF or the Fund), in compliance with the requirement for administering authorities to deliver an audit of the pension fund separate from the Council's accounts.

1.2 The accounts for the Fund are incorporated within the East Sussex County Council's (ESCC) Statement of Accounts, with the East Sussex Pension Fund Annual Report 2020/21 due for publication by 1 December 2021 for approval by the Pension Committee on 25th November 2021.

2. Supporting Information

2.1 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.

2.2 The deadlines for the production and audit of the accounts for 2020/21 and 2021/22 have been confirmed as 30 September in line with the Independent Review for Local Authority Financial Reporting and Audit (the Redmond Review).

2.3 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. The Annual report will be presented to Committee for approval at its meeting on 25 November 2021.

2.4 Under its terms of reference, it is the role of Audit Committee to "Review the annual statement of accounts and the external auditor's report to those charged with governance." These accounts have been considered by the Audit Committee on 17 September 2021 with this GT report being reported to Pension Committee on 21 September and Governance Committee on 30 September 2021.

2.5 It is the role of the Pension Committee to approve the Pension Fund annual report/accounts having considered whether appropriate accounting policies have been followed and any issues raised by GT from the audit.

2.6 The GT report to those charged with governance is attached at **Appendix 1**.

2.7 The audit of the 2020/21 Pension Fund accounts has since completed; I am pleased to be able to report that GT issued an unqualified audit opinion with the accounts signed on 19 October 2021. The audit opinion is included in **Appendix 2**.

2.8 A small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the reports to those charged with governance, and GT has made recommendations, which are being discussed with management, on page 18 of the GT report.

2.9 3 areas considered for improvement were:

- *Internal Controls around investment valuations at year end not operating.* In testing the valuation of Level 3 investments, GT triangulate between the custodian confirmation, the fund manager confirmations and the general ledger balances at year end. Due to the timing of when valuation statements were received it was noted that there was an understatement of £25.2m between a custodian and fund manager valuation. GT recommend that management ensures that checks and controls around investment valuations are in place to ensure correct valuations are in place.

  This issue has arisen as the Fund manager valuation of their position at the 31st March is not available at the time of production of accounts due to the illiquid nature of these assets. The Accounts are produced based on the December valuation which is the latest audited valuation for this asset class with adjustments made for cashflows. These valuation differences will happen every year in illiquid asset classes and cannot be avoided and will result in changes during the audit period if the figures are material when the approved valuation are releases for these assets. This is not a control issue, but a known timing issue.

- *Internal Controls around contributions received during the year not operating.* In the first 3 quarters of 2020/21 it was noted that the LGPS31 reconciliation between expected member contributions and actual contributions to the Pension Fund could not be evidenced as having been undertaken and had to be constructed as part of the audit. GT recommend that key internal reconciliations are prepared and reviewed in a timely way and are made available as part of the audit working papers alongside the financial statement.

  This issue has arisen due to the lack of resources in the Pension Fund during the early part of 2020, as identified in the good governance review which lead to a restructure to the team and significantly more resource approved. The Fund recognised this issue during the year and put in new processes to ensure the reconciliation was robust from the later part of the year. Reconciliation had been completed during the full year, but was not documented sufficiently or clearly due to process changes and temporary staff. The process was significantly overhauled in December 2020 and has been working well since, with reports to Board and Committee during this period.

- *Journal controls exception.* It was identified during audit testing that a journal, with a value over £1m, had not be reviewed and authorised by a more senior officer to the officer processing the journal, in line with best practice. GT recommend that all new and existing staff ensure that any journal over £1m is appropriately reviewed and authorised.

  This issue has arisen as there is no workflow in the accounting system, so this approval is reliant on a manual process to recognise the journal amount is over £1m and then request approval before posting. Officers have been reminded to always check the value of *journals, to ensure appropriate senior sign off has been received and will implement a review to ensure that these are saved in a journal sign off folder to evidence compliance.*

2.10 A copy of the Draft Pension Fund Annual report and accounts 2020/21 is included in **Appendix 3**. This report will continue to be finalised and will be taken to Pension Committee for approval and publication by 1 December 2021.

3. Conclusion and reasons for recommendation

3.1 The Pension Fund Accounts set out the financial activities as asset values of the ESPF during the 2020/21 financial year. The Pension Board is recommended to note the Independent Auditors (GT) report to those charged with governance and note the draft Pension Fund Annual report and accounts for 2020/21.

IAN GUTSELL
Chief Finance Officer

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Grant Thornton

The Audit Findings for East Sussex Pension Fund

Year ended 31 March 2021

East Sussex Pension Fund

27 September 2021

Appendix 1

Contents

Your key Grant Thornton team members are:

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

1. 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 2021 for those charged with governance.

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 on site/remotely during July to September. Our findings are summarised on pages 4 to 14. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's 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.

At the time of drafting this report, in the first week of September, there is reasonable progress with the audit but work is ongoing. We are endeavouring to achieve completion by the end of September subject to the satisfactory clearance of all audit queries and completion/review of the audit file.

However it should be noted that due to significant delays in the provision of working papers and populations at the start of fieldwork in July, achieving this deadline is at significant risk. Requested working papers agreed in March 2021, were not provided at the start of the audit in July. Similarly, key populations from which we sample test, were not provided with the draft accounts. This led to a significant amount of time spent by the audit team simply requesting and chasing items which had already been requested in March. This effectively delayed a lot of the substantive testing work we carry out until the start of August. In one instance, the population for our testing of member data was only provided in the week commencing 23 August 2021. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to the auditors of other scheme employers including the County Council, and therefore could delay the signing of the opinions on those audits.

There are currently 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 clearance of the following work and outstanding matters:

- Completion of testing of the sample of member data changes;
- Clearance of audit queries relating to manual journals;
- Clearance of audit queries outstanding relating to Investment classifications and the cash balances;
- A small number of service auditor reports from investment Fund Managers are outstanding at this date; we are chasing these to obtain these as soon as possible;
- Completion of our work to tie in the information provided to the actuary into the general ledger information on which we have completed our substantive testing, and subsequent to completion of this item and those above, issue of letters of assurance to the scheme employer auditors;
- Completion of our work to tie in immaterial disclosure notes to working papers provided by the finance team;
- Completion of our work on the Related Parties note;
- Completion of our work around Contingent liabilities and contractual commitments where we have not been provided with supporting working papers;
- Manager and Engagement Lead final review of completed audit work which could raise additional audit queries and challenge;
- receipt of management representation letter; and
- receipt and review of the Annual report;
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

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. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been provided to the audit team. We will not issue this separate opinion with the pension fund statement of accounts and are unable to certify completion of the audit of the administering authority until this work has been completed.

2. Financial Statements

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 have been discussed with management.

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;
- 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 26 March 2021.

Conclusion

As stated on page 3 we are making progress on completion of the audit and subject to outstanding work and audit queries being resolved, we anticipate issuing an unqualified audit opinion by the 30 September 2021, as detailed in [Appendix E]. There is however a risk of not completing the work due to the difficulties encountered. The outstanding items are set out on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As in the previous year, the pandemic has impacted on the audit insofar as the audit team delivered the audit entirely remotely without any on site working at the Council. This way of working makes delivering an audit much more challenging and time consuming. We had to use alternative methods such as video calling and screen sharing to review audit evidence and resolve audit queries and it requires additional processes to verify the completeness and accuracy of information provided by the Council.

2. Financial Statements

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.

We have revised the performance materiality due to the actual net assets in the draft accounts changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table adjacent our determination of materiality the Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£42.4m	We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.
Performance materiality	£31.8m	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	£2.1m	We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	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. We are still completing our testing subject to outstanding items as detailed on Page 3. In the work completed to date we identified one journal where the internal process for journals of value over £1m was not observed and as a result we have made a control recommendation which is detailed on page 18. We have otherwise not identified any issues in the audit processes carried out to date.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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.
Valuation of Level 3 investments Risk description unchanged from that reported in our audit plan.	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 and carried out a triangulation test between these confirmations of valuations and the general ledger to identify any discrepancies; • 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 2021 with reference to known movements in the intervening period; • We evaluated the competence, capabilities and objectivity of the valuation expert; • Tested revaluations made during the year to see if they had accounted for correctly; and • where available reviewed investment manager and custodian service auditor report on design effectiveness of internal controls. In our testing of Level 3 investments we identified some variances between the valuation in the accounts and our expectation of the valuation per Fund Manager confirmations and our own expectation as informed by our testing of the audited accounts for the funds and known cash movements. This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from September 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. The Fund Managers provide valuations as at 31 March 2021, and our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested. Note at this date some of the service auditor reports are outstanding from the Fund Managers. We are chasing these with the Managers.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £734.5m	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 2021 at £734.5m. 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 by £116.2m in 2020/21, 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. As noted above, there are some service auditor reports which are outstanding from the investment Fund Managers, so this work is ongoing.	No issues arising in our work so far, but work outstanding.

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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £3,438.7m	The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2021 at £3,439m. 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 increased by £1,137m in 20120/21 due to both changes in market value but also due to movements in sales/purchases in the year (also note page 10 below, there was a £366.5 reclassification from Level 1 to Level 2 which has also led to this increase).	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

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

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

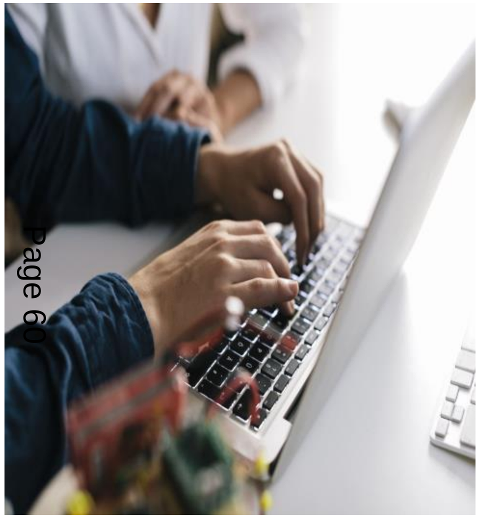
Significant matter	Commentary	Auditor view and management response
Reclassification of Investments between Level 1 and 2 in the Fair Value Hierarchy *In the 20/21 year the Fund has reassessed the Funds UK Passive Fund with UBS (£366.5m in 20/21, £221.9m in 19/20).*	*This was a material reclassification between fair value hierarchy classes and as such we discussed and challenged this with management in order to conclude on whether this was reasonable. The explanation given by management was that the Pension Fund views investments into funds that are priced daily to unit price to be level 2 investments and have therefore reclassified.* *Northern Trust the custodian have however classified this as a Level 1 investment. As such we have sent an additional query to Northern Trust to obtain an explanation as to what the reasoning is for their classification of this fund. We are awaiting a response to this inquiry.*	We are awaiting a response to our further inquiry to the custodian which we will consider on receipt to conclude on whether the reclassification is reasonable. **Management response** The fund has reassessed this classification to level 2 based on further guidance from CIPFA that pooled funds should be level 2. The custodian will have these as level one as they are daily traded equities, however the East Sussex Fund access these through a pooled unit price and classified as such aligns with Pension Fund Accounting for LGPS funds.

2. Financial Statements - other communication requirements

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	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other 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 made us aware of an incidence of non-compliance with relevant laws and regulations, the failure in previous years to submit ABS by August in the relevant year. And you cite this as a risk in the current period. We understand from discussions with management that measures have been put in place to improve the compliance in this area, and also that it is unlikely to result in a significant fine. As stated in the risk register this represents a reputational risk for the fund. We are discussing the current status of measures in this area for August 2021. We have not identified any further incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund.

2. Financial Statements - other communication requirements



Issue	Commentary
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.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	Overall progress on the audit has been subject to significant delay due to the finance team not providing the requested working papers at the start of the audit, and key populations which we required to carry out our testing were not provided with the draft accounts at the start of fieldwork. This led to a significant amount of time being spend by the audit team simply requesting and chasing items which had already been requested in our working paper listing which was communicated in March 2021. This effectively delayed a lot of the substantive testing work we carry out until August. A key population for our testing of member data for instance was only provided to the team in the week commencing 23 August 2021 where we started fieldwork on the 1 July 2021. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to other scheme employer auditors including for the County Council, and therefore could delay the signing of the opinion on those audits.

2. Financial Statements - other communication requirements

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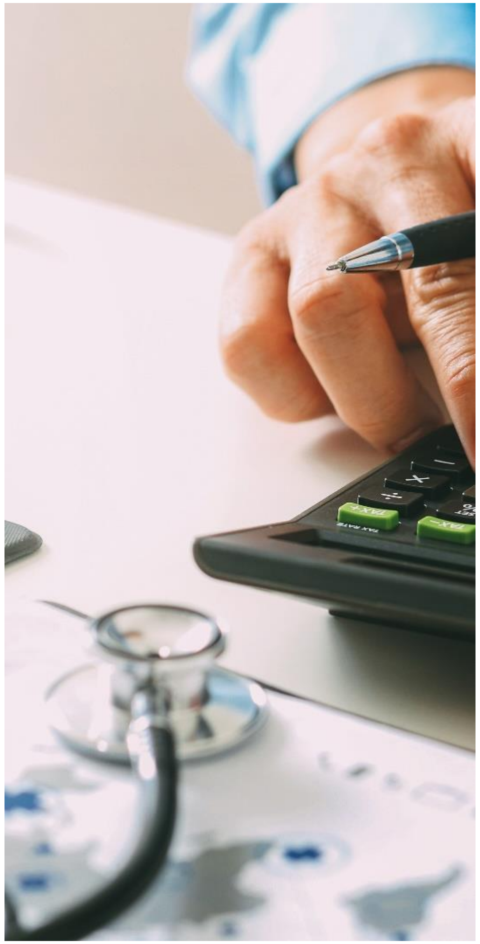
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
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. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been provided to the audit team. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.



3. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

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 the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	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 £35,487 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 recommendations 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 2021/22 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
	Internal Controls around investment valuations at year end not operating As described on page 7, we reviewed and tested the valuation of Level 3 investments via a full triangulation between the custodian confirmation, the fund manager confirmations and the general ledger balances as recognised at the year end. This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from September 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. The Fund Managers provide valuations as at 31 March 2021, and our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested. In this case the variance was not material. However, this could easily have resulted in a material error where the control has not operated effectively.	We recommend that management ensure that checks and controls around investment valuations (particularly Level 3 Investments where the valuation is more uncertain) to ensure the correct valuation is recognised in the financial statements. **Management response** This is a common issue when investing in illiquid assets and outside of the Funds control. Illiquid assets have a very delayed valuation process and the Fund would never have access to the final NAV position for these funds at the time of producing the accounts. The fund uses the most accurate information available to it at the time of producing the accounts based on the last audited NAV for the product plus any cash flow changes since that date. Information will always come out after the statutory date of producing the accounts and will always be updated during the audit process if the newly released valuation data is materially different.
	Internal Controls around contributions received during the year not operating In our testing of contributions we set out to review quarterly LGPS31 reconciliations which the Pension Fund should produce at each quarter to compare contributions expected from members to the actual amounts received. Where the amount received varies significantly from the expectation of the Fund this would be investigated/reconciled. In our testing we review these LGPS31 reconciliations, reconcile them to the general ledger and then review/reperform the analytics to gain assurance over the contributions received. However for the first 3 quarters of the year this reconciliation was not prepared. This was prepared during the audit fieldwork. Our view is that this is an important process for the fund to assure itself over the completeness of contributions received during the year and at the year end. This is part of the Fund's own documented internal control environment.	We recommend that management ensure that key internal reconciliations such as the LGPS31 reconciliations are prepared and reviewed internally in a timely way, and they are also made available as key working paper alongside the financial statements as a robust audit trail for contributions received. **Management response** The Pension Fund identified an issue around contributions reconciliations part way through the year and reported this in full to Pension Board and Committee. In addition fundamental changes were made during the latter part of the year that implemented a robust reconciliation process. Although this robust process was not retrospectively applied the Fund are confident that the different reconciliations that had been enacted to ensure all contributions due were collected.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
	Journal controls exception As described on page 6, in our testing of manual journal we identified one journal where the internal process for journals of value over £1m was not observed. Journals over £1m should be sent to a more senior officer in the team for review and authorization prior to posting to the general ledger. Manual journals are known to be a method by which override of controls and/or fraud can be perpetrated.	We recommend that management recommunication this control to all new starters and existing staff to ensure that it is observed for all manual journals posted. **Management response** Management will reiterate that journals over £1m require senior sign off and will implement a review to ensure that these are saved in a journal sign off folder to evidence compliance. It is possible a future accounting system will have inbuilt workflow functionality to better build in controls which management would be supportive of.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Pension Fund's 2019/20 financial statements, which resulted in 2 recommendations being reported in our 2019/20 Audit Findings report.

We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Material Uncertainty around Investment Valuations** In our 2019/20 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 recommended 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.	The Pension Fund accounting team took this recommendation on, and ensured that questions were raised of the property manager specifically in 2020/21 following on from this recommendation that there were no impacts on the valuation due to covid in this year end position. The Fund does however acknowledge that illiquid assets will have a historic valuation at the time of accounts production so there could continue to be changes in these values during the audit process when new valuations are signed off and reported to the Fund.
✓	**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 recommended that the quarterly investment manager report movements in investments are posted to the general ledger.	The fund has implemented a quarterly investment accounting process to map valuation moves into the accounts.

Assessment

✓ Action completed

X Not yet addressed

C. 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

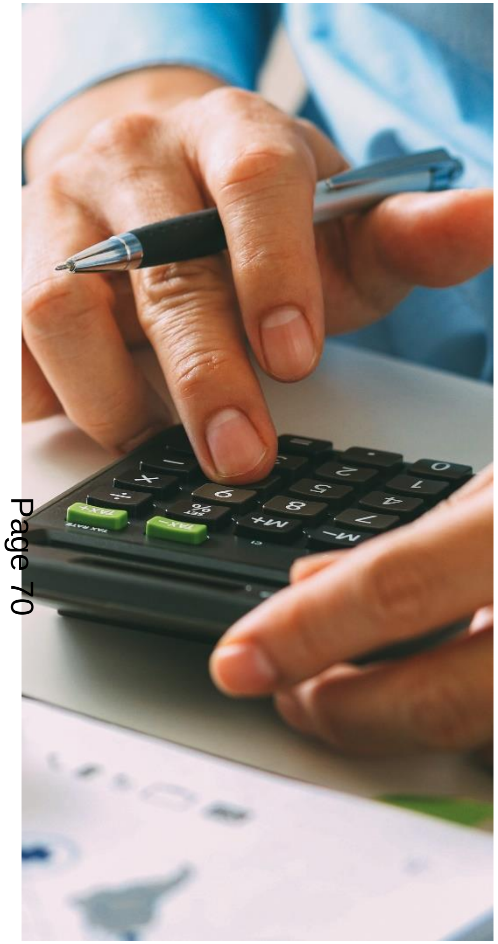
We have not identified any adjusted misstatements in the work carried out to date.

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	Auditor recommendations	Adjusted?
Various minor casting amendments	We identified a small number of minor casting and disclosure issues. **Management response** Agreed and these were amended in the accounts.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Level 3 Investment Valuations In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts. See pages 7 and 18 for further information on this error.	Credit Changes in value of Investments: (£25,198)	Debit Level 3 investments: £25,198	£25,198	The total error is not material
Overall impact	(£25,198)	£25,198	£25,198	

Impact of prior year unadjusted misstatements

There were no unadjusted prior year misstatements.

D. Fees

We confirm below our fees charged for the audit and provision of non-audit services. Note that due to the issues and delays detailed on page 3 we have had to increase our team resources to complete the audit including additional management time in monitoring progress and attending catch ups to ensure sufficient progress was made to ensure completion of the audit and issue of the IAS19 assurances to other scheme employer auditors in sufficient time to allow for September sign offs which were planned. We will propose an additional fee for these increased inputs into the audit. This amount is still to be confirmed given that audit work is still in progress in September 2021, but once we complete the audit we will assess the proposed additional fee and discuss this with the Chief Finance Officer.

See the next slide for an analysis of the audit fee.

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	35,487	TBC
Total audit fees (excluding VAT)	£35,487	£TBC

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

Audit fees –detailed analysis

Scale fee published by PSAA	£20,487
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£7,000
New issues for 2020/21	
Impact of new auditing standards	£8,000
Total audit fees (excluding VAT)	**£35,487**

E. Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

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

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 2021 which comprise the Fund Account, the Net Assets Statement and Notes to the Pension Fund Accounts, 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 2020/21.

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 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

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 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 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 the 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 (2020) 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, for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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
- 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 in relation to the Pension Fund.

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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief

E. Audit opinion (continued)

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 for the Pension Fund. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:
  - Large and unusual manual journal entries

  - Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus with a focus on large and unusual manual journal entries;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

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 2021 which comprise the Fund Account, the Net Assets Statement and Notes to the Pension Fund Accounts, 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 2020/21.

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 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

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 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 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 the 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 (2020) 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, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

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- 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
- 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 in relation to the Pension Fund**.**

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 2020/21, 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 for the Pension Fund. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk: fraudulent revenue and expenditure recognition; management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:
  - Large and unusual manual journal entries
  - Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual and high risk journals particularly manual journals, made during the year and the accounts production stage
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments;
  - testing the valuation of investments, particularly focussed on Level 3 investments;
  - testing contributions received, benefits paid and member data changes;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The audit team discussed the risk of the Authority's potential non-compliance with relevant laws and regulations, the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to level 3 investments valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account

balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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.

Darren Wells

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

London

19 October 2021

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eastsussex.gov.uk

East Sussex Pension Fund Annual Report and Accounts

2020-2021

Contents – to be populated

1. Welcome from Chair of Pension Committee

Welcome to the East Sussex Pension Fund Annual Report for 2020/21

As chair of the East Sussex Pension Fund (the Fund) Pension Committee, I have the pleasure in introducing the Fund's Annual Report and Accounts for 2020/21. The accounts focus on the financial implications of activity in 2020/21 but so much more has been achieved over the past year, including the Fund's resilience to working from home through the pandemic and embedding new ways of working.

The Fund had £4,244m as funds under management at 31 March 2021 to meet the accrued benefits, with a funding position of 107% comparing assets to liabilities, putting the Fund in a very strong position. The investment return for the year to 31 March 2021 was 22%, which was an outperformance of the benchmark by 3%, with returns outperforming the benchmark in each of the 1, 3 and 5 year periods. The membership of the Fund at March 2021 was 78,466 people (active – 25,002, pensioner – 22,230 and deferred – 31,234) and 127 employer organisations.

The Fund has come a long way in 2020/21 with many changes made both internally and externally to respond to challenges faced and with the aspiration of achieving best practice across everything we do. The year started with the country still in lockdown from the COVID-19 pandemic, which meant our staff had to find new ways of working and supporting our members from home. The team got on with everything required of them, using remote access technology, providing a high-quality service, keeping up with performance targets and response times, proving that remote and hybrid working was possible. It was also challenging for the members themselves with changes in the way they could communicate with us and the move to more electronic methods to provide documentation. This has led to the department becoming almost paper free in the year.

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 Scheme Advisory Board Good Governance review, the Fund carried out a major review in 2019 and 2020 saw these findings being implemented. This included a major restructure of the team resources in recognition of increasing regulatory environment for LGPS Funds and increased reporting requirements to ensure the Fund has sufficient resources to implement the Fund's strategies and policies. The Project also led to an overhaul of the terms of reference for the Pension Committee, Pension Board and officer delegations. In addition a number of key policies were implemented or refreshed to align with best practice including a new conflicts of interest policy and a complete redesign of the administration strategy.

The Fund made some significant changes in relation to responsible investment, and more specifically climate change risk, in the financial year with more work planned on this in the months and years. The Fund have taken climate strategy as one of the key focuses of its ongoing work, to develop an in depth understanding on the financial risks to the Fund of the climate emergency and focusing on ways in which the Fund can both reduce this risk but also find opportunities to help with the energy transition to find sustainable solutions. As a result of this strategic focus, the Fund implemented a Statement of Responsible Investment Principles that clearly set of the Fund's beliefs on responsible investment and climate risk and how the Fund would manage these risks and commitments from the Fund for implementation. One of the key risks identified during the work in this area was an unconscious exposure to companies that have a significant impact on climate risk and other risks with an ESG focus such as human rights or governance issues, leading the Fund to commit to moving all its investment away from traditional index linked passive fund. Instead the Fund moved this investment into a range of sustainable funds including two active impact funds that have a strong conviction on the companies in which they invest and a move into a smart beta fund which excludes companies that fail to meet its ESG standards and favours companies aligned with the Paris agreement. The climate strategy hasn't ended with equities, which is the easier place to implement these changes, but has also moved into Infrastructure, where the Fund also entered into a new investment which minimises climate risk through modelling of climate change risk scenarios. The Fund continues to favour engagement with companies to have a say in how they are run and influence change, rather than reduce the investable market by excluding industries and this is in line with all guidance to the Fund from governmental bodies and investor advisory groups.

One of the major projects the Fund faced during 2020/21 was the transfer of the Pension Administration Team back into East Sussex from Surrey County Council. The project took seven months to complete by 7 April 2021, with the change ensuring the Fund has increased control and governance of pension benefit payments and records and allows us to quality assure processes and to focus on our East Sussex Fund members. Overall, the project was a success, although we still have some staff to recruit into new roles as a result of the breadth of work required within Pensions Administration but we believe this will be so beneficial to the fund and its members.

The Fund 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 2020/21 a total of £20.4bn was invested on the ACCESS platform, with seven new sub funds launched., invested across 22 sub funds. A further £11.1bn is managed via ACCESS for passive equities. In total 57% of ACCESS Fund assets have been pooled.

The Pension Committee and Pension Board have worked tirelessly to transform the East Sussex Pension Fund 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. The Fund has refreshed its website and is now a ready source of up to date information, please log on to www.eastsussexpensionfund.org for further information.

Councillor Gerard Fox

Chairman of the East Sussex Pension Fund

2. Welcome from Chair of Pension Board

As the Independent chair of the Funds Pension Board, I am happy to highlight some of the key areas of focus of the Board over the 2020/21 financial year.

The past year has seen significant changes made to how the Fund operates. Pension Administration is now provided by an in-house team based in the Lewes council offices, where previously it was provided through the Orbis partnership with Surrey County Council. Additionally, following a review by the Committee, supported by the Pension Board, the resources made available to the Fund for governance, including the number of staff working for the Fund has increased substantially This has allowed for a review of the internal controls, policies and procedures. As a result, the Fund's officers, with Pension Board members, were able to conduct a review of member data quality and improve the employer admissions and cessations processes.

Pension Board members provided oversight of the changes being made, by sitting on various working groups which reviewed, with Committee members, an improvement of the Fund's Governance standards. The Pension Board and the Committee have been mindful of the good governance review conducted by the Scheme Advisory Board as part of this process to ensure best practice is being implemented.

The Board has supported the Fund in increasing its staff headcount to meet the new governance policy of the Fund. As part of this the Fund has been able to develop several new policies including a more detailed risk register. The new risk register has been reviewed and the Board agreed with the recommendation made to the Committee that it should be adopted. The Board is aware that further improvements will be made to this document, with oversight from the Board.

Members of the Pension Board have participated in the data improvement working group. The related workstream has, working with employers participating in the Fund, led to significant improvements in the quality of member data held. By improving the quality of member data records this reduces the risk that members will not be provided information about their benefits in a timely manner, simultaneously mitigating the risk that beneficiaries do not receive the correct amount owed to them on time.

As part of the review of the admissions and cessations processes, new templates have been created to ensure smoother onboarding of new scheme employers and admitted bodies. The Pension Board has engaged closely with officers and the Committee on this topic.

Other work that the Pensions Board has engaged in during the year is understanding the McCloud judgement on age discrimination, and how this will potentially impact members pension benefits, reviewing how employers manage the cost of ill-health retirement and providing an insurance option for them to use respect, reviewing quarterly the performance of the administration team against the agreed service standards, and, finally, reviewing the communications to members

Looking Forward

Much of the Pension Board's business in 2021-22 will reflect its business in previous years i.e. its scrutiny of the administration team's service to members and employers and its compliance with regulatory standards and expectations of The Pensions Regulator. For example, development of more detailed service performance indicators, efforts to further improve data quality and more detailed and frequent customer surveys. Implementation of the changes because of the "McCloud case", will also feature heavily at the Pension Board's meetings,

In March 2021, The Pensions Regulator launched a consultation on its intention to combine its codes of conduct. The Pension Board responded to that consultation in May 2021, expressing its concern about the lack of clarity in a number of areas, including requiring the use of a new term "Governing Body". The Pension Board will work with the Fund's officers to respond to changes to the regulator's code(s) to assess compliance and assist with changes required to ensure full compliance.

Going forward, the Board has representatives on the McCloud working group and will also have members as part of the communications working group. This will give Pension Board members increased opportunities to use their knowledge and understanding to assist with the development of the Fund's processes and the adoption of best practice.

The Pension Board would like to thank the Fund's administrators, officers and employers for the hard work they have put in, during difficult working conditions with the pandemic, to maintain the service to members, to improve the Fund's governance, and to substantially improve the quality of member data held in the Fund's records.

Ray Martin

Chair of Local Pension Board

3. Introduction to the LGPS

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. 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.

2020/21 PENSION COMMITTEE MEMBERS EAST SUSSEX COUNTY COUNCILLORS:	Gerard Fox (Chairman)	Conservative
	Simon Elford (to July 2020)	Conservative
	Andy Smith (from September 2020)	Conservative
	Nigel Enever	Conservative
	David Tutt	Liberal Democrats
	Trevor Webb	Labour
2020/21 PENSION BOARD MEMBERS	**pensionboard@eastsussex.gov.uk**	
INDEPENDENT CHAIRMAN:	Ray Martin	
EMPLOYER REPRESENTATIVES:	Councillor Carmen Appich (to September 2020)	Brighton & Hove City Council
	Councillor Tom Druitt (from October 2020)	
	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 Pensions@eastsussex.gov.uk	
BANKERS TO THE FUND:	NatWest Bank	
AUDITOR:	Grant Thornton UK LLP London	
PENSION FUND OFFICERS	**esccpensionsmanager@eastsussex.gov.uk**	
TREASURER / S151 OFFICER:	Ian Gutsell	
HEAD OF PENSIONS:	Sian Kunert	
HEAD OF PENSIONS ADMINISTRATION:	Paul Punter	
INVESTMENTS AND ACCOUNTING:	Russell Wood	
GOVERNANCE AND COMPLIANCE:	Mike Burton	
EMPLOYER ENGAGEMENT:	Tim Hillman	

ADVISORS TO THE FUND

ACTUARY:	Until December 2020 Hymans Robertson 20 Waterloo Street Glasgow G2 6DB	From January 2021 Barnet Waddingham 163 West George Street Glasgow G2 2JJ
LEGAL ADVISORS:	Appointed from National LGPS Framework for Legal Services	
INVESTMENT ADVISER:	Until January 2021 Hymans Robertson	From February 2021 Isio
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 Wellington WHEB Atlas Storebrand	
CUSTODIAN:	Northern Trust	
AVC PROVIDER:	Prudential	

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

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

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

Principles for Responsible Investing (PRI)
Institutional Investors Group on Climate Change (IIGCC)
Climate Action 100+

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

5. Governance

Pension Committee

East Sussex County Council (Scheme Manager) operates a Pension Committee (the Pension 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 Pension 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 its duties. 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, as required by legislation.

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 2021 there were 4 meetings of the Pension Committee, 4 meetings of the Pension Board and one annual employers' forum.

Member attendance at committee meetings during 2020/21

2020/21 Pension Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox (Chairman)	4/4
	Simon Elford[1]	1/1
	Nigel Enever	4/4
	Andy Smith	3/3
	David Tutt	4/4
	Trevor Webb	4/4

Member attendance at Board meetings during 2020/21

2020/21 Pension Board Members		
		Nos. of meetings attended
Independent Chairman:	Ray Martin	4/4
Employer Representative:		
Brighton & Hove City Council	Councillor Carmen Appich[2]	1/1
	Councillor Tom Druitt[3]	2/2
Districts & Borough Councils	Councillor Chris Collier	4/4
Educational Bodies	Stephen Osborn	4/4
Employee Representative:		
Active & Deferred	Niki Palermo	3/4
Active & Deferred	Lynda Walker	4/4

[1] Councillor Simon Elford was replaced by Councillor Andy Smith in August 2020

[2] Councillor Carmen Appich was replaced by Concillor Tom Druitt in October 2020, one meeting took place when this post was vacant.

[3] Councillor Carmen Appich was replaced by Concillor Tom Druitt in October 2020, one meeting took place when this post was vacant

Pensioners	Diana Pogson	4/4

Member attendance at ACCESS Pool joint committee meetings during 2020/21

2020/21 Joint Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox	5/5

The Knowledge and Skills Framework

The Fund's 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 (SAB) and the Secretary of State for Housing, Communities and Local Government.

CIPFA/Solace 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. The SAB's '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 has published 3 reports. The most recent report, published in February 2021, includes recommendations on the following areas:-

- Conflicts of Interest – Funds will be expected to produce and publish a policy covering actual, potential and perceived conflicts of interest
- Representation – Funds will produce and publish a policy on the representation of members and employers, explaining how voting rights work
- Knowledge and Understanding – Highlighting that key individual should have the knowledge and understanding to fulfil their functions, including the s.151 Officer.
- Service delivery – This covers publishing details of decision makers' roles and responsibilities, publishing an administration strategy, reporting on performance and including the Committee in business planning.
- Compliance and Improvement – Undergoing a biannual Independent Governance review

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, the Administering Authority 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. The Trustee Toolkit, a separate aid produced by the Pensions Regulator, includes a newly released module of scams. Whilst the Trustee Toolkit is designed for Trustees of private occupational pension schemes, some aspects of it have value for those connected to public service pension schemes.

The 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.

6. Report of the Pension Board

Report to:	**Pension Committee**
Date of meeting:	**28 September 2021**
By:	**Chair of Local Pension Board**
Title:	**Report of Pension Board to Pension Committee**
Purpose:	**Report to Pension Committee, to consider understand the work completed by the Pension Board**

RECOMMENDATIONS: The Pension Committee is recommended to:

1) Note the report from the Pension Board which covers the work completed in year

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1. Background

1.1 This document outlines the actions taken by the Local Pension Board of the East Sussex Pension Fund (ESPF). It also details the training undertaken in the past 12 months to enable individual Pension Board members to develop and maintain the required level of knowledge and understanding to enable them to fulfil their function of supporting the Administering Authority, which is also known as the Scheme Manager.

1.2 This document will allow the Pension Committee to build a more detailed understanding of the work being done by the Pension Board to improve the operation of ESPF.

2. Membership and attendance

2.1 The membership of the Local Pension Board is

Employer Representatives

- Stephen Osborn - Deputy Director of Finance, University of Brighton
- Cllr. Chris Collier - East Sussex District and Borough Councils (until July 2021)
- Cllr. Tom Druitt - Brighton & Hove City Council (from October 2020)
- Cllr. Toby Illingworth- East Sussex District and Borough Councils (from July 2021)

Member Representatives

- Lynda Walker – UNISON
- Niki Palermo – GMB
- Diana Pogson – Pensioners' representative

Independent Chair

- Ray Martin

2.2 Cllr Appich stepped down from the Board in September 2020 and was replaced by Cllr Druitt in October 2020. Cllr Collier stepped down from the Board in June 2021 and has been replaced by Cllr Illingworth in July 2021.

2.3 Attendance at meetings has been high in the past year

	7 September 2020	16 November 2020	15 February 2021	1 June 2021
Stephen Osborn	Y	Y	Y	Y
Cllr Chris Collier	Y	Y	Y	N
Cllr. Tom Druitt		Y	Y	Y
Lynda Walker	Y	Y	Y	Y
Niki Palermo	N	Y	Y	Y
Diana Pogson	Y	Y	Y	Y

Ray Martin	Y	Y	Y	Y

3. Work of the Pensions Board

3.1 Meetings are held shorty before each Pension Committee meeting, where all papers relating to administration, governance, policy, audit and communications are first considered by the Board prior to final versions being presented at Committee for approval. This allows the Board to feed in on matters of governance and represent the views of members and employers in the documents that are then taken for approval.

3.2 Members of the Pension Board sit upon, and have attended meetings of, the Communications Working Group, the Data Improvement Working Group and the McCloud Working Group. By sitting on the working groups members of the Pension Board are able to use their knowledge and experience to support officers of ESPF during the development of new policies and procedures. One example of the input of Pension Board members is the creation of a new way Fund members can contact Pension Board members.

3.3 The Pension Board considers its work programme at each meeting taking into account the regular items it sees and what is planned for upcoming committee meetings and are able to request areas of focus to be added to the Board work plan. An example of this working is the request of Board in 2020 to see a regular paper on employer contributions to have transparency on late payments by employers; this report is now a standing item for Board as part of the employer engagement report.

4. Actions

4.1 The Pension Board has supported the Pension Committee with its review and oversight of the disaggregation of ESPF from the Orbis partnership. This has seen ESPF administration services become an in-house operation providing more control to the ESPF to manage its operations and ensure transparency of quality of service provided to the ESPF members. Going forward the Pension Board will continue to work with the Administration Team to develop an updated approach to measuring service standards for the Fund.

4.2 The Board has also been a strong advocate, alongside the Committee, for the Good Governance project which completed in November 2020. Throughout this the Pension Board supported requests for extending the staffing budget at the Fund, which resulted in the number of officers increasing substantially to reflect the workload and responsibility of the Pension Fund across four work streams of Governance, Employer Engagement, Administration and Accounts and Investments. The changes made have led to significant improvements in the overall governance of the Fund and further improvements are in hand.

4.3 At its quarterly meetings members of the Pension Board have reviewed new policies and procedures being developed. This has ensured that the approach being taken by the Administering Authority is consistent with the recommendations made as part of the Scheme Advisory Board's good governance project along with statutory and regulatory requirements.

4.4 The independent chair represented the Board at the Employer forum in November 2020 with an overview of the work of the Board, updating the employers of the Fund on the key data quality work that has been achieved through the data improvement working group projects and implementation of the new administration strategy.

5. Training

5.1 In the past year members of the Pension Board took part in a survey conducted by Hymans Robertson to help understand their level of knowledge and understanding. The report received is broken down into the key areas, such as administration, and also measures the Pension Board against its peers in the other Funds that took part. This survey identified that particular focus should be given to pension administration and actuarial methods. It also showed that the ESPF's Pension Board members' knowledge and understanding scored 6th highest out of the 21 boards that took part.

5.2 Since the Hymans report was produced there has been a change of membership of the Pension Board. The Chair of the Pension Board is currently working with the Fund's Training Co-ordinator to develop a new method of tracking individual Pension Board member's knowledge and understanding which will allow for a more in-depth analysis of areas of focus.

5.3 When the new members of the Pension Committee were appointed members of the Pension Board were invited to attend the induction session, which included an introduction to the role of the Fund's lawyer, actuary and investment consultant.

5.4 All Board members are working towards ensuring they have completed the Pension Regulators Toolkit modules and will shortly be invited to carry out a self-assessment on their training needs.

5.5 Members of the Pension Board have attended a range of webinars covering topics ranging from governance to investment. In addition, Board members have attended training provided in house on McCloud, Covenant strength and outsourcing implications for employers within the LGPS. Members of the board regularly attend the CIPFA Pension Board member seminars that are run in the Spring and Autumn to update on all key regulatory changes and areas the Board may wish to ask questions on of their Funds.

Ray Martin
Chair of ESPF Local Pension Board

7. Scheme Administration

Service Delivery

During 2020/21, East Sussex County Council as Administering Authority for the East Sussex Pension Fund undertook the day to day pensions administration through Orbis, which is a shared services partnership covering the three councils of East Sussex, Surrey and Brighton and Hove. The Administration of the Fund has moved back in house to be managed by East Sussex County Council from 6 April 2021.

During the 2020/21 year, the Orbis Pensions Administration team, with oversight from the East Sussex Head of Pensions Administration, were 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 sent 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 and the East Sussex Pension Fund.

Administration of the Fund is discussed quarterly at Pension Committee to ensure the service is managed and governed well with key performance indictors reviewed at each meeting. In addition, Pension Board consider the activities of the Pensions Administration team at each meeting. During 2019/20 the Fund 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 Fund 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.

Where complaints cannot be resolved informally, there is access to a two-stage dispute resolution procedure. The first stage of this process is for the complainant to ask the Adjudicator appointed by the East Sussex Pension Fund to consider the matter under dispute. If the complainant is not satisfied with the response they can ask for a further review of the decision, along with any new evidence they might provide. The person responsible for reviewing stage 2 complaints is the Assistant Chief Executive. Ultimately the complainant has the right to refer their complaint to The Pension Ombudsman and seek assistance from the Pension Advice Service.

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

	2020/21
First Stage	6
Upheld	0
Declined	1
Ongoing	5
Second Stage	1
Upheld	0
Declined	0
Ongoing	1

This table reflects the position for the 2020/21 financial year and is not the current position. The complaint at stage 2 was received in stage 1 of the same time period.

Key administration performance indicators

To be populated

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

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund 2019/20 £	East Sussex Pension Fund 2020/21 £	Benchmark Unit Costs £
Excluding investment management expenses			
Including investment management expenses			

Key staffing indicators

Membership

	2019/20	2020/21
East Sussex County Council		
Scheduled Bodies		
Admitted Bodies		
Total		

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)					
Pensioners (inc dependents)					
Deferred Members					
Total					

New pensioners by pensioner type

To be populated

New pensioner type	Number of new pensioners in group
Normal Retirements	
Redundancies	
Ill Health	
Employee's Choice of Early Pensnsion	
Total New Pensioners	

2020 Annual Benefit Statement

The Fund is required to produce an Annual Benefit Statement (ABS) before the 31st of August each year for all active and deferred members. In 2020 due to Covid this deadline was extended to 31 October.

At 31 March 2020, the number of active members in the scheme requiring a statement was 22,262 and 29,727 deferred members. The number of members who were due to receive an ABS but we failed to issue prior to the deadline was 623 Active members and 67 deferred members. The Fund achieved a completion rate of 97.2% for active members and 99.8% for deferred members. After the Fund reporting itself to the regulator after the 2019 ABS process, 2020 was a great improvement and success for the Fund.

8. Actuarial report

East Sussex County Council Pension Fund

Actuary's statement as at 31 March 2021

Barnett Waddingham LLP

29 June 2021

Introduction

The last full triennial valuation of the East Sussex County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.
- The Fund had a funding level of 107% i.e., the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
Base tables	Based on Club Vita analysis
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements	
Males	0.5% p.a.
Females	0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics

Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. We have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, we estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equites due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The Fund could opt to monitor the funding level using LGPS Monitor on a regular basis.

Barry McKay FFA
Partner, Barnett Waddingham LLP

9. Employers

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.

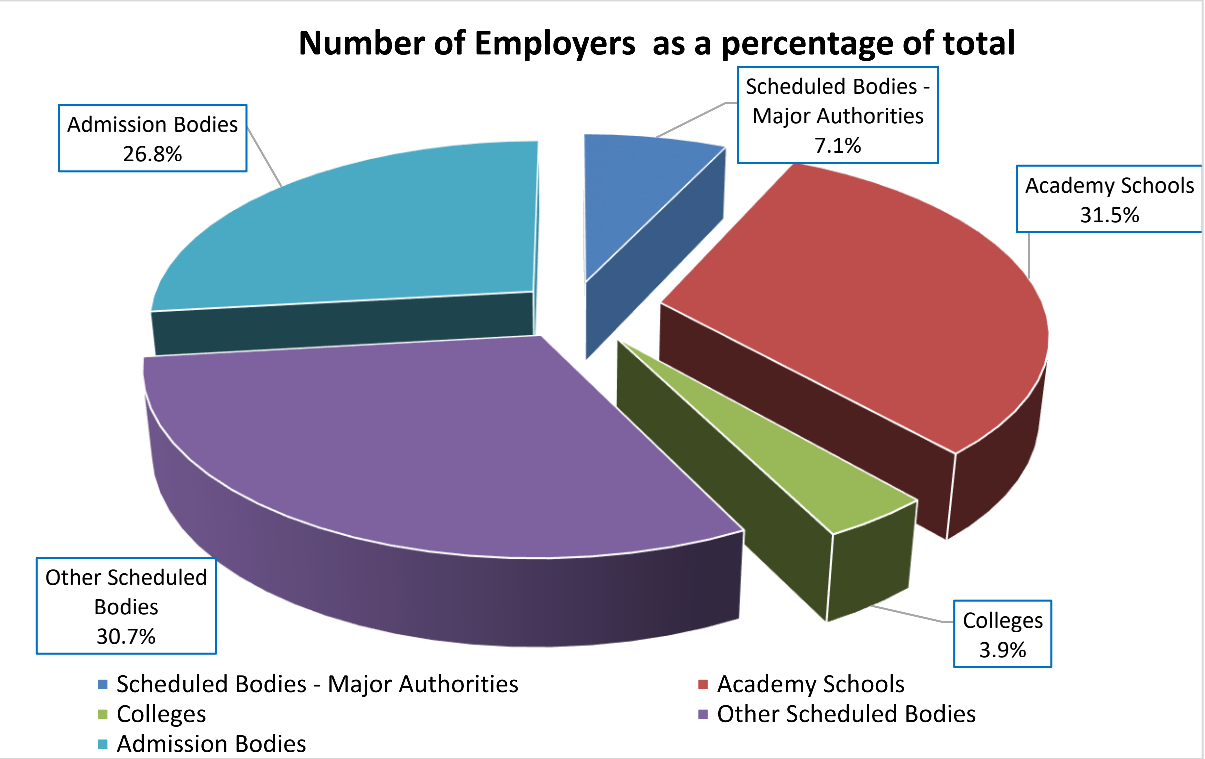
Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

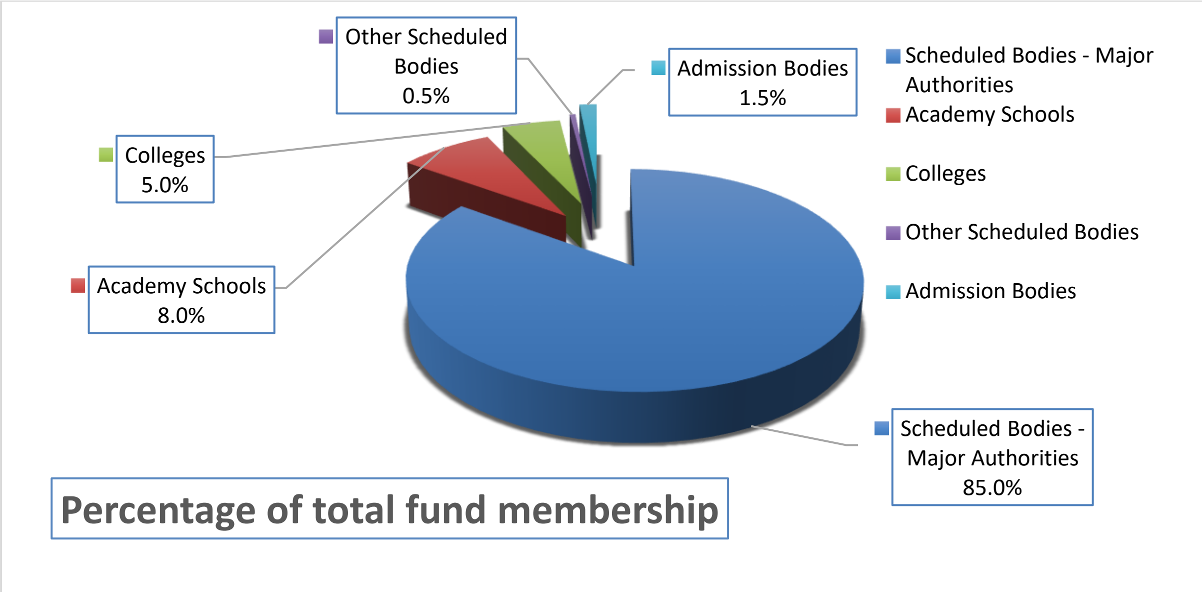
	Active	Ceased	Total
Scheduled body	93	24	117
Admitted body	34	30	64
Total	127	54	181

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	7.1%	85.0%	9
Academy Schools	31.5%	8.0%	40
Colleges	3.9%	5.0%	5
Other Scheduled Bodies	30.7%	0.5%	39
Admission Bodies	26.8%	1.5%	34

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





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. All scheme employers will be consulted before any changes are made to this document. The latest version of the administration strategy statement will always be available on the ESCC website.

Employers are able to contact the Pension Fund directly depending on the type of request. The Employer Engagement Team will deal with employers directly on day to day questions and queries. The Pensions Admin team will deal with any employee requests that come via the employer. The employers have been informed of direct contact details for all requests and questions to the pension Fund.

The Local Government Pension Scheme regulations require employers who participate in the Local Government Pension Scheme (LGPS) to draw up and publish a discretions policy and to keep it under review. Discretions are powers that enable employers to choose how to apply the scheme in respect of certain provisions. All new employer admissions to the Scheme will complete a discretions policy on joining and discretion policies will be reviewed every 3 years in line with each valuation cycle.

All new admissions to the LGPS will be provided with a guide to outsourcing and admissions. This guide will provide information to all new potential admissions to the Fund and will lay out the necessary process that will need to be adhered to before admissions can be undertaken. All new admissions will be sent the relevant legal agreements and documentation that will require signing before proceeding.

Any employer with a potential TUPE or outsourcing must contact the employer engagement team where support and advice will be provided on the necessary steps that will need to be undertaken. Relevant information, timings and paperwork will need to be completed before any TUPE/outsourcing can commence. Employers will be provided a direct contact throughout the whole project to answer questions and provide support.

A reminder is sent to all employers annually to provide details of the employers responsibilities and obligations to the Fund. The admin strategy also provides details for employers of their responsibilities.

Employers have a responsibility that they must meet as part of the East Sussex Pension Fund. The table below provides details on monthly/annual deadlines that must be met.

Employer Deadlines	
Employer Responsibility	**Deadline**
Complete and submit LGPS31 forms (contribution forms)	**18th day** of the month following that to which the payment relates
Payment of correct contributions	**19th day** of the month following that to which the payment relates
Provide end of year data requirements	**By 30th April** following the year end (unless already onboarded to i-Connect)

If the above deadlines are not met then warnings are issued. If an employer breaches the above deadlines on more than 1 occasion in a 12 month period then administration charges can be levied.

Employer contribution amounts are provided to all employers at the Employer Forum following the valuation. A reminder of the new rates are also annually sent to employers in March. The new amounts are sent in March in preparation for the new rates to be applicable from the April contribution payment

10. 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 Fund has an active risk management programme in place, which is subject to periodic review. The Fund’s approach is to manage risk rather than eliminate it entirely.

Risk is identified and managed as follows:

Separation from Orbis risk – The administration of the Fund has been brought in-house. This has involved setting up a new database so member data can be hosted by the Fund, as opposed to Surrey County Council (Surrey CC) under the terms of the previous agreement. Extensive testing was carried out to ensure the smooth transfer of data, helped by the Fund using the same technology for the database as Surrey CC. Data is securely hosted and backed up daily. There is a testing data set to allow for upgrades to be checked without risk to member data and the Fund’s ability to calculate and pay benefits.

Other services previously provided to the Fund through the agreements with Surrey and the Orbis collective have been identified. New agreements have been created to ensure the ongoing provision of these services and short term support with outstanding projects. An agreement has also been reached to ensure the effective deletion of member data relating to members of the East Sussex Fund that was held by Surrey CC.

Management Risk - A significant risk is the potential insolvency of scheme employers, leaving outstanding liabilities in the Fund. This risk is increased due to the ongoing impact of the Covid-19 pandemic. 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

To aid the pace of onboarding new admission bodies, work has been undertaken to streamline the process and develop bond templates.

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 and those which are connected to benefit administration, such as employer 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. The Fund is committed to using best practice and will account for recommendations made as part of audits.

Financial/Funding Risk - This is 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 Fund's 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 (Appendix 2), sets out the governance requirements for the ESPF and it is reviewed annually by the Administering Authority. 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/Mortality Risk - This is the risk of that the pensioners live longer and therefore the liabilities of the Fund increase. Frequent interactions with the Fund Actuary mitigate this risk as the Fund can be informed of changes to mortality tables where this may impact the assumptions previously made.

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. Changes in the Regulatory environment are routinely reviewed by Fund Officers.

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. Over the past year steps have been taken to update the Fund's internal controls following a review of compliance with TPR's Code 14 and the relevant legislation; this includes:-

- Improving the risk register;
- creating a new risk management policy; and
- updating the Internal Dispute Resolution Procedure

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.

The Fund has developed a Pension Administration Strategy, outlining the responsibilities of both the Fund and employers. This includes a framework for escalating concerns and ensuring compliance with Admission Agreements.

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. The full risk register can be seen within the quarterly Pensions Committee papers.

11. 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 XX to XX.

	2019/20 £000	2020/21 £000
Fund Account		
Net (Contributions)/withdrawals	(4,453)	(3,253)
Management Expenses	17,333	17,296
Return on Investments	140,238	(778,984)
Net Increase in Fund	**153,118**	**(764,941)**

	2019/20 £000	2020/21 £000
Net Asset Statement		
Bonds	212,331	128,765
Equities	-	-
Pooled Funds	3,189,335	4,045,225
Cash	63,715	56,736
Other	(135)	(418)
Total Investment Assets	**3,465,246**	**4,230,308**
Non-Investment Assets	13,848	13,727
Net assets of the fund available to fund benefits at the year end.	**3,479,094**	**4,244,035**

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2020/21.

Month	Payments Due	Payments Received Late
April	120	8
May	120	3
June	120	3
July	120	2
August	120	4
September	122	3
October	123	3
November	125	3
December	126	8
January	126	3
February	128	3
March	128	7

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	2019/20 Forecast £000	2019/20 Actual £000	2020/21 Forecast £000	2020/21 Actual £000	2021/22 Forecast £000
Contributions	(141,600)	(138,719)	(118,600)	(137,521)	
Payments	137,600	134,266	134,700	134,268	
Administration expenses	940	1,106	1,080	1,680	
Oversight and governance costs	709	1,208	1,365	1,831	
Investment expenses:					
fees invoiced to the fund	5,100	4.370	1,350	3,409	
fees deduced at source	-	10,649	-	10,376	
Net investment income	(27,000)	(26,487)	(27,200)	(39,070)	
Change in market value	(206,300)	166,725	(134,600)	(739,914)	
Net increase in the Fund	**(230,551)**	**153,118**	**(141,953)**	**(764,941)**	

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	2019/20 Forecast £000	2019/20 Actual £000	2020/21 Forecast £000	2020/21 Actual £000	2021/22 Forecast £000
Equities	2,273,600	1,332,597	1,403,200	1,864,834	
Bonds	781,100	595,691	611,600	572,345	
Property	356,400	318,129	329,600	319,533	
Alternatives	265,200	321,996	341,000	414,980	
Cash	195,200	63,715	43,900	56,736	
Other	3,800	833,118	869,700	1,001,880	
Total Investment Assets	**3,875,300**	**3,465,246**	**3,599,000**	**4,230,308**	

Management Expenses

	2019/20 Forecast £000	2019/20 Actual £000	2020/21 Forecast £000	2020/21 Actual £000	2021/22 Forecast £000
Orbis Finance Support Services	45	40	-	-	-
ESCC Support Services	-	-	-	231	-
Orbis Business Operations Support Services	854	952	935	894	
Supplies and Services	41	114	145	555	
Administration total	**940**	**1,106**	**1,080**	**1,680**	
Oversight and governance costs					
Orbis Finance Support Services	234	267	385	508	
ESCC Support Services	-	-	-	28	
Supplies and Services	475	941	980	1,273	
Third Party Payments	130	97	150	87	
Other Income	(130)	(97)	(150)	(65)	
Oversight and governance total	**709**	**1,208**	**1,365**	**1,831**	
Investment Management					
Investment expenses:					
fees invoiced to the fund	5,100	4.370	1,350	2,416	
fees deduced at source*	-	10,649	-	11,369	
Investment Management Total	**5,100**	**15,019**	**1,350**	**13,785**	
Management Expenses Total	**6,749**	**17,333**	**3,795**	**17,296**	

* During the year, the Pension Fund incurred management fees which were deducted at source for 2020/21 of £3.7m (£2.3m in 2019/20) on its private equity investments, fees of £1.3m (£1.3m in 2019/20) on its infrastructure investments, fees of £2.6m (£0.0m in 2019/20) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2019/20) 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 pursued. 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 pursue. The table below shows the pension overpayments and recoveries for the past 5 years:

Year		Overpaid Pensioners	Recoveries	Write Off	Outstanding
2020/21					
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.

12. Investment policy and performance

The Fund's strategic asset allocation was revised following decisions taken at the June 2020 Committee meeting, with a number of changes implemented over the 2020/2021 financial year.

The changes to the strategic asset allocation involved restructuring the Fund's equity allocation whilst maintaining the 40% overall weighting. This 40% allocation was to be retained through the addition of active impact equity, as well as smart beta passive equity with an Environmental, Social and Governance (ESG) tilt, to replace the Fund's 'Climate Aware' and 'Fundamentally Weighted' allocations. These changes were made in line with the Fund's ESG objectives. In addition, the Fund's strategic allocation to infrastructure increased from 2% to 8%, with this being partial achieved over the period through a 2% allocation to unlisted infrastructure. The remainder will be considered further and built up over time.

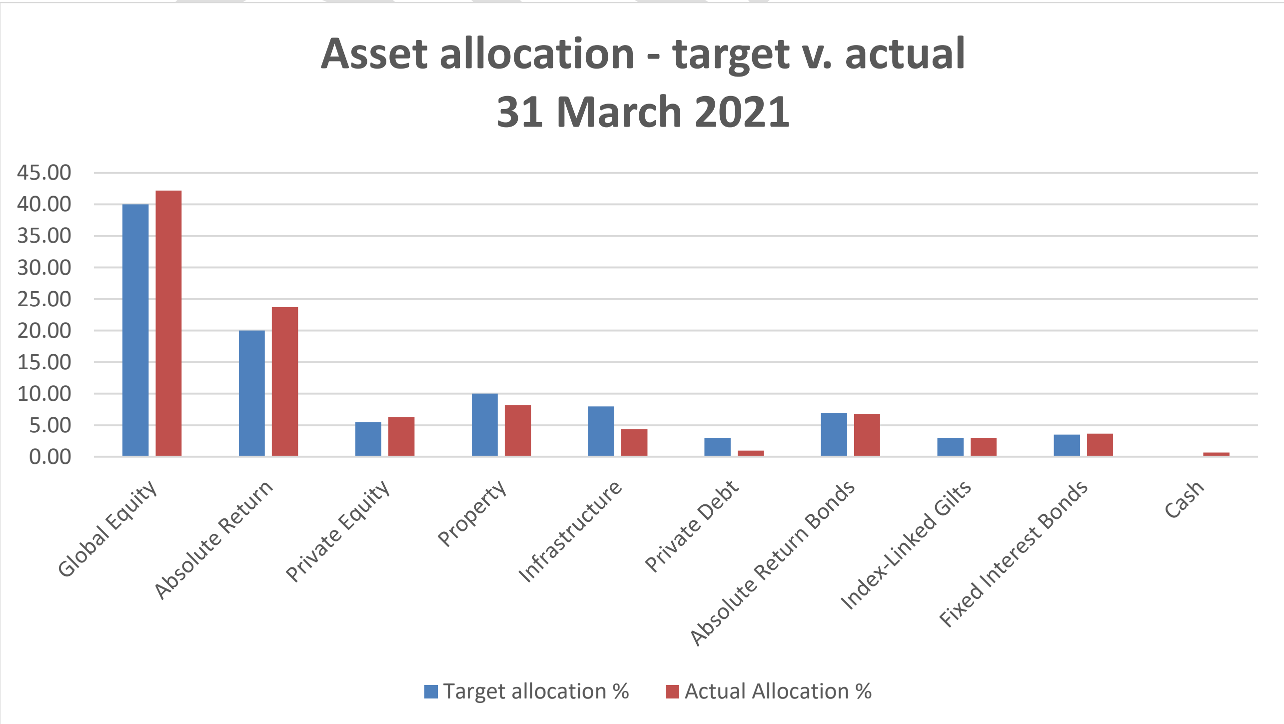
In order to achieve the strategic allocations mentioned above, the Fund made allocations of 5% (c. £200m) to Wellington Global Impact Fund and WHEB Sustainability Fund respectively, as well as a 10% (c. £400m) allocation to Storebrand Global ESG Plus Fund. These allocations were funded through termination of the Fund's Fundamentally Weighted Equity Index Fund, and the Climate Aware Equity Fund, as well as a reduction in the UK equities allocation held with UBS, in order to align more broadly to a global market cap index. The residual excess funds were rolled into the Fund's allocation in Longview Global Equity, increasing its strategic allocation from 7% to 10%. In addition, the Fund made a 2% (c. £80m) investment to the ATLAS Global Infrastructure Fund to meet the 2% strategic allocation to listed infrastructure, funded by modest reductions to the absolute return and index linked gilt target allocations.

The Committee demonstrate their consideration of ESG and climate related issues through the abovementioned equity restructuring. Similarly, the Fund's fossil fuel exposure is estimated on a quarterly basis, with this estimated as c.2% of total Fund assets as at 31 March 2021.

Asset Allocation

The Fund's asset allocation maintains a significant allocation to equities, which are expected to be a core driver of returns over the long term, but typically the most volatile. However, the equity portfolio is diversified across regions and styles to target a balanced exposure. The increase to the Fund's infrastructure allocation provides additional diversification to the portfolio, as well as contractual type returns, which are expected to provide a more certain return once fully deployed. Infrastructure is also expected to provide an inflation-linked source of income. The Fund also maintains a significant allocation to property, providing further diversification from traditional investment markets such as equities and bonds.

Credit mandates such as corporate bonds, index-linked gilts and absolute return credit also provide diversification, due to differing return drivers than equities, while also offering source of liquidity. The absolute return mandates combine a number of asset classes in order to provide a smoother path of returns, offering the manager flexibility to alter allocations to benefit from varying market conditions.



Investment Managers

The Fund employs a number of investment managers across the various mandates, with differing approaches or styles, as well as sectoral and geographic focus, and benchmarks. This is in order to ensure sufficient diversification, limiting downside risk during periods of market volatility. The Fund's investment manager structure is broadly as follows:

- The Fund's equity mandate is split across a number of managers, having previously been largely allocated to UBS. The allocation is broadly split 50/50 in terms of active and passive, with the active sleeve allocated half to a global equity mandate with Longview, and half to active impact equity strategies split equally between Wellington and WHEB. The passive sleeve is split 50/50 passive regional funds, weighted broadly in line with global market capitalisation, and ESG systematic/smart beta, with the regional fund allocation held with UBS, and the Smart Beta ESG invested in Storebrand. At the March 2021 meeting, the Committee indicated a slight preference for active management and a continued focus on ESG with the intention of investing in a new 'core' active manager as well as an allocation to Osmosis Resource Efficiency, which is likely to be implemented in H2 2021.
- Absolute return mandates are held with Newton and Ruffer and allow managers to flexibly alter allocations to a variety of underlying asset classes based on specific market conditions.
- The Fund's property mandate is held with Schroders, with a 'fund of funds' approach adopted, adding an additional layer of diversification to the mandate.
- Corporate bonds, absolute return credit and commercial real estate debt mandates are managed by M&G, while the Fund's passive index-linked gilts mandate is held with UBS.
- The Fund's infrastructure holdings are split between M&G, UBS, Pantheon (all unlisted) and ATLAS (listed), who adopt varying styles and focus areas.
- Private equity mandates are split between Adams Street and HarbourVest with new allocations due to be made with each manager over the course of 2021.

The Committee intend to undergo a full strategy review in H2 2021 and will potentially implement new mandates and additional investment managers to achieve a more efficient portfolio towards the end of 2021.

The Fund has the following objectives for its investment managers:

- Each (active) manager delivers on its objective, net of fees.
- Each mandate adds a layer of diversification and offers different qualities to the Fund, be that through varying approaches, and focus areas (geographic and sectoral).
- Consider all financial and non-financial risks and considerations including Environmental, Social and Governance (ESG) factors (including but not limited to climate change).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 2020/21 financial 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 scheme's assets in compliance with the custody agreement.
- Providing quarterly valuations of the scheme's 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 Allocations pooled and unpooled

Mandate	Q1 2020 (£m)	Actual (%)	Target (%)	Q1 2021 (£m)	Actual (%)	Target (%)
ACCESS - Global Equity (Longview)	238.8	6.90%	7.00%	458.8	10.80%	10.00%
ACCESS - Absolute Return (Ruffer)	418.5	12.00%	10.50%	510.0	12.10%	10.00%
ACCESS - Real Return (Newton)	414.8	11.90%	10.50%	492.3	11.70%	10.00%
ACCESS - Sterling Corporate Bond (M&G)	144.3	4.10%	3.50%	158.4	3.70%	3.50%
Total Investments held in ACCESS	**1,216.4**	**34.90%**	**31.50%**	**1,619.5**	**38.30%**	**33.50%**
Equities (passive):						
UBS - Fundamental Indexation	363.2	10.40%	11.50%	-	-	-
UBS - Global Emerging Markets	36.2	1.00%	1.50%	62.2	1.50%	1.50%
UBS - Regional Equities	312.4	9.00%	8.00%	299.9	7.10%	7.00%
UBS - UK Equities	220.9	6.30%	7.00%	66.7	1.60%	1.50%
UBS - Climate Aware	160.0	4.60%	5.00%	-	-	-
Equities (active):						
Storebrand - Global ESG Plus	-	-	-	454.5	10.70%	10.00%
Wellington - Global Impact	-	-	-	222.8	5.30%	5.00%
WHEB- Sustainability	-	-	-	222.7	5.30%	5.00%
Total Equities	**1,092.7**	**31.3%**	**33.0%**	**1,328.8**	**31.5%**	**30.0%**
Bonds:						
UBS - 5yr ILG	212.3	6.10%	5.00%	128.8	3.00%	3.00%
M&G - Alpha Opportunities	239.1	6.90%	8.00%	285.1	6.70%	7.00%
Total Bonds	**451.4**	**13.00%**	**13.00%**	**413.9**	**9.70%**	**10.00%**
Other Investments:						
Schroder - Property	351.8	10.10%	10.00%	347.8	8.20%	10.00%
M&G - Infrastructure	20.7	0.60%	1.00%	32.7	0.80%	2.00%
Pantheon - Infrastructure	30.1	0.90%	2.00%	38.1	0.90%	2.00%
UBS - Infrastructure	16.7	0.50%	1.00%	37.7	0.90%	2.00%
Atlas - Infrastructure	-	-	-	77.3	1.80%	2.00%
Adams Street - Private Equity	135.6	3.90%	2.80%	154.5	3.60%	2.75%
HarbourVest - Private Equity	109.5	3.10%	2.80%	110.5	2.60%	2.75%
M&G Real Estate Debt VI	38.8	1.10%	3.00%	42.4	1.00%	3.00%
Cash account	23.9	0.70%	0.00%	31.4	0.70%	0.00%
Total Other Investments	**727.1**	**20.90%**	**22.60%**	**872.4**	**20.50%**	**26.50%**
Total	**3,487.60**	**100%**	**100%**	**4,234.60**	**100%**	**100%**

An analysis of fund assets, by geography, as at the reporting date of 31 March 2021

	UK £m	Non-UK £m	Global £m	Total £m
Equities	1,828	-	1,039	2,867
Bonds	287	-	285	572
Property (direct holdings)	-	-	-	-
Alternatives	362	-	373	735
Cash and cash equivalents	21	35	-	56
Other	-	-	1	1
Total	**2,498**	**35**	**1,696**	**4,231**

An analysis of investment income accrued during the reporting period 2020/21

	UK £000	Non-UK £000	Global £000	Total £000
Equities	10,531	78	1,570	12,179
Bonds	2,784	-	10,386	13,170
Property (direct holdings)	-	-	-	-
Alternatives	9,486	-	1,458	10,944
Cash and cash equivalents	1,484	18	-	1,502
Other	-	-	47	47
Total	**24,485**	**96**	**13,461**	**37,842**

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.

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	35.50%	38.90%	-3.40%	-	-	-	-	-	-
Access Pool Absolute Return									
Newton Real Return	18.70%	2.90%	15.80%	-	-	-	-	-	-
Ruffer Absolute Return	25.10%	2.90%	22.20%	-	-	-	-	-	-
Access Pool Bonds									
M&G – Corporate	9.80%	8.20%	1.60%	-	-	-	-	-	-
Equities									
UBS – UK Equity	26.40%	26.70%	-0.30%	3.00%	3.20%	-0.20%			
UBS – All World Equity	38.80%	39.50%	-0.70%	12.30%	12.50%	-0.20%	-	-	-
Bonds									
UBS - 5yr ILG	0.80%	2.60%	-1.80%	2.90%	3.60%	-0.70%	-	-	-
M&G - Alpha Opportunities	19.30%	3.40%	15.90%	4.30%	3.40%	0.90%	4.80%	2.20%	2.60%
Other Investments									
Schroder – Property	2.70%	2.50%	0.20%	2.10%	2.40%	-0.30%	3.90%	4.20%	-0.30%
M&G – Infrastructure	9.50%	2.70%	6.80%	-	-	-	-	-	-
Pantheon – Infrastructure	0.70%	2.70%	-2.00%	-	-	-	-	-	-
UBS – Infrastructure	-20.80%	2.70%	-23.50%	-2.40%	2.80%	-5.20%	0.60%	1.90%	-1.30%
Adams Street - Private Equity	36.30%	40.70%	-4.40%	22.30%	14.00%	8.30%	18.90%	14.90%	4.00%
HarbourVest - Private Equity	9.30%	40.70%	-31.40%	14.80%	14.00%	0.80%	13.70%	14.90%	-1.20%
M&G – Real Estate Debt VI	1.30%	4.40%	-3.10%	-	-	-	-	-	-

*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.

Responsible Investment

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

Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board created TCFD to improve and increase reporting of climate-related financial information in 2015. The Fund committed to reporting under TCFD in its Statement of Responsible Investment Principles which were approved in September 2020. TCFD is structured around four thematic areas of Governnace, Strategy , Risk Management and metrics and targets.

Below the Fund try to report against these core elements in its first attempt to report agint these disclosure requirements. Where the Fund has gaps in reportable data, this is highlighted in the sections, with a plan on how this will be progressed in future years reporting.

Governance

East Sussex County Council (ESCC) is the administering authority for the Fund, under the Constitution the Pension Committee has delegated authority to exercise the powers in respect of the management of the Fund. The Fund is neither owned nor controlled by ESCC, Fund assets are earmarked for pension payments and ringfenced from ‘Council Money’. There are around 130 employers and more than 78,000 members, whose pension payments are funded by through the assets of the Fund, employer and member contributions and investment returns. The Pension Committee (the Committee), comprising elected councillors, is responsible for fund oversight and policy setting.

The Committee has focused a substantial amount of time to develop its understanding and response to the ESG impacts that it is facing. This work has driven the Fund into codifying its beliefs in this area. The Fund believe that RI supports the purpose of the LGPS and that climate risk does pose a material financial risk to the Fund. Responsible investment is therefore a substantial factor driving returns alongside other investment considerations.

As RI and climate risk is a driving factor in the value of the Funds assets and long term return expectations in line with the Funds Investment Strategy Statement and Funding Strategy Statement to keep the Fund in surplus, the Committee set out a Statement of Responsible Investment Principles (SRIP) which is published within the Fund's Investment Strategy Statement (ISS) available on the Fund website www.eastsussexpensionfund.org/resources.

The SRIP explains the Funds approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment (RI) and Stewardship perspective.

The Principles that are set out in detail within the SRIP are:

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5	We will work together to enhance our effectiveness in implementing the Principles.
Principle 6	We will each report on our activities and progress towards implementing the Principles.

In 2019 the Pension Committee set up an ESG working group to take forward research and build up the Funds principles, however in 2020 this working group was absorbed into the Investment Implementation Working group to ensure all investment decisions have ESG and climate risk embedded at the outset, rather than a secondary consideration.

Strategy

Risk Management

As part of the risk register the Pension Fund have specifically recognised Climate risk and details the risk and mitigations in place to manage this in the quarterly report. Specific aspects of this risk are outlined below.

Potential Triggers of risk	Consequences of risk	Risk Control / Response
Incorrect assumptions on current exposure , risk profiles and scenarios analysis leading to poor decision making	Volatile investment returns	Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors.
Risk to income yields by restricting the market due to ESG concerns without considering the bigger picture of the investment strategy to compensate	Loss of market value	Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions

Potential Triggers of risk	Consequences of risk	Risk Control / Response
Investment environment changes radically, and Fund is slow to respond	Reputational risk where EGS beliefs and strategy are not aligned with expectation of members	Trim unconscious exposure to companies with poor ESG rating through agreed removal of traditional index funds ensuring active managers have a strong conviction in the underlying companies including on ESG matters and less traditional passive indexes / smart beta funds have robust screening processes in place to ensure ESG principles are taken into account
Risk to wider social and economic risks by focusing on a single issue	Increased workload responding to questions and challenges over ESG risks taking officer time away from manging the fund effectively	Tracking of the portfolio as underweight in fossil fuel exposure to benchmarks
Poor transparency on underlying investment manager investments decisions on behalf of the fund	Increase in investment risk taken due to unassessed ESG issues	Production of annual reports on the carbon footprint of the Fund and review of managers from EGS perspective including transition pathway of underlying companies
Failure of fund managers to explain or comply against voting guidelines	Weaker control leading to poorer governance	Signatory to Stewardship code with commitment to comply with the new 2020 code
Poor corporate Governance or corruption in underlying investments	unconscious exposure to companies in violation of UN policies, human rights violations, poor governance structures	Challenging managers on their holdings with regard ESG issues
		Introduction of an ESG assessment for all managers reported in July 2021 including improvement actions for each manager on ESG methodology, reporting or collaboration. This will be updated and reported annually
Risk of regulatory policy changes resulting in fines to underlying investments		Engaging via managers and investor groups including LAPFF with companies and driving them forward to comply with key ESG concerns using the greater voice by combined investment power
Uncertainty in energy transition impacts and timing	unconscious exposure to high carbon emitters	Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors and has a strong focus on climate change
Risk of stranded assets where invested in fossil fuel companies	Reputation issues around how the Fund is progressing the move to a decarbonised global economy.	Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions

Potential Triggers of risk	Consequences of risk	Risk Control / Response
Lack of reliable carbon measurement data for investment pooled funds and or underlying holdings of those pooled funds.	Volatile investment returns	Restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020
Risk of natural disasters on underlying investments	Reputational risk where Climate risks, reporting, mitigations and strategies are not aligned with member views or poorly communicated	Trim unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through agreed removal of traditional index funds
Risk of changes in oil prices	Loss of income to the fund from missed opportunities in oil price rally to accommodate the infrastructure to enable to the world to comply with the energy transition	Member of Institutional Investors group on climate change
Increased capital costs of underlying investment companies to transition to greener energy solutions or lower carbon emitting supply chain models and production methods	Loss of market value	The fund carry out annual carbon footprinting to better understand the carbon exposure and energy transition plans within the portfolio
Fines or penalties incurred by underlying holdings by company or sector	Major ecological disaster in the UK could lead to increased morality quicker than anticipated within the funding models impacting on cash outflows and increased workloads for lump sum payments	Signatory to UN PRI with first planned submission in 2022 and commitment to report TCFD's with a first attempt in the Annual Report for 2020/21
Increased global temperature and or erratic climate events causing devastation to underlying holdings	Possible increase to ill health retirement cases leading to a change in cash flows and possible enhancements beyond those anticipated	The Fund has planned for climate scenario modelling in late 2021 which will help better understand this risk and allow further consider approaches in tackling these risks.
Social consequence on members welfare and longevity within the fund		The Fund continue to have some occasional exposure to high carbon emitting or fossil fuel sector companies from a tactical perspective to use its vote to help drive the sector forward through engagement and voting using the power of a collective voice. A number of Fund managers are Climate 100+ engagement partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action

Potential Triggers of risk	Consequences of risk	Risk Control / Response
		Very small outstanding percentage exposure with fossil fuel companies that extract oil and gas or coal, which if the sector fall to zero value, the impact of the Fund would be negligible in market movement perspectives.

Metrics and targets

The Fund has used a third party provider Vigeo Eiris to undertake comparative analysis of the Fund's equity and fixed income managers carbon footprinting (carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers) and energy transition (the shift from a carbon based economic model to a green and sustainable one) metrics. For the purpose of the analysis performed by Vigeo Eiris this only take in to consideration Scope 1 and 2 emissions not Scope 3 where these are defined as:

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.

Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.

Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. Table X below details the high level scores that the Fund's managers achieved.

The table below shows the movement in the carbon emissions and energy transition ratings in the benchmarked portfolios from the March 2020 and March 2021 report .

Manager	Mandate	Carbon footprint			Energy transition		
		2021	2020	Evolution	2021	2020	Evolution
UBS	Climate Aware	x	High	x	x	40	x
UBS	Fundamental Indexation	x	Intense	x	x	40	x
UBS	UK	High	Intense	↘	47	45	↗
UBS	Europe Ex-UK	High	High	↘	53	52	↗
UBS	North America	High	High	↘	37	36	↗
UBS	Rest of World	High	High	↘	32	30	↗
M&G	Absolute Return	High	High	↘	45	42	↗
M&G	Corporate Bonds	High	High	↘	53	51	↗
Newton	Absolute Return	High	High	↗	44	45	↘
Ruffer	Absolute Return	High	Intense	↘	44	42	↗
Longview	Global Equity	Significant	Significant	↗	39	33	↗
Atlas	Infrastructure Fund	High	x	x	41	x	x
Storebrand	Climate Passive	High	x	x	44	x	x
Wheb	Impact Fund	High	x	x	31	x	x
Wellington	Impact Fund	Significant	x	x	38	x	x

Independent adviser's report

East Sussex Pension Fund - Independent Advisor's report 2021

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 advice and expertise 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.

When I wrote last year's report, the COVID pandemic had just caused authorities to impose the first national lockdown. I said that the future course of markets was unclear, but that investment income was highly likely to decline and good cashflow planning would be increasingly important. I also mentioned two governance reviews in the process of being implemented.

Twelve months later we find ourselves still in a form of lockdown with some uncertainty what the future holds. Massive government response in the form of monetary easing and fiscal support has failed to avert the steepest economic decline in 300 years. However, it has benefited the value of the Fund's assets and, from a financial perspective, the Fund remains in a healthy position with a funding level above 100%.

The Fund has seen significant change in several areas during the year. Officers initiated a major initiative looking at how best to mitigate the financial effects of a transition to a lower carbon economy. It is still work in progress but the first step of moving 20% of the assets from a traditional passive equity strategy to a number of better aligned active ones has been implemented. The immediate impact is to reduce the carbon footprint by about 50% but, in my view, the more important one is that the portfolio is now better positioned for the lower carbon economy which is surely on the way. This in my view justifies the higher costs of actively managed strategies.

This journey the Fund is taking in this respect still has some way to go. Not only are there the remaining passive assets to review, but other asset classes such as private equity and private credit will also need to be considered. All pension funds will quite soon be required to consider different climate change scenarios and LGPS funds will have to comply with new climate change risk disclosure requirements by 2023. I also emphasise that climate change science is evolving rapidly: data in the future may be more reliable, for example by virtue of being audited, and there is always the possibility that it leads to different conclusions to those being drawn today.

The other major change has been in the Fund's actuarial advisor and investment consultant. After a full OJEU procurement process, contracts for both these roles were signed with new service providers. There is always a balance to be struck between the benefits of continuity and those of change, but the investment consultant's role in particular is changing and reducing with the advent of pooling. The new arrangements should save the Fund considerable money as well as providing some fresh input into the investment process.

A degree of economic recovery is almost certain following both the deep falls and also the level of government stimulus provided. Even if the headline data do not yet show it, global indicators such as shipping rates and volumes, and the back-up in bond yields over the past six months, show that it is in progress. China is likely to be first in the queue, while Europe looks like being near the back. The UK may also be a laggard as a result of the extra friction and costs involved with BREXIT.

The prospect of recovery is not bad for equities but it is often the case that they do better in anticipation rather than the actual event. Equity indices may therefore go sideways rather than continuing to rise, particularly if there is a reduction in the valuations of the tech stocks which now comprise so much of the indices.

The Fund has a substantial weighting in alternative investments of various sorts. These have, with the exception of real estate, weathered the pandemic well. The two Diversified Growth Funds provide both some ballast in the place of bonds and also some mitigation of inflation risk, and have performed well, in Ruffer's case spectacularly so. The infrastructure weighting serves a similar purpose, with longer duration but less flexibility, and has been increased during the year. The private equity programme has remained on course and private credit has been more resilient than I had expected after the March 2020 wobble.

Investment income generated by the portfolio declined as companies cut dividends. However, as much of this has historically been reinvested, the impact on the Fund's cashflow has been limited. An exercise in cashflow planning took place during the year and, under the new arrangements, the Fund is able to increase the level of investment received if required. As the Fund matures, pension pay-outs will gradually exceed contributions and investment income will become increasingly important.

In the longer term, an increase in inflation remains a major risk for the Fund. Investing in assets which have some correlation with inflation is the best way of mitigating this. Infrastructure, inflation linked bonds and - to a lesser extent - real estate, equities and diversified growth funds form part of the Fund's defence. I do not believe that it is an immediate risk but it is almost inevitable that inflation will rise eventually.

Turning to administration, the Fund has taken the decision to end the shared service arrangements with Orbis and build back its own dedicated resources in order to provide a better level of service to members. I know this has not been an easy decision to take, but I also see that committee and pension board members are keeping a careful eye on the process to ensure that the Fund is providing good value for money.

My final duty in this report is to provide some assurance as to the overall governance arrangements for the Fund. Over the past two years the Fund has spent considerable time and resources on this area, against a background of ever increasing complexity and regulatory requirements. For example, the Pensions Regulator is reviewing and combining its Codes of Practice, new statutory guidance is expected which will both implement the Scheme Advisory Board's Good Governance recommendations (mentioned last year) and update requirements on pooling, and the Taskforce for Climate Disclosure's recommendations are expected to cover LGPS funds by 2023. On top of that are the administrative complications resulting from a number of legal test cases such as McCloud.

While the Fund can never be complacent against such a changing background, I believe its governance processes and structures are of a good standard, and that the increase in resourcing being planned will allow them to operate as intended. There is every prospect that the Fund will continue to pay pensions on time and in full in accordance with its ultimate purpose. I view that as a tribute to the hard work put in by Officers, Committee and Local Pension Board members past and present over the past two years in particular.

William Bourne

Independent Advisor

8th April 2021

13. 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

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Joint Committee (JC) has been appointed by the eleven Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool-aligned asset providers (for passive asset management), to the Administering Authorities. The Joint Committee also reviews ongoing performance.

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

The Joint Committee is further supported by the Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group consists of officers with specialist LGPS investment skills, identified by each of 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 and supplier relationship, administration and technical support services. 2020/21 saw the approval of two additional roles to increase support capacity of the ASU which is hosted by Essex County

Council. Appointments were made to these positions in March 2021 and July 2021.These roles are also supplemented with additional technical support from Officers within the ACCESS Authorities.

The diagram below is an extract from the ACCESS governance model below:

The Operator

Appointed in 2018 Link Fund Solutions Ltd (Link) provide the 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

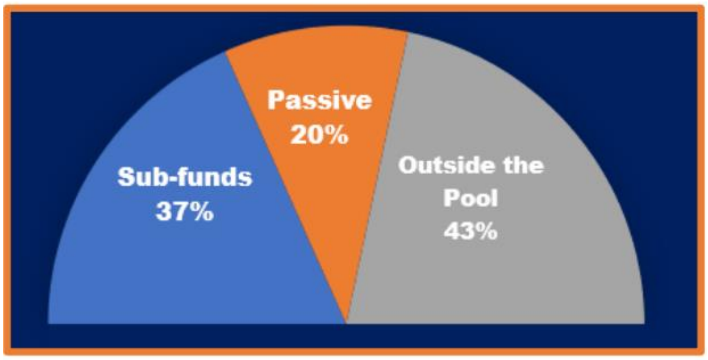
Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

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. ACCESS has to exceed these milestones with an additional £4 billion of assets pooled and greater savings of £8 million

.As at 31 March 2021, 57% of assets have been pooled:



Pooled Assets

As at 31 March 2021, ACCESS has pooled the following assets:

	£ billion
Passive investments*	11.1
UK Equity Funds	2.2
Global Equity Funds	14.6
UK Fixed Income	2.1
Diversified Growth	1.5
Total Pooled Investments	**31.5**

*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 2020/21

- Approval and launch of a range of sub-funds reflecting the strategic asset allocation needs of the ACCESS Funds.
- Provision of updates of progress of pooling to Government.
- Appointment of Engine MHP to review and advise in the further development of the Communications Policy.
- Appointment of Minerva to provide advice and guidance to develop Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the second investor day for Elected members and officers of the individual Authorities. There were presentations by Link Fund Solutions as the ACS operator and Northern Trust as the depositary.
- Determined an approach to pooling and managing the illiquid assets covering private equity, private debt, infrastructure and property.
- Additional resources appointed to the ASU to support the activities of the ACCESS Pool.

Objectives for 2021/22

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 2021/22 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.
- Finalise and implement the Environmental, Social and Governance and Responsible Investment guidelines for 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 2020/21 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. 2020/21 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.

	2020/21		2020/21	
	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	863	1,079	3,071	3,548
Operator & Depository Costs	3,672	4,077	7,304	6,577
Total Costs	**4,535**	5,156	**12,873**	**14,024**
Pool Fee Savings	(21,747)	(13,600)	(42,262)	(32,050)
Net (Savings Realised)/Costs	**(17,212)**	**(8,444)**	**(29,389)**	**(18,026)**

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 2020/21 fee savings have been calculated using the CIPFA price variance methodology and based on the average asset values over the year. This approach highlights the combined level of investment fee savings, across all ACCESS 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 an enhanced level of 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					
Transaction Costs £000					
Custody £000					
Other Costs £000					
Total £000					

* 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 environmental 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.

ACCESS has reviewed its own ESG/RI guidelines to reflect both the requirements of the Authorities and the expectations associated with this fundamental aspect of institutional investment. Minerva have been appointed as part of this review to provide advice on guidelines and implementing these in a pooling environment.

Minerva will also provide advice on future appropriate reporting requirements to provide transparency to stakeholders, monitor adherence to the Guidelines and inform discussion on ESG/RI matters.

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 868 meetings on 11,351 resolutions.

14. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

2019/20				2020/21	
£000	£000		Notes	£000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(99,018)		From Employers		(100,042)	
(31,403)		From Members		(31,435)	
	(130,421)				(131,477)
	(8,298)	Transfers in from other pension funds	8		(6,044)
	(138,719)				**(137,521)**
	125,670	Benefits	9		128,707
	8,596	Payments to and on account of leavers	10		5,561
	134,266				**134,268**
	(4,453)	**Net (additions)/withdrawals from dealings with members**			**(3,253)**
	17,333	Management expenses	11		17,296
	12,880	**Net (additions)/withdrawals including fund management expenses**			**14,043**
		Returns on investments			
	(26,546)	Investment income	12		(39,089)
	59	Taxes on income	13a		19
	166,725	Profit and losses on disposal of investments and changes in the value of investments	14a		(739,914)
	140,238	**Net return on investments**			**(778,984)**
	153,118	**Net (increase)/decrease in net assets available for benefits during the year**			**(764,941)**
	(3,632,212)	Opening net assets of the scheme			(3,479,094)
	(3,479,094)	**Closing net assets of the scheme**			**(4,244,035)**

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

31 March 2020 £000		Notes	31 March 2021 £000
3,401,666	Investment assets	14	4,173,990
340	Other Investment balances	21	357
(475)	Investment liabilities	22	(775)
63,715	Cash deposits	14	56,736
3,465,246	**Total net investments**		**4,230,308**
16,622	Current assets	21	15,675
(2,774)	Current liabilities	22	(1,948)
3,479,094	**Net assets of the fund available to fund benefits at the year end.**		**4,244,035**

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 2021 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

18 October 2021

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2021

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 Scheme Manager”). 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 2020/21 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.

The Fund 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.

The Fund 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 the Fund and its advisers meet 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 127 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2020	31 March 2021
Number of employers with active members	128	127
Number of employees		
County Council	7,980	8,163
Other employers	15,855	16,839
Total	**23,835**	**25,002**
Number of pensioners		
County Council	9,500	9,805
Other employers	11,835	12,425
Total	**21,335**	**22,230**
Deferred pensioners		
County Council	13,860	13,805
Other employers	17,762	17,429
Total	**31,622**	**31,234**
Total number of members in pension scheme	**76,792**	**78,466**

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 2021. 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 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector. The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, 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. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

There were no amendments for 2020/21 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 the 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 Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance and Compliance Policy Statement and Communications Policy Statement. Copies can be obtained by contacting the Council's Pensions team or alternatively are available from https://www.eastsussexpensionfund.org/

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 there is 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 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 2020/21, £0.8m of fees is based on such estimates (2019/20: £0.3m).

Net assets statement

g) Financial assets

All investment assets are included in the financial statements 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 the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a. Any gains or losses on investment sales arising from changes in the fair value of the 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 2021 was £265 million (£229 million at 31 March 2020).

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 is 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 reported amounts. Estimates and assumptions are made take into account historical experience, current trends and other relevant factors. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	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 pandemic there is an increase in the uncertainty around the mortality 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 £25 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 £265.0 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.
Illiquid investments including Infrastructure and Pooled investments	These investments are valued at fair value utilising market data from comparable debt, Commercial mortgage-backed securities (CMBS) market and sector curves to appropriately benchmark the investments. Due to volatility in the market with COVID-19 CMBS have been excluded at 31 March 2021 due to limited market data being available. This affects investments valued at 31 March 2021 of £42.4m. The total value of the fund assets at 31 March 2021 is £4,244.0m, so this investment type represents just under 1.0% of total assets.	The total pooled investments affected in the financial statements is £42.2 million. There is a risk that this investment may be under or overstated in the accounts due to the use of the estimates applied in the valuation by the fund manager. The sensitivity of this figure is discussed further in Note 16.

6: Events after the balance sheet date

There have been no events since 31 March 2021, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2019/20 £000	2020/21 £000
By category		
Employee's contributions	31,403	31,435
Employer's contributions		
Normal contributions	80,302	83,643
Deficit recovery contributions	17,662	15,336
Augmentation contributions	1,054	1,063
Total	**130,421**	**131,477**
By authority		
Scheduled bodies	83,613	84,803
Admitted bodies	4,303	3,653
Administrative Authority	42,505	43,021

	2019/20	2020/21
Total	**130,421**	**131,477**

8: Transfers in from other pension funds

	2019/20 £000	2020/21 £000
Group transfers	-	-
Individual transfers	8,298	6,044
Total	**8,298**	**6,044**

9: Benefits payable

	2019/20 £000	2020/21 £000
By category		
Pensions	104,544	108,927
Commutation and lump sum retirement benefits	18,555	17,194
Lump sum death benefits	2,571	2,586
Total	**125,670**	**128,707**
By authority		
Scheduled bodies	73,625	76,492
Admitted bodies	3,690	3,781
Administrative Authority	48,355	48,434
Total	**125,670**	**128,707**

10: Payments to and on account of leavers

	2019/20 £000	2020/21 £000
Refunds to members leaving service	389	242
Group transfers	-	-
Individual transfers	8,207	5,319
Total	**8,596**	**5,561**

11: Management expenses

	2019/20 £000	2020/21 £000
Administrative costs	1,106	1,680
Investment management expenses	15,019	13,785
Oversight and governance costs	1,208	1,831
Total	**17,333**	**17,296**

11a: Investment management expenses

2020/21	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Bonds	38	14	-	24
Equities	802	113	-	689
Pooled investments				
Fixed Income	1,769	1,769	-	-
Equity	2,872	2,593	-	279
Diversified growth funds	3,373	3,373	-	-
Pooled property investments	1,307	1,307	-	-
Private equity / infrastructure	3,563	3,563	-	-
	13,724	**12,732**	**-**	**992**
Custody	**61**			

Total	**13,785**			

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

2019/20	Total **£000**	Management Fees **£000**	Performance Related Fees **£000**	Transaction costs* **£000**
Bonds	18	18	-	-
Equities	-	-	-	-
Diversified growth	2,131	1,942	-	189
Pooled investments	-	-	-	-
Fixed Income	1,298	1,298	-	-
Equity	1,843	1,843	-	-
Diversified growth funds	2,876	2,846	-	30
Pooled property investments	1,652	1,652	-	-
Private equity / infrastructure	5,147	5,147	-	-
	14,965	**14,746**	**-**	**219**
Custody	**54**			
Total	**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 2020/21 of £2.2m (£3.7m in 2019/20) on its private equity investments, fees of £1.1m (£1.3m in 2019/20) on its infrastructure investments, fees of £5.1m (£2.6m in 2019/20) on investments in the ACCESS Pool and fees of £1.9m (£3.0m in 2019/20) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2019/20 **£000**	**2020/21** **£000**
Income from bonds	154	122
Income from equities	1,507	654
Private equity/Infrastructure income	1,531	1,458
Pooled property investments	11,972	9,584
Pooled investments - unit trusts and other managed funds	10,705	25,402
Interest on cash deposits	673	1,869
Class Actions	4	-
Total	**26,546**	**39,089**

13: Other fund account disclosures

13a: Taxes on income

	2019/20 **£000**	**2020/21** **£000**
Withholding tax – equities	(59)	(19)
Total	**(59)**	**(19)**

13b: External audit costs

	2019/20 **£000**	**2020/21** **£000**
Payable in respect of external audit for 2018/19	3*	-
Payable in respect of external audit for 2019/20	27	5**
Payable in respect of external audit for 2020/21	-	35
Payable in respect of other services	5	5
Total	**35**	**45**

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

** The final fee for 2019/20 was agreed after the audit opinion was received for 2019/20

14: Investments

	2019/20 £000	2020/21 £000
Investment assets		
Bonds	212,331	128,765
Pooled Investments		
Fixed Income	413,943	485,996
Equity	1,332,597	1,864,834
Diversified growth funds	833,253	1,002,298
Pooled property investments	318,129	319,533
Private equity/infrastructure	291,413	372,564
Derivative contracts:		
Forward Currency Contracts	-	-
	3,401,666	**4,173,990**
Cash deposits with Custodian	63,715	56,736
Other Investment balances (Note 21)	340	357
Total investment assets	**3,465,721**	**4,231,083**
Investment Liabilities (Note 22)	(475)	(775)
Derivative contracts:		
Forward Currency Contracts	-	-
Total Investment Liabilities	**(475)**	**(775)**
Net investment assets	**3,465,246**	**4,230,308**

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2020 £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 2021 £000
Bonds	**212,331**	-	(92,246)	8,680	**128,765**
Equities	**-**	618,587	(534,059)	(84,528)	**-**
Pooled investments	**2,579,793**	253,354	(246,139)	766,120	**3,353,128**
Pooled property investments	**318,129**	11,928	(9,059)	(1,465)	**319,533**
Private equity/infrastructure	**291,413**	77,295	(47,943)	51,799	**372,564**
	3,401,666	**961,164**	**(929,446)**	**740,606**	**4,173,990**
Derivative contracts					
■ Forward currency contracts	**-**	575	(162)	(413)	**-**
	3,401,666	**961,739**	**(929,608)**	**740,193**	**4,173,990**
Other investment balances:					
■ Cash deposits	**63,715**			**(279)**	**56,736**
■ Other Investment Balances	**340**				**357**
■ Investment Liabilities	**(475)**				**(775)**
Net investment assets	**3,465,246**			**739,914**	**4,230,308**

	Market value 1 April 2019	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 2020
	£000	£000	£000	£000	£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)**	**(169,221)**	**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**

14b: Investments analysed by fund manager

	Market value 31 March 2020		Market value 31 March 2021	
	£000	£000	£000	%
Investments in the ACCESS Pool				
ACCESS - Global Equity (Longview)	238,840	6.9%	458,786	10.8%
ACCESS - Absolute Return (Ruffer)	418,469	12.1%	510,048	12.1%
ACCESS - Real Return (Newton)	414,784	12.0%	492,250	11.6%
ACCESS - Corporate Debt (M&G)	144,259	4.2%	158,430	3.7%
	1,216,352	**35.2%**	**1,619,514**	**38.2%**
Investments held directly by the Fund				
East Sussex Pension Fund Cash	24,736	0.7%	30,674	0.7%
UBS Infrastructure Fund	16,720	0.5%	37,697	0.9%
Prudential Infracapital	20,676	0.6%	32,707	0.8%
Pantheon	30,109	0.9%	38,120	0.9%
Schroders Property*	343,707	9.9%	344,204	8.1%
Harbourvest Strategies	106,192	3.1%	110,515	2.6%
Adams St Partners	122,874	3.5%	154,497	3.7%
M&G Absolute Return Bonds	239,101	6.9%	285,150	6.7%
UBS Passive Funds	1,305,987	37.6%	557,483	13.3%
M&G Real Estate Debt VI	38,793	1.1%	42,416	1.0%
Atlas Infrastructure	-	-	77,324	1.8%
Storebrand Smart Beta & ESG	-	-	454,529	10.7%
Wellington Active Impact Equity	-	-	222,751	5.3%
WHEB Active Impact Equity			222,727	5.3%
	2,248,894	**64.8%**	**2,610,794**	**61.8%**
	3,465,246		**4,230,308**	

* 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.

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

Security	Market Value 31 March 2020	% of total fund	Market value 31 March 2021	% of total fund
	£000		£000	
ACCESS - Absolute Return (Ruffer)	418,469	12.1%	510,048	12.1%
ACCESS - Global Equity (Longview)	238,840	6.9%	492,250	11.6%
ACCESS - Real Return (Newton)	414,784	12.0%	458,786	10.8%
Storebrand Smart Beta & ESG Fund	-	-	454,529	10.7%
M&G Absolute Return Bonds	239,101	6.9%	285,150	6.7%
Wellington Active Impact Equity Fund	-	-	222,751	5.3%
WHEBActive Impact Equity Fund	-	-	222,727	5.3%
UBS Over 5 year Index Gilt Linked	212,331	6.1%	128,765	3.0%
UBS UK Equity	221,992	6.4%	66,680	1.6%
UBS Fundamental Index	363,155	10.4%	-	-

14c: 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.

The East Sussex Pension Fund did not hold any derivatives as at 31st March 2021 (nil as at 31 March 2020).

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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
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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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.
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 consequential potential impact on the closing value of investments held at 31 March 2021 and 31 March 2020.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investment (a)	9%	42,416	46,233	38,599
Pooled property investments (b)	13%	319,533	361,072	277,994
Private Equity/Infrastructure (c)	25%	372,564	464,960	280,168
Total		**734,513**	**872,265**	**596,761**

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%	291,413	370,095	212,731
Total		**640,125**	**764,884**	**515,366**

(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 9% 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 13% 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 25% is caused by how this profitability is measured.

16a: Fair value hierarchy

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.

Values at 31 March 2021	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	357	3,439,477	734,513	4,174,347
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(775)	-	(775)
Net investment assets	**357**	**3,438,702**	**734,513**	**4,173,572**

Values at 31 March 2020	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £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**

16b: Transfers between levels 1 and 2

During 2020/21 the Fund has transferred 1 financial assets between levels 1 and 2. This was the Fund’s UK Passive Fund with UBS (£66.7m) which was moved to level 2 from level 1 as the Fund assessment was that this was more aligned to the Pooled investments – Equity and bonds Fund’s category and as the valuation is advised as a unit price.

16c: Reconciliation of fair value measurements within level 3

Period 2020/21	Market value 1 April 2020 £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 2021 £000
Pooled investments	**30,583**	-	-	18,074	(6,715)	474	-	**42,416**
Pooled property investments	**318,129**	-	-	11,928	(9,274)	(4,459)	3,209	**319,533**
Private Equity/Infrastructure	**291,413**	-	-	77,295	(47,943)	24,207	27,592	**372,564**
Total	**640,125**	**-**	**-**	**107,297**	**(63,932)**	**20,222***	**30,801***	**734,513**

*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	566,319	122,572	**688,891**
3	20,222	30,801	**51,023**
Total	**586,541**	**153,373**	**739,914**

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)**

17: 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.

31 March 2020				31 March 2021		
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**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
212,331	-	-	Bonds	128,765	-	-
-	-	-	Equities	-	-	-
2,579,793	-	-	Pooled investments	3,353,128	-	-
318,129	-	-	Pooled property investments	319,533	-	-
291,413	-	-	Private equity/infrastructure	372,564	-	-
-	-	-	Derivative contracts	-	-	-
-	63,715	-	Cash	-	56,736	-
-	1,746	-	Cash held by ESCC*	-	1,560	-
340	-	-	Other investment balances	357	-	-
-	14,876	-	Debtors *	-	14,115	-
3,402,006	**80,337**	**-**	**Total Financial Assets**	**4,174,347**	**72,411**	**-**
			Financial liabilities			
-	-	-	Derivative contracts	-	-	-
(475)	-	-	Other investment balances	(775)	-	-
-	-	-	Cash held by ESCC	-	-	-
-	-	(2,774)	Creditors	-	-	(1,948)
(475)	**-**	**(2,774)**	**Total Financial Liabilities**	**(775)**	**-**	**(1,948)**
3,401,531	**80,337**	**(2,774)**	**Total Financial Instruments**	**4,173,572**	**72,411**	**(1,948)**

*Reconciliation to Current Assets Note 21

	2019/20	2020/21
	£000	£000
Cash held by ESCC	1,746	1,560
Debtors	14,876	14,115
Current Assets	**16,622**	**15,675**

17a: Net gains and losses on financial instruments

	31 March 2020 £000	31 March 2021 £000
Financial assets		
Fair value through profit and loss	(167,355)	740,512
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	665	(598)
Financial liabilities		
Fair value through profit and loss	(35)	-
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	**(166,725)**	**739,914**

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 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 forecast cash flows. The Fund manages these investment risks as part of its overall risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension 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's 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 2020/21 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	12%
Other Bonds	5%
UK Equities	20%
Global Equities	21%
Absolute Return	13%
Pooled Property Investments	13%
Private Equity	30%
Infrastructure Funds	12%

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 2021 £000	Value on increase £000	Value on decrease £000
Index Linked	128,765	143,573	113,957
Other Bonds	485,996	512,310	459,682
UK Equities	825,342	990,410	660,274
Global Equities	1,039,492	1,257,785	821,199
Absolute Return	1,002,298	1,127,585	877,011
Pooled Property Investments	319,533	361,072	277,994
Private Equity	264,039	343,251	184,827
Infrastructure Funds	108,525	121,548	95,502
Net Derivative Assets	-	-	-
Total assets available to pay benefits	**4,173,990**	**4,857,534**	**3,490,446**

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**

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 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 2021 and 31 March 2020 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 2021	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	56,736	56,736	56,736
Cash balances	1,560	1,560	1,560
Fixed interest securities	485,996	490,856	481,136
Index linked securities	128,765	128,765	128,765
Total change in assets available	**673,057**	**677,917**	**668,197**

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**

Income Source	Interest receivable 2020/21	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	1,869	2,452	1,286
Fixed interest securities	14,072	14,072	14,072
Index linked securities	122	1,410	(1,166)
Total change in assets available	**16,063**	**17,934**	**14,192**

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**

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 pound 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 10%. A 10% 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 2021	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unit trusts	2,326,940	225,713	2,552,653	2,101,227
Total change in assets available	**2,326,940**	**225,713**	**2,552,653**	**2,101,227**

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**

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 2020 £000	Asset value as at 31 March 2021 £000
UK Treasury bills	86	-
Overseas Treasury bills		23,531
Bank current accounts		
NT custody cash accounts	63,629	33,205
Total overseas assets	**63,715**	**56,736**

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 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 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 2021 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

Introduction

The last full triennial valuation of the East Sussex County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.
- The Fund had a funding level of 107% i.e. the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
Base tables	Based on Club Vita analysis
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements *Males* *Females*	 0.5% p.a. 0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a.

below the 20 year point on the BoE implied inflation curve. This update was made following the Government’s response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund’s long term investment strategy and therefore reflects the long term expected return on assets for the Fund. We have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund’s funding position. It is expected that COVID-related deaths will not have a material impact on the Fund’s current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund’s mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, we estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equites due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The Fund could opt to monitor the funding level using LGPS Monitor on a regular basis.

20: Actuarial present value of promised retirement benefits

Introduction

We have been instructed by East Sussex County Council, the administering authority to the East Sussex County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2021. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund’s auditor.

This is the first accounting period for which the report has been prepared by Barnett Waddingham LLP; previous disclosures were prepared by Hymans Robertson LLP and we have relied on those disclosures as being accurate in the preparation of this report.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

An allowance was made for the potential impact of the McCloud & Sargeant judgement in the results provided to the Fund at the last accounting date and therefore is already included in the starting position for this report. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from East Sussex County Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes and the results of the 31 March 2020 IAS26 report which was prepared for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2021;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2019, 31 March 2020 and 31 March 2021; and
- Details of any new early retirements for the period to 31 March 2021 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Fund membership statistics

The table below summarises the membership data, as at 31 March 2019.

Member data summary	Number	Salaries/Pensions £000	Average age
Active members	22,718	414,051	52
Deferred pensions	36,094	43,738	51
Pensioners	20,328	102,766	69

The average ages shown are weighted by liability.

Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2021.

We have been notified of 105 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £1,012,200.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2021 is estimated to be 22.56%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for East Sussex County Council Pension Fund as at 31 March 2021 is as follows:

Asset breakdown	31 Mar 2021		31 Mar 2020	
	£000s	%	£000s	%
Equities	3,227,118	76%	2,460,325	71%
Bonds	627,339	15%	589,092	17%
Property	319,533	8%	346,525	10%
Cash	70,882	2%	69,305	2%
Total	**4,244,872**	**100%**	**3,465,247**	**100%**

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2021 may be different from that shown due to estimation techniques.

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2021, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

A full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2021 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2021 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

This has been updated since the last accounting date when the results were based on a continuation of the roll forward from the 31 March 2016 funding valuation.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. We have allowed for actual pension increase experience for the period from 2019-2021. This assumes that pension increases are in line with the annual pension increases set by HM Treasury Revaluation Order.

As a result of allowing for actual experience, an experience item is observed in the reconciliation to 31 March 2021, as shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here Consultation on indexation and equalisation of GMP in public service pension schemes - GOV.UK (www.gov.uk)

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here Indexation of public service pensions - GOV.UK (www.gov.uk).

The valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables have been constructed based on Club Vita analysis. These base tables are projected using the CMI_2020 Model, with a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.0, an initial addition parameter of 0.5% p.a. for males and 0.25% p.a. for females, and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

Our view is that placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. Therefore we have updated to use the CMI_2020 Model with a 2020 weight parameter of 25%. At the last accounting date, the CMI_2018 Model was adopted. The effect on the Employer's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below, and the effect on the assumed life expectancies is demonstrated in the table below.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2021 (after CMI_2020 update)	31 Mar 2021 (before CMI_2020 update)
Retiring today		
Males	21.1	21.4
Females	23.7	23.9
Retiring in 20 years		
Males	21.9	22.4
Females	25.0	25.2

We have also assumed that:

- Members will exchange half of their commutable pension in respect of pre-April 2008 service and 75% of their commutable pension in respect of their post 2008 service, for cash at retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;
- Members retire following the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators.; and
- 1% of active members will take up the option to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Year ended	31 Mar 2021 % p.a.	31 Mar 2020 % p.a.
Discount Rate	1.95%	2.30%
Pension Increase Rate	2.85%	1.90%
Salary Increase rate	2.85%	1.90%

These assumptions are set with reference to market conditions at 31 March 2021.

Our estimate of the Fund's past service liability duration is 17 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). At the previous accounting date a "Hymans Robertson" corporate bond yield curve was constructed based on the constituents of the iBoxx AA corporate bond index.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. At the previous accounting date cashflow weighted single RPI rates were derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined in the accounting disclosure.

The BoE implied inflation curve may suggest a higher rate of inflation, over longer terms, than actually expected by market participants due to a willingness to accept a lower return on investments to ensure inflation linked returns. To reflect this, we include an Inflation Risk Premium (IRP) adjustment such that our assumed level of future annual RPI increase is 0.25% p.a. lower than the SEIR calculated using the BoE inflation curve alone. This differs from the previous accounting date. The impact of this change in derivation on the liability value is shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.40% p.a. below RPI i.e. 2.85% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Fund's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue. The impact of this change in derivation on the liability value is shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

Salaries are assumed to increase at 0.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.

Results and disclosures

We estimate that the net liability as at 31 March 2021 is a liability of £1,364,741,000.

The results of our calculations for the year ended 31 March 2021 are set out below.

The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Statement of financial position as at 31 March 2021

Net pension asset as at	31 Mar 2021 £000s
Present value of defined benefit obligation	5,609,613
Fair value of Fund assets (bid value)	4,244,872
Deficit / (Surplus)	**1,364,741**
Present value of unfunded obligation	-
Unrecognised past service cost	-
Impact of asset ceiling	-
Net defined benefit liability / (asset)	**1,364,741**

*Present value of funded obligation consists of £5,607,717,000 in respect of vested obligation and £0 in respect of non-vested obligation.

Asset and benefit obligation reconciliation for the year to 31 March 2021

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	31 Mar 2021 £000s
Opening defined benefit obligation	**4,378,000**
Current service cost	151,881
Interest cost	99,610
Change in financial assumptions	1,202,783
Change in demographic assumptions	(71,775)
Experience loss/(gain) on defined benefit obligation	(55,900)
Liabilities assumed / (extinguished) on settlements	-
Estimated benefits paid net of transfers in	(128,225)
Past service costs, including curtailments	3,809
Contributions by Scheme participants	29,430
Unfunded pension payments	-
Closing defined benefit obligation	**5,609,613**

The change in financial assumptions item includes the change in derivation of future assumed RPI and CPI inflation as noted above. These changes have resulted in a gain of £3,382,820,000 on the defined benefit obligation; comprising a gain of £410,211,000 from the change in assumed IRP and a gain of £2,972,609,000 from the change in the assumed gap between RPI and CPI inflation.

Reconciliation of opening & closing balances of the fair value of Fund assets	31 Mar 2021 £000s
Opening fair value of Fund assets	**3,465,246**
Interest on assets	79,719
Return on assets less interest	701,817
Other actuarial gains/(losses)	-
Administration expenses	(3,496)
Contributions by employer including unfunded	100,381
Contributions by Scheme participants	29,430
Estimated benefits paid plus unfunded net of transfers in	(128,225)
Settlement prices received / (paid)	-
Closing Fair value of Fund assets	**4,244,872**

The total return on the Fund's assets for the year to 31 March 2021 is £781,536,000.

Sensitivity Analysis

Sensitivity Analysis	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	5,609,613	
Sensitivity to	**+0.1%**	**-0.1%**
Discount rate	5,514,731	5,706,223
Long term salary increase	5,618,061	5,601,211
Pension increases and deferred revaluation	5,696,828	5,523,865
Sensitivity to	**+1 Year**	**- 1 Year**
Life expectancy assumptions	5,879,433	5,352,534

21: Current assets

	31 March 2020 £000	31 March 2021 £000
Other Investment Balances		
Sales including Currency	-	-
Investment Income Due	193	82
Recoverable Taxes	147	275
Total	**340**	**357**

	31 March 2020 £000	31 March 2021 £000
Current Assets		
Contributions receivable from employers and employees	13,436	10,870
Sundry Debtors	1,440	3,245
Cash	1,746	1,560
Total	**16,622**	**15,675**

22: Current liabilities

	31 March 2020 £000	31 March 2021 £000
Investment Liabilities		
Purchases including currency	-	-
Managers Fees	(475)	(775)
Total	**(475)**	**(775)**

	31 March 2020 £000	31 March 2021 £000
Current Liabilities		
Pension Payments (including Lump Sums)	(264)	(184)
Cash	-	-
Professional Fees	(434)	(64)
Administration Recharge	(1,194)	(51)
Sundry Creditors	(882)	(1,649)
Total	**(2,774)**	**(1,948)**

23: Additional voluntary contributions

	Market value 31 March 2020 £000	Market value 31 March 2021 £000
Prudential	21,221	17,696

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2020/21 the AVC provider changed some back office systems which have caused them unforeseen complications and have therefore been unable to provide the Pension Fund with a complete statement for the 2020/21 financial year. The AVC provider has released an estimate of the value of the Funds whilst they are ensuring the back office system is operating as expected.

Information relating to the values at the 31 March 2020 are provided here. Some members of the pension scheme paid voluntary contributions and transfers in of £2.277m to Prudential to buy extra pension benefits when they retire. £3.050m was disinvested from the AVC provider in 2019/20. 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.

	2019/20 £000	2020/21 £000
East Sussex County Council	4,899	4,793
Brighton & Hove City Council	2,291	2,261
Eastbourne Borough Council	304	308
Magistrates	209	212
Hastings Borough Council	174	175
Wealden District Council	176	174
Rother District Council	115	111
Lewes District Council	73	71
South East Water	35	29
Brighton University	26	24
Mid-Sussex District Council	19	19
Westminster (used to be LPFA)	18	18
East Sussex Fire Authority	17	17
Capita Hartshead	16	14
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	6	6
West Midlands Pension Fund	5	5
West Sussex County Council	4	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
East Sussex College Group	1	1
Plumpton College	1	1
Eastbourne Homes*	6	-
Newhaven TC	1	-
Total	**8,420**	**8,267**

***** Eastbourne Homes liabilities have been included in the Eastbourne Borough Council figures for 2020/21.

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 £1.9m to the Fund in 2020/21 (£1.2m in 2019/20). The Council`s contribution to the Fund was £43.0m in 2020/21 (£42.5 in 2019/20). All amounts due to the Fund were paid in the year. At 31 March 2021 the Pension Fund bank account held £1.6m in cash (£1.7m at 31 March 2020). The average throughout the year was £8.4m (£6.0 in 2019/20).

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 2020 £000	31 March 2021 £000
Short-term benefits	18	26
Post-employment benefits	3	5
Total	**21**	**31**

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2021 totalled £232.3m (31 March 2020: £322.0m).

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 2021, the unfunded commitment was £122.0m for private equity, £91.6m for infrastructure and £18.7 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 2021.

Exit Payments

There were 6 employers whose contracts were due to end by the 31 March 2021 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 completed the discovery and GMP reconciliation phases, which reviewed data inconsistencies, raised issues with HMRC and agreed outcomes. 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% p.a. 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% p.a.

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. The next stage which is GMP Rectification, will amend LGPS pensions in line with the reconciled GMP information. Rectification will also involve a significant member communication exercise to explain the changes taking place.

HMRC have only recently provided the final reports required to complete the reconciliation so this means that the rectification stage has been delayed until now. The contracted provider Mercer are currently commencing the rectification project with the aim of completing the project by the 31st October 2021 at the latest. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2021

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:

- 9 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantees;
- 1 deposit held by East Sussex County Council

At 31 March 2021, the Fund has invested £354.5 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £41.3 million in the M&G real estate debt fund VI and £116.8 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 2020/21, the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	20.8	-	20.3	-	19.8	-
East Sussex County Council	17.6	6,141	17.6	5,568	17.6	4,966
East Sussex Fire and Rescue Service	17.9	164	17.9	137	17.9	109
Eastbourne Borough Council	19.9	-	19.4	-	18.9	-
Hastings Borough Council	17.6	538	17.6	508	17.6	476
Lewes District Council	24.1	-	23.6	-	23.1	-
Rother District Council	26.1	-	25.6	-	25.1	-
University of Brighton	18.2	-	17.7	-	17.2	-
Wealden District Council	17.6	576	17.6	538	17.6	499
Other Scheduled Bodies						
Arlington Parish Council	22.1	-	21.6	-	21.1	-
Battle Town Council	22.1	-	21.6	-	21.1	-
Berwick Parish Council	22.1	-	21.6	-	21.1	-
Buxted Parish Council	22.1	-	21.6	-	21.1	-
Camber Parish council	22.1	-	21.6	-	21.1	-
Chailey Parish Council	22.1	-	21.6	-	21.1	-
Chiddingly Parish Council	22.2	-	21.6	-	21.1	-
Conservators of Ashdown Forest	22.1	-	21.6	-	21.1	-
Crowborough Town Council	22.1	-	21.6	-	21.1	-
Danehill Parish Council	22.1	-	21.6	-	21.1	-
Ditchling Parish Council	22.1	-	21.6	-	21.1	-
Fletching Parish Council	22.1	-	21.6	-	21.1	-
Forest Row Parish Council	22.1	-	21.6	-	21.1	-
Frant Parish Council	22.1	-	21.6	-	21.1	-
Hadlow Down Parish Council	22.1	-	21.6	-	21.1	-
Hailsham Town Council	22.1	-	21.6	-	21.1	-
Hartfield Parish Council	22.1	-	21.6	-	21.1	-
Heathfield & Waldron Parish Council	22.1	-	21.6	-	21.1	-
Herstmonceux Parish Council	22.1	-	21.6	-	21.1	-
Hurst Green Parish Council	22.1	-	21.6	-	21.1	-
Icklesham Parish Council	22.1	-	21.6	-	21.1	-
Isfield Parish Council	22.1	-	21.6	-	21.1	-
Lewes Town Council	22.1	-	21.6	-	21.1	-
Maresfield Parish Council	22.1	-	21.6	-	21.1	-

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Newhaven Town Council	22.1	-	21.6	-	21.1	-
Newick Parish Council	22.1	-	21.6	-	21.1	-
Peacehaven Town Council	22.1	-	21.6	-	21.1	-
Pett Parish Council	22.1	-	21.6	-	21.1	-
Plumpton Parish Council	22.1	-	21.6	-	21.1	-
Ringmer Parish Council	22.1	-	21.6	-	21.1	-
Rye Town Council	22.1	-	21.6	-	21.1	-
Salehurst & Robertsbridge Parish Council	22.1	-	21.6	-	21.1	-
Seaford Town Council	22.1	-	21.6	-	21.1	-
Telscombe Town Council	22.1	-	21.6	-	21.1	-
Uckfield Town Council	22.1	-	21.6	-	21.1	-
Wartling Parish Council	22.1	-	21.6	-	21.1	-
Willingdon and Jevington Parish Council	22.1	-	21.6	-	21.1	-
Wivelsfield Parish Council	22.1	-	21.6	-	21.1	-
Academy Schools						
Annecy Catholic Primary Academy	15.5	-	15.0	-	14.5	-
Aquinas Trust	21.0	-	20.5	-	20.0	-
ARK Schools Hastings	20.6	-	20.1	-	19.6	-
Aurora Academies Trust	20.4	-	19.9	-	19.4	-
Beacon Academy	23.0	-	22.5	-	22.0	-
Beckmead Ropemakers Academy	16.3	-	16.3	-	16.3	-
Bexhill Academy	22.9	-	22.4	-	21.9	-
Bilingual Primary School	15.6	-	15.1	-	14.6	-
Breakwater Academy	17.0	-	16.5	-	16.0	-
Burfield Academy (Hailsham Primary)	20.0	-	19.5	-	19.0	-
Cavendish Academy	20.5	-	20.0	-	19.5	-
Diocese of Chichester Academy Trust	24.4	-	23.9	-	23.4	-
Eastbourne Academy	21.2	-	20.7	-	20.2	-
Falmer (Brighton Aldridge Community Academy)	20.0	-	19.5	-	19.0	-
Gildredge House Free School	19.6	-	19.1	-	18.6	-
Glyne Gap Academy	21.4	-	20.9	-	20.4	-
Hailsham Academy	20.0	-	19.5	-	19.0	-
Hawkes Farm Academy	16.4	-	15.9	-	15.4	-
High Cliff Academy	20.0	-	19.5	-	19.0	-
Jarvis Brook Academy	14.5	-	14.0	-	13.5	-
King's Church of England Free School	16.2	-	15.7	-	15.2	-
Langney Primary Academy	13.4	-	12.9	-	12.4	-
Ore Village Academy	18.5	-	18.0	-	17.5	-
Parkland Infant Academy	14.8	-	14.3	-	13.8	-
Parkland Junior Academy	14.4	-	13.9	-	13.4	-
Peacehaven Academy	13.0	-	12.5	-	12.0	-
Pebsham Academy	19.5	-	19.0	-	18.5	-
Phoenix Academy	20.4	-	19.9	-	19.4	-
Portslade Aldridge Community Academy	19.9	-	19.4	-	18.9	-
King's Academy Ringmer	20.8	-	20.3	-	19.8	-
SABDEN Multi Academy Trust	23.6	-	23.1	-	22.6	-
Saxon Shore Academy	22.7	-	22.7	-	22.7	-
Seaford Academy	21.1	-	20.6	-	20.1	-
Seahaven Academy	21.5	-	21.0	-	20.5	-
Shinewater Primary Academy	14.5	-	14.0	-	13.5	-
Sir Henry Fermor Academy	14.8	-	14.3	-	13.8	-
The South Downs Learning Trust	12.2	-	11.7	-	11.2	-
The Southfield Trust	14.4	-	13.9	-	13.4	-

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Torfield & Saxon Mount Academy Trust	22.6	-	22.1	-	21.6	-
University of Brighton Academies Trust	20.0	-	19.5	-	19.0	-
White House Academy	17.5	-	17.0	-	16.5	-
Colleges						
Bexhill College	21.2	-	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	19.8	-	19.8	-	19.8	-
East Sussex College Group	20.7	-	20.7	-	20.7	-
Plumpton College	18.9	-	18.9	-	18.9	-
Varndean Sixth Form College	19.8	-	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	33.0	11	33.0	-	33.0	-
Biffa Muncipal Ltd	28.8	-	28.8	-	28.8	-
Brighton and Hove CAB	0.00	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	0.0	-	0.0	-	0.0	-
Care Quality Commission	49.2	92	49.2	92	49.2	92
Churchill St Leonards	29.7	-	29.7	-	29.7	-
Churchill St Pauls	34.1	-	34.1	-	34.1	-
De La Warr Pavilion Charitable Trust	4.8	-	4.8	-	4.8	-
Eastbourne Homes - SEILL	19.2	-	19.2	-	19.2	-
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	29.2	13	29.2	13	29.2	13
EBC - Towner	31.0	7	31.0	7	31.0	7
ESCC - NSL Ltd	3.6	-	3.6	-	3.6	-
Glendale Grounds Management Ltd	29.4	-	29.4	-	29.4	-
Grace Eyre	0.0	-	0.0	-	0.0	-
Halcrow Group Ltd	5.4	-	5.4	-	5.4	-
Just Ask Estates Ltd	32.6	3	32.6	-	32.6	-
Nviro Ltd	35.3	-	35.3	-	35.3	-
Optivo	45.8	920	45.8	920	45.8	920
Royal Pavilion & Museums Trust	17.8	-	17.8	-	17.8	-
Sussex County Sports Partnership	18.2	-	17.7	-	17.2	-
Sussex Housing & Care	0.0	-	0.0	-	0.0	-
Telent Technology Services Ltd	20.8	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	0.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	0.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	33.0	-	33.0	-	33.0	-
Wealden Leisure Ltd - Portslade Sports Centre	0.0	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	0.0	-	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 62 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	22.1	7.8	9.0	8.2
Benchmark	19.5	6.5	8.1	7.0
Relative*	2.6	1.3	1.0	1.2

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	22.1	7.8	9.0	8.2
Local Authority Average	22.8	7.6	9.5	8.3
Relative*	(0.6)	0.2	(0.5)	(0.1)

The Fund underperformed the (weighted) average local authority fund over the year by 0.6% (1.3% outperformance 2019/20), ranking the East Sussex Fund in the 69 percentile (48th 2019/20) in the local authority universe. Over three years the fund outperformed by 0.2% (inline 2019/20) and was placed in the 56 percentile (55th 2019/20). Over five years the fund underperformed by 0.5% (0.1% outperformance in 2019/20) and was placed in the 67 percentile (37th 2019/20). Over ten years the fund years, the fund underperformed by 0.1% (0.1% underperformance 2019/20) and was placed in the 54 percentile (45th 2019/20).

*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.

15. External auditor’s report

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

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 2021 which comprise the Fund Account, the Net Assets Statement and Notes to the Pension Fund Accounts, 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 2020/21.

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 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

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 2020/21 that the Pension Fund’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the ‘Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements’ section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 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 the 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 (2020) 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, for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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

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 in relation to the Pension Fund**.**

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 2020/21, 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 for the Pension Fund. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:

the identification, evaluation and compliance with laws and regulations;

the detection and response to the risks of fraud; and

the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk: fraudulent revenue and expenditure recognition; management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:

Large and unusual manual journal entries

Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.

Our audit procedures involved:

evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

journal entry testing, with a focus on large and unusual and high risk journals particularly manual journals, made during the year and the accounts production stage

challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments;

testing the valuation of investments, particularly focussed on Level 3 investments;

testing contributions received, benefits paid and member data changes;

assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The audit team discussed the risk of the Authority's potential non-compliance with relevant laws and regulations, the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to level 3 investments valuations.

Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

knowledge of the local government pensions sector

understanding of the legal and regulatory requirements specific to the Pension Fund including:

the provisions of the applicable legislation

guidance issued by CIPFA, LASAAC and SOLACE

the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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.

Darren Wells

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

London

19 October 2021

16. 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

The administration strategy statement will be reviewed in line with each valuation cycle, the last revision was approved in September 2020 with the strategy coming into effect 1 January 2021. All scheme employers are be consulted before any changes are made to this document. The latest version of this administration strategy statement is available on the Funds website www.eastsussexpensionfund.org/resources/

Appendix 1. 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 2020/21 is replicated in full.

FSS - To be replicated in full for the final publication

Appendix 2. Investment Strategy Statement and Implementation of RI polices

The Local Government Pension Scheme (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 must cover:

- The Requirement to invest Fund money is a wide variety of investments
- The Authority's assessment of the suitability of particular investments and types of investments
- The Authority's approach to risk, including the ways in which risks are to be assess and managed
- The Authority's approach to pooling investments, including the use of collect investment vehicles and shared services
- The Authorities policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- The Authorities policy on 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). www.eastsussexpensionfund.org/resources/

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 as a Statement of Responsible Investment Principles. 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.

Below we show how the Fund has implemented the RI policies it set itself in the ISS.

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third party provider Vigeo Eiris for the second year.	Develop understanding of the different metrics. Continue using a third party provider to evaluate carbon emissions of equites and develop other asset classes
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC

		research into the Fund's strategy.
To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy	Invested 10% of the Equity program into impact managers 10% into climate risk passive product.	Looking to work with ACCESS to develop suitable solutions within the Pool
To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022 reporting cycle, supported by external managers and GPs	The Fund has only considered the carbon intensity of the liquid holdings and is working with managers and other advisors in how to calculate this for the alternative space.	The Fund is considering which metrics it wishes to monitor and ensure that this is in line with TCFD reporting requirements. Once established we will be approaching all managers to provide this information.
Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.	The Fund considered a passive investment that combined the TPI data to provide exclusions however concerns around the completeness of data and being constrained on future developments lead the Fund to invest in other passive options. The Fund actively review the TPI scoring of underlying holdings to understand positions within managers portfolios and use as a base to challenge external managers.	The Fund has been improving its information on its underlying holdings with the aim to get quarterly information to further analyse on different criteria including TPI analysis.
Implement processes that adhere to Taskforce for Climate-related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS.	The Fund is using its new resources to get more clarity on its investments at least quarterly, this allows us to better understand the areas that we need to focus our attention to bring us up to the required standard for TCFD reporting.	The Fund is conducting a gap analysis of the current documentation of the Fund to support embedding processes
To report annually in accordance with TCFD recommendations.	The Fund will provide a TCFD section within the 2020/21 Annual Report covering all elements where sufficient data.	We are awaiting the consultation from MHCLG on TCFD reporting to clarify the final requirements and include

		a fully compliant report within the Annual Report for 2021/22
Signatory to the United Nations Principles for Responsible Investment (PRI)	The Fund has signed up to the PRI as this is the first year of being a signatory it was not requirement to provide information.	During Q4 2021 and Q1 2022 to prepare the necessary information to maintain our signatory status to the PRI
Encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.	We have been requesting quarterly information from the managers on engagement and voting and have been monitoring the managers commitments. The Fund ensure all new managers are PRI and IIGCC signatories.	We will be maintaining the engagement and voting information capture to allow greater understanding of how this is working with our mangers and in conversations will be pushing the managers to sign up to relevant commitments with TCFD and UK stewardship code 2020 being priorities.
Working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards.	ACCESS has set up a ESG task and finish group to improve their ESG guidelines. The Fund has been fully involved in this process. We have been working with the National LGPS Framework on the replacement Stewardship framework. We have been engaged with IIGCC and have signed up to some of the initiatives coming from this collaboration.	We shall be looking to continue to explore opportunities with ACCESS to improve the RI opportunities. Increase the involvement in collaborative RI initiatives and look to be signatories to shareholder resolutions.
Report annually in accordance with the UK Stewardship Code requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.	The Fund has been establishing the gaps within the current documentation and the requirements for the UK Stewardship code 2020 requirements to enable a complete report.	As the first signatories have been released, we are now able to review those reports that have been accepted to help to assess the Funds responses for submission in April 2022.

Appendix 3. 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. www.eastsussexpensionfund.org/resources/

Appendix 4. Governance policy statement

To be replicated in full for the final publication

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Report to:	**Pension Board**
Date of meeting:	**5 November 2021**
By:	**Chief Finance Officer**
Title:	**East Sussex Pension Fund (ESPF) quarterly budget report**
Purpose:	**This report provides an update on the 2021/22 Forecast Financial Outturn**

RECOMMENDATION

The Board is recommended to note the 2021/22 Q1 forecast financial outturn position for the East Sussex Pension Fund

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1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, East Sussex County Council (the Council) is required to maintain a pension fund, known as East Sussex Pension Fund (ESPF or the Fund), for its employees and other scheme employers.

1.2 The business plan and budget sets out the direction of travel, objectives and targets to be achieved in the management of the Fund, and for the Council to be able to perform its role as the administering authority in a structured way. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund.

1.3 At its meeting on the 1 March 2021, the Pension Committee agreed a budget of £7.155m to support the business plan for 2021/22. In the same meeting the Pension Committee approved an additional budget for a permanent Communications Manager to be added to the team structure at an estimated salary of £40k plus on costs. The budget presented below includes both the approved budget and additional post totalling £7.205m. The budget estimates do not incorporate any provision for investment fees earned by fund managers where these are deducted at source by asset managers.

2. Supporting information

2021/22 Investment and Administration Expenses Outturn Report

2.1 The budget requirements for 2021/22 was significantly increased from 2020/21 due to the insourcing of the Pensions Administration Team (PAT), which has consequently provided a better understanding of ongoing costs. In addition, some investments were moved from Fund Managers, who deducted fees at source from the asset valuation, into new Fund Managers who will be invoicing fees directly to the Fund, increasing the reportable costs through budget monitoring compared to 2020/21.

2.2 The forecast outturn at the second quarter of 2021/21 is £6,824m, a decrease of £0.381m from the approved budget. The 2021/22 projected outturn against budget line items is shown at Table 2 below. The underspend mostly relates to the current vacancies within the Fund, which are actively being recruited to. The main movements to the budget are set out in Table 1 below and movements detailed in Paragraphs 2.3 to 2.7.

Table 1

	2021/22 Budget	2021/22 Q2 Outturn	Variance from last reported position
Officers – para 2.3	1,756	1,380	(376)
Actuarial Fund Work – para 2.4	250	175	(75)
Legal Fees – para 2.5	165	100	(65)
Investment Advice – para 2.6	192	230	38
Consultancy & Service Providers – Benefits – para 2.7	100	240	140
Other Minor movements	4,742	4,699	(43)
Total	**7,205**	**6,824**	**(381)**

2.3 The budget for staffing was set at £1.756m assuming that no vacancies were being held by the Fund. The current job descriptions are being reviewed for the PAT, as many of the team are on historic contracts from the TUPE. This may result in increased costs as roles are potentially regraded. Recruitment in some posts has been challenging and where this is the case job descriptions and adverts have been reviewed to ensure the jobs are appealing. Recruitment is currently underway for the Pensions Accountant, Communications Manager and Administration apprentice. The continued presence of vacancies has resulted in a decrease of £0.376m from the agreed budget.

2.4 The budget set for actuarial fund work costs for 2021/22 was set at £0.250m reduced from the 2020/21 total spend (£0.341m) in the anticipation of the new actuarial contract and reduced reliance on the actuary to provide additional support, due to increased officer capacity as a result of the new structure. The evidence from the first 5 months of invoices has demonstrated that the costs for actuarial services from the Fund has been lower than anticipated and a reduction in the charges of £75,000 has been made.

2.5 The budget set for legal costs for 2021/22 was set at £0.165m, reduced from the 2020/21 total spend of £0.285m in the anticipation of the reduced reliance on the external legal advice to provide additional support due to increased officer capacity resulting from the new structure. The evidence from the first 5 months of invoices has demonstrated that the costs for legal services incurred by the Fund has been lower than anticipated and a reduction in the charges of £65,000 has been made.

2.6 An initial budget was set for the investment advice of £0.192m, to cover the expected work for the year from the investment consultant and independent advisor. There has been a review of the equity strategy specifically and a whole Fund review in the first 6 months of the year. Both of the reviews have resulted in changes to the strategy, resulting in commissioning additional work that was not initially budgeted. At the Pension Committee in September 2021, a new contract for the independent advisor was agreed increasing the costs for the next 6 months. These changes have resulted in an increase of £38,000.

2.7 The budget set for Consultancy & Service Providers – Benefits for 2021/22 was set at £0.100m, based on the cost incurred from 2020/21. In addition to ongoing projects, a specific piece of work has been commissioned from Aon to undertake a review of annual allowance calculations. Based on the project quote and current experience of additional work required to resolve data issues the anticipated cost of the work has been included at £130,000.

Table 2 2021/22 Outturn Report

2020/21 Outturn £000	Item	2021/22 Budget £000	2021/22 Actuals to July £000	2020/21 Forecast Outturn Q2 £000	Variance to Budget £000
	Pension Fund Staff Costs				
592	Fund Officers	1,756	352	1,380	(376)
53	Recruitment costs	12	2	12	-
645	**Sub Total**	**1,768**	**354**	**1,392**	**(376)**
	Pension Fund Oversight and Governance				
341	Actuarial Fund Work	250	41	175	(75)
87	Actuarial Employer Work	100	30	70	(30)
(64)	Employer reimbursement	(100)	(8)	(70)	30
2	Training Costs	10	3	10	-
40	External Audit – Grant Thornton	30	(35)	30	-
190	East Sussex County Council	286	(25)	257	(29)
285	Legal Fees	165	36	100	(65)
157	Subscriptions and Other Expenses	72	66	72	-
1,038	**Sub Total**	**813**	**108**	**644**	**(169)**
	Investment activities				
221	Investment Advice	192	112	230	38
37	ESG Advice	25	21	25	-
61	Custodian	75	50	75	-
80	ACCESS	93	129	103	10
2,365	Investment Manager Fee Invoices	3,313	820	3,313	-
2,764	**Sub Total**	**3,698**	**1,132**	**3,746**	**48**
	Pension Administration				
894	Orbis Business Operations Support Services				
-	East Sussex County Council	237	6	213	(24)
282	System Services and License	346	156	346	-
90	Consultancy & Service Providers - Benefits	100	9	240	140
183	Other Expenses	243	26	243	-
1,449	**Sub Total**	**926**	**197**	**1,042**	**116**
5,896	**Total**	**7,205**	**1,791**	**6,824**	**(381)**

3. Conclusion and reasons for recommendation

3.1 The Board is recommended to note the Q2 2021/22 outturn position.

IAN GUTSELL
Chief Finance Officer

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Agenda Item 12

Report to:	**Pension Board**
Date of meeting:	**5 November 2021**
By:	**Chief Finance Officer**
Title:	**Pension Fund Risk Register**
Purpose:	**To consider the Pension Fund Risk Register**

RECOMMENDATIONS: The Pension Board is recommended to:

1) **Note the new International Trade risk**
2) **Note climate risk will be considered further once the scenario modelling is underway and producing data**
3) **Inform Officers of any changes to the risk register it believes should be considered**

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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, 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.

1.3 Since the last meeting of the Pension Board and Pension Committee officers have continued to review the Risk Register. To ensure all appropriate risks and mitigations have been identified,

2. Supporting Information

2.1 The Risk Register is included at **Appendix 1**.

3 Changes to the Risk Register

3.1 In the meeting on 28 September 2021 the Pension Committee asked Officers to review the existing Brexit risk, which had been recommended for deletion, to update it rather than remove it entirely.

3.2 The previous recommendation to remove the risk had been made on the basis that the risk related to not knowing the likely trade agreement to be put in place between the UK and EU. The terms of that agreement are now known. Members of the Pension Committee asked Officers to consider the risks associated with wider trading issues rather than just focussing on Brexit.

3.3 Risk I2 has been added as a replacement for the previous, Brexit focussed risk. It is identified that changing relationships and agreement beyond those between the UK and EU can impact on the Fund's investments as it has global exposure. Mitigations in place are noted, such as the regular reporting to the Pension Committee on performance and any concerning trends, the diversification of Fund assets both geographically and across varying asset classes.

4 Climate risk

4.1 During the Pension Committee meeting on 28 September 2021 there was a discuss around the impact and likelihood around risk I7, Climate change. Officers are committed to keeping this, and all other risks, under review. Further recommendations will be provided after the Climate Modelling Project is underway and producing new data.

4. Conclusion

4.1 The Pension Board is asked to note the continuing steps being taken to mitigate the risks to the Fund and to inform Officers of any new risks they have identified.

IAN GUTSELL
Chief Finance Officer

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Email: Sian.Kunert@EastSussex.gov.uk

Pension Fund Risk Register Septmber 2021												
				Pre Mitigation				Post Mitigation				
Reference	Risk	Potential Triggers of risk	Consequences of risk	Likelihood	Impact	Risk Score	Risk Control / Response	Impact	Likelihood	Risk Score	Risk Owner	Timescales
Employer Risk												
E1	**Contributions Funding Risk** Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate	Failure to collect contributions on time Failure to collect contributions in line with Rates and Adjustments certificate Failure to monitor and reconcile contributions Liquidity failures with employers due to business risk or Covid 19 implications Incorrect coding of contributions Employer unable to pay increased contributions on a trigger event New outsourced arrangements made without thought to Pensions implications and contribution costs Poor employer covenant	Inaccurate financial statements Cashflow risk to pay out pensions Funding deficits Failure to track employer cashflows leading to inaccurate FRS17/IAS19 report and Valuation reports Future reduction in funding level Future Increase in employer contributions Employer forced into liquidation Increase in investment risk taken to access higher returns Forced to sell investments to meet cashflow requirements	3	3	9	Monthly Employer contribution monitoring Monitoring of late payments with new Employer engagement team to address breaches for late payment Contributions recorded in Finance system by employer to track all employer cashflows in line with actuarial requirements for Valuation and FRS17/IAS19 reporting requirements. Also enables ability to see trends in contributions collected. New administration strategy in place from January 2021 clearly outlining ability to fine employers for late payment and late receipt of remittance advice or poor quality of data Implementation of I-Connect which is being to be rolled out in 2021 is expected to improve the quality of contribution data received to better aid reconciliation of payments and drill in the accuracy of employers contribution payments New report to be delivered at Pensions Board meetings to highlight any late payment of contributions and Employer engagement actions from February 2021 Covenant review to begin in 2021 - PWC appointed to carry out the work, high risk employers identified and legal advice obtained Triennial valuation process aims to stabilise contribution rates where possible and senior management involved in detailed discussions on funding assumptions Guide to Employers on implications to Pensions on Outsourcing presented at employer forum in November 2020 and document issued to all employers Contribution deferral policy approved by Committee in June 2020. Regular communication with Employers through new Employer engagement team	2	2	4	Head of Pensions	On-going
E2	**Employer data Risk** Employers fail to provide accurate and timely data to the PAT team	Failure to provide Starter and Leavers information Failure to provide EOY returns on time and to a an acceptable data standard Covid 19 has reducing the ability of employers to participate in the data cleansing Inability for Employers to respond to additional data requests for changes in regulations	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 Inability to produce ABS in time or accurately to comply with legislation	4	3	12	New Administration Strategy approved in September 2020 and out for consultation with Employers October to November; The new strategy was the focus of the Employer Forum in November 2020 Employing authorities are contacted for outstanding/accurate information; User Guide and Training provided to Employers for outsourcing implications with LGPS November 2020 Regular communication and meeting with administration services regarding service updates and additional data, when required. New employer engagement team established from January 2021 to support employer and provide training where required Issuance of a quarterly employer newsletter to support employers in their understanding of current pensions issues and activity for the Pension Fund A data cleansing plan was completed in June 2020 lead by Hymans. The PAT have been finalising outstanding areas handed over. New Data Improvement plan process to start in 2021 by the PAT BAU team and supported by the DIP working Group Data Improvement (DIP) working group set up to discuss data issues resulting from employers Introduction of I-Connect system will limit employer ability to submit incorrect data Meetings held between senior pensions Management team and employers where there are current or historic data concerns	3	3	9	Head of Pensions	On-going

Pension Fund Risk Register Septmber 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation: Likelihood	Pre Mitigation: Impact	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Risk Owner	Timescales
E3	**Delay in employers agreeing Admission Agreement**	Complexity around agreeing contribution rate Negotiations around provision of security Delays in netotiating terms and exection of doumentation Late notification of an outsouring arrangement Failure to undertand the regulatry responsibilities on tenderers of new LGPS employers	Inability to recover missed payments in event of employer insolvency event Pension and service benefits are not accured during the negotation phase, and ciuld result in retirement or dealth in service to be dealyed for the period of the new employer	3	2	6	New templates being developed - this will speed up the process of agreeing new admission agreements The fund are moving to a template portal which will automatically populate the varaible data in the admision agreement ensureing no addition terms are changed and provides assurance from external legal term that the agreement are comprehensie and enforeable Guide to outsouring has been distributed to all employers in November 2020 and a review of this was covered in the Employer forum in November 2020. This guide directs employers of all the ativities and considerations they need to take on any outsouring arangement with TUPE staff implications. Officers meet monthly to review status and movement on each in progress admission A new data flow and process map is being written to ensure officers request and communicate all th Admissions in progress are reported quaertly to Board and Committee to ensure awareness of status	2	2	4	Head of Pensions	On-going
Administration												
A1	**Pensions service Delivery Risk** Inadequate delivery of Pensions Administration	The Scheme is not administered correctly resulting in the wrong benefits being paid or benefits not being paid, including as a result of poor data Paying pension benefits incorrectly Members not provided with required information	Members of the pension scheme not serviced to an adequate standards Damaged reputation Financial hardship to members Employers dissatisfied with service being provided resulting in formal complaint Complaints which progress to the Pensions Ombudsman Financial loss Statutory deadlines not met Active members not aware of delay in employee contributions being paid	3	3	9	The PAT team is currently undergoing a dissolution project to Insource pensions administration from Orbis Surrey to an inhouse provision. Annual internal audit report om the administration of pensions including regular reporting and monitoring of recommendations to ensure the service is acting in line with best practice Quarterly Reports to Pension Board and Committee New service level KPI and expectations approved at Pensions Committee in September 2020 for the PAT service within the Administration strategy for when the team is fully in house Awareness of the Pension Regulator Guidance by all team members Programme management by Head of Pensions admin in liaison with Orbis partners to ensure all tasks completed as planned and to a high standard Polices and procedures in place and all activity for members recorded on member records for other teams members to see Constant monitoring / checking by team managers and senior officers for more junior staff members In house risk logs, including for projects SAP / Altair reconciliation monthly to ensure financial records complete and correct Task management systems built into Altair to ensure activity is competed and monitored	2	3	6	Head of Pensions Administration	On-going
A2	**Risk resulting from Regulatory Change** Risk that new benefit structures can not be set up correctly or in time	GMP reconciliation GMP rectification GMP equalisation McCloud Pensions Dashboard Other changes to legislation or regulatory guides	Members of pensions scheme exposed to financial loss Inaccurate record keeping Damaged reputation Delays due to conflicting deadlines on heavy workloads Penalty applied due to non-compliance	3	3	9	Projects and/or working groups in place to deal with current regulatorily benefit changes Attendance at networks and officer groups to stay on top of up coming changes in regulation Reports to Pension Board and Committee to ensure knowledge is shared to decision makers Oversight via Data Improvement Working Group	2	3	6	Head of Pensions Administration	On-going

Pension Fund Risk Register Septmber 2021													
				Pre Mitigation				Post Mitigation					
Reference	Risk	Potential Triggers of risk	Consequences of risk	Likelihood	Impact	Risk Score	Risk Control / Response	Impact	Likelihood	Risk Score	Risk Owner	Timescales
A3	**Production of Statutory member returns**	Inability to produce all ABS by the statutory deadline Inability to produce Annual Allowance statements by the statutory deadlines Provision of incorrect statements to members Failure to complete event reports in time for HMRC	Reputational risk and complaints Fines and enforcement action by The Pension Regulator Interest charges or fines from HMRC for inaccurate AA statements Breaches occurred	4	3	12	Regular contact with employers to get data. Clear project plan with early communications and planning with milestones to ensure Statements created in time to allow time for distribution to staff. Roll out of I-Connect for employer roll out as monthly interfaces system, to ease year end requirements and correct errors through out the year. Currently many leavers are not being notified until year-end. Restructure of Pensions team to include an Employer Engagement team will support Pensions Administration with end of year returns liaising and supporting employers through the process Breaches policy in place and Breach reporting to Committee and Board quarterly to raise and consider breach reporting levels	3	2	6	Head of Pensions Administration	On-going
A4	**Risk on Dissolution of Administration from Orbis to ESCC**	Risk that infrastructure will not be in place on time Recruitment risk to support areas in addition to BAU Risk to data transfer and software mapping	Reputational damage Inability to provide pensions administration services one separated Risk to communications with employers and members due to structural changes	4	4	16	Project plan in place, with regulator meetings and project groups for various aspects of the dissolution Specific risk register is in place for this project and all risks currently Green or Amber, project is on track Head of Pensions Administration in place to lead on the dissolution with project updates to S151, COO and Head of Pensions Contracts in place and PID's for various aspects of the workstreams to implement Ongoing support until end of June and handover opportunities with communications and Projects teams where new resourcing is required TUPE of staff is complete and several adverts not out BAU team will be dropping Westminster work which will help in manging the teams workload	2	3	6	Head of Pensions Administration	Ongoing
A5	**Failure to comply with CETV anti scam checks**	Lack of clear process Process not followed	Reputational damage TPR intervention and penalties Loss to Fund due to requirement to pay compensation	3	2	6	Process in place for making checks required by law and/or recommended by TPR. Appropriate training to be identified and offered to staff to build understanding of risk and appropriate mitigations. Member informed of "red flags" identified Scorpion campaign material provided to members seeking a CETV Quality assurance checks ensure appropriate checks carried out	1	2	2	Head of Pensions Administration	on-going
A6	**Major Incident preventing staff access to office**	Major weather, technological or illness event	Staff unable to access post/documents Staff unable to issue payment instructions to bank	2	2	4	Administrative team equipped with laptops and can work virtually Officer's able to instruct payment be made to pensioner members	1	2	2	Head of Pensions	on-going

Pension Fund Risk Register Septmber 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation			Risk Control / Response	Post Mitigation			Risk Owner	Timescales
				Likelihood	Impact	Risk Score		Impact	Likelihood	Risk Score		
Governance												
G1	**Key Person risk** Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team	Poor management of staff Failure to provide progression within the team structure Poor absence management Higher risk of sickness absence and reduced working hours as a result of Covid-19 Failure to provide an supportive working environment Failure to communicate with staff members in relation to potential service changes Concentration of knowledge in a small number of officers and risk of departure of key and senior staff.	Damaged reputation Inability to deliver and failure to provide efficient pensions administration service, support to employers, accurate accounts or effective management of investments Disruption and inability to provide a high quality pension service to members. 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.	4	4	16	Diversified staff / team Attendance at pension officers user groups to network and exchange information Procedural notes which includes new systems, section meetings / appraisals Succession planning within team structure, building from within the team 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 within PAT and in addition can be covered by senior staff in all areas. Training requirements are set out in training strategy, job descriptions and reviewed annually with team members through the appraisal process. New training officer post within team structure to be recruited early 2021 Training strategy in place and regularly reviewed with training log where required	2	2	4	Head of Pensions / Head of Pensions Administration	On-going
G2	**Lack of decision making caused by loss of Pension Committee/Pension Board member**	Several Committee members lose seats in an election Members resign posts Terms of multiple members expire at same time	Committee/Board not quorate and unable to fulfil role Inability of Pension Board to support Committee due to loss of Knowledge and Understanding Clear instructions not given to officers Action taken by TPR for failure meet basic compliance standards	3	3	9	Record kept of terms of Office Pension Board terms of Office staggered Deputy Chairs in place to cover chair absence Officers aware of election cycle	2	3	6	Head of Pensions	On-going
G3	**Cyber Security** Risk of Loss of data or systems breaches through cyber attacks	Cyber attack on ESCC systems and firewalls Cyber Security of member data - personal employment and financial data Attempt to infiltrate emails systems and data exchanges Cyber attach on third party systems where ESPF data is stored Cyber attach on third party systems that ESPF require to carry out service requirements and investment functions Covid-19 Cybercrime Spike	ESCC may incur financial penalties for data breaches Damaged reputation Legal issues Members of the pension scheme exposed to financial loss / identity theft Members of the pension scheme data lost or compromised Financial loss resulting from data manipulation Inability to trade Impact on funding levels Inability to access key systems, or substantial rebuilding of alternative systems	4	4	16	ICT defence - in-depth approach Utilising firewalls, passwords and ICT control procedures including system access and account deletion protocols Email and content scanners Using anti-malware. ICT performs penetration and security tests on regular basis Encryption used on all data transfers Service level agreement with termination clause Regular reports SAS 70/AAF0106 Industry leaders providing services to the fund with data protection and cyber defence systems Risk assessment completed with all new contracts with data transfer and new associated systems including penetration testing at outset Pensions Team specific BCP to be developed	2	4	8	Head of Pensions	On-going

Pension Fund Risk Register Septmber 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation: Likelihood	Pre Mitigation: Impact	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Risk Owner	Timescales
G4	**Inadequate governance arrangements to discharge powers & duties**	Pensions Board & Committee members do not have the knowledge & experience to carry out their duties properly In sufficient internal audit review of the fund Lack of advisory services Insufficiently qualified officers Poor level of testing and challenge from external auditors	Poor decision making Breaches occurred Areas of work not completed Unreliable accounting or budgetary information	2	3	6	Training strategy in place which covers Pension Committee, Pensions Board and officers 100 days of internal audit commissioned for each calendar year with regular reporting from IA to committee and board External auditor provides audit plan at planning stage for each financial year and this is discussed by Audit committee as well as Pension Committee and Board Investment regulations require proper advice, procurement processes in place to ensure quality within replacement advisers Training coordinator being appointed. This officer will liaise with chair of Pension Board and Committee to identify training needs	1	3	3	Head of Pensions	On-going
G5	**Failure to comply with General Data Protection Regulations**	Data breaches through failure to encrypt data Poor security on systems Unpublished privacy notice, policy and guidance Lack of knowledge on GDPR rules by staff DPO not identified	Reputational damage Fines and enforcement Breaches by contractors and employers Failure to report breaches within timescales and through correct reporting methods	3	3	9	Contracts with external parties where there is a data role have clear terms and conditions as part of the data processing agreements Data Impact assessment is carried out on all new tenders where data is involved DPO is in place via ESCC Privacy notice is on the website - the privacy ststements have been refreshed in August 2021 Memorandum of Understanding in place with employers within the fund All staff are required to complete an information governance course on joining the Council and this is refreshed annually Information governance Internal audit completed in Q4 2020/21 with a reasonable assurance level and all recommendations have been completed as at September 2021 Pensions Manager for Governance and Compliance completed review on GDPR in Q4 2020/21 resulting in a newly designed webpage, new privacy notices and change to the retention period	2	2	4	Head of Pensions	On-going
Investment/Funding												
I1	**Funding risk due to poor investment returns** Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate	Poor strategic asset allocation resulting in insufficient protection against inflation risk of liabilities Performance consistently under benchmark Inability to rebalance portfolio Failure to take proper advice Unrealistic discount rates in valuation assumptions	Funding Gap Damaged reputation Increase in employer contribution Inability to Pay Pensions Forced to sell investments to meet cashflow requirements	3	3	9	Strategy is supported by expert Investment consultants. Challenge to Consultants through Independent Adviser. Triennial valuation ensures funding position is known and contribution rates are stabilised Quarterly Performance monitoring, investment manager monitoring from consultants and Link for ACCESS sub funds Annual Investment Strategy Review, with interim rebalancing Quarterly Reporting to Pensions Committee, with decisions approved by committee, including Fund Manager performance Training strategy in place t ensure officers and committee members have sufficient knowledge and skills to implement and change the investment strategy Investment decisions are made in compliance with the ISS/FSS Changes to investment strategy are discussed with the actuary to ensure anticipated implicatiosn on funding aligned. Revision of the Asset Liability Model to support a viable Strategic Asset Allocation for the new valuation.	2	2	4	Head of Pensions	On-going
I2	**Changes to International Trade** The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses	Inability to access certain investment vehicles Changes to Banking legislation and MIFID II and Basel requirements Falls /instability in markets Currency fluctuations Inability to realise certain assets Increased taxation on certain assets	Financial loss, and/or failure to meet return expectations. Future Increase to employer contribution costs resulting from lower funding positions Changes to the regulatory and legislative framework within which the Fund operates. Changes in employer funding positions causing liquidity risk to employers Unable to sell assets preventing realignment with fundung strategy or withdrawal from underperforming fund/asset class	3	3	9	Diversification of the Fund's investments across the world. Regular monitoring of investment performance and reports on potentially problematic trends Diversification of the Fund's investments across multiple asset classes Currency Hedging requirements considered within the investment strategy Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented	2	2	4	Head of Pensions	On-going

Pension Fund Risk Register Septmber 2021

				Pre Mitigation				Post Mitigation				
Reference	Risk	Potential Triggers of risk	Consequences of risk	Likelihood	Impact	Risk Score	Risk Control / Response	Impact	Likelihood	Risk Score	Risk Owner	Timescales
I3	**Regulatory risk** Failure to comply with regulations, legislation and guidance from an accounting and investment perspective	Failure to comply with CIPFA code of practice for accounting for the pension fund Failure to provide employers with accurate reporting for their financial statements Failure to comply with the LGPS investment regs Failure to Comply with statutory guidance from MHCLG Failure to comply with the Pensions Regulatior requirements	Risk of the accounts being qualified by the auditors. Risk to employers of qualified accounts causing reputational damage and potential costs Intervention by the secretary of state in investment strategy Breaches occurred	3	3	9	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 Breaches policy in place to ensure breaches mapped and reported	1	2	2	Head of Pensions	On-going
I4	**Investment pooling risk**	Asset classes not available in line with the funds investment strategy Excessive asset transition costs Poor governance of the ACCESS pool Investment beliefs on ESG issues not shared within the pool Inability to report performance to the fund Inability to manage the investment managers and structure to deal with poor performance Insufficient Capacity in sub funds 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. ACCESS pool unable to generate cost efficiencies	Increase in investment risk taken to access higher returns Increased costs Poor governance and reputational damage 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. Asset transition costs are greater than forecast. Failure to control operational risks and transaction costs during the transition process Insufficient risk and return parameters to comply with guidance on pooling and the investment strategy Intervention of the secretary of state in failing to invest in line with the statutory guidance on pooling An increase in the set-up costs for implementing new asset classes and managers	3	3	9	ACCESS Support Unit team provide support to the pool Operator contract provided by Link for assets held within the ACS 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 introduced within revised operator agreements Consultants involved in analysing the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios. Opportunities to transfer securities in 'specie'. Reducing cost on transition Transition manager in place to preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled. Due Diligence completed by legal advisers to ensure no hidden costs or governance issues not known at time of decision to invest. S151, chair of pension committee and monitoring officer representation on respective committees and working groups to ensure ESPF involved in all decisions and concerns and questions can be raised early in processes Regular meetings between officers and ACCESS pool with officers on a number of working groups to ensure involvement in decision making	2	3	6	Head of Pensions	On-going
I5	**Funding risk due to higher inflation** leading to increased liabilities and a funding gap	Inflation rises faster than the actuarial assumption as a result of Govt. response to COVID-19 Bond yields return to much higher levels	Liabilities are higher than expected. Bond-equity correlations rise, and equities also fall in price Fund's solvency level falls	2	2	4	Investment strategy include weighting to index linked gilts, infrastructure and real estate which are all inflation correlated to mitigate increases in liabilities from inflation. Potential to further increase infrastructure weightings Fund monitor portfolio sensitivity to inflation via expert investment consultants Triennial Valuation assumptions include local knowledge of the Administering authority on anticipated pay inflation. Quarterly monitoring of funding position helps identify risk early	1	2	2	Head of Pensions	On-going

Pension Fund Risk Register Septmber 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation: Likelihood	Pre Mitigation: Impact	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Risk Owner	Timescales
I6	**Environmental, Social and Governance risks** within Investment strategy and implementations on investment decisions	Incorrect assumptions on current exposure , risk profiles and scenarios analysis leading to poor decision making Risk to income yields by restricting the market due to ESG concerns without considering the bigger picture of the investment strategy to compensate Investment environment changes radically, and Fund is slow to respond Risk to wider social and economic risks by focusing on a single issue Poor transparency on underlying investment manager investments decisions on behalf of the fund Failure of fund managers to explain or comply against voting guidelines Poor corporate Governance or corruption in underlying investments Risk of regulatory policy changes resulting in fines to underlying investments	Volatile investment returns Loss of market value Reputational risk where EGS beliefs and strategy are not aligned with expectation of members Increased workload responding to questions and challenges over ESG risks taking officer time away from manging the fund effectively Increase in investment risk taken due to unassessed ESG issues Weaker control leading to poorer governance unconscious exposure to companies in violation of UN policies, human rights violations, poor governance structures	3	2	6	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 Trim unconscious exposure to companies with poor ESG rating through agreed removal of traditional index funds ensuring active managers have a strong conviction in the underlying companies including on ESG matters and less traditional passive indexes / smart beta funds have robust screening processes in place to ensure ESG principkes are taken into account Tracking of the portfolio as underweight in fossil fuel exposure to benchmarks Production of annual reports on the carbon footprint of the Fund and review of managers from EGS perspective including transition pathway of underlying companies Signatory to Stewardship code with commitment to comply with the new 2020 code Challenging managers on their holdings with regard ESG issues Introduction of an ESG assment for all managers reported in July 2021 including impreovement actions for each manager on ESG methedology, reporting or collabortaion. This will be updated and reported anually Engaging via managers and investor groups including LAPFF with companies and driving them forward to comply with key ESG concerns using the greater voice by combined investment power	2	2	4	Head of Pensions	On-going

Pension Fund Risk Register Septmber 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation: Likelihood	Pre Mitigation: Impact	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Risk Owner	Timescales
I7	**Climate change** - risk on assets and liabilities associated with Climate Change	Uncertainty in energy transition impacts and timing Risk of stranded assets where invested in fossil fuel companies Lack of reliable carbon measurement data for investment pooled funds and or underlying holdings of those pooled funds. Risk of natural disasters on underlying investments Risk of changes in oil prices Increased capital costs of underlying investment companies to transtion to greener energy solutions or lower carbon emitting supply chain models and production methods Fines or penaties incurred by underlying holdings by company or sector Increased global temperature and or erratic climate events cuasing devistation to underlying holings Social consequence on members welfare and longevity within the fund	unconscious exposure to high carbon emitters Reputation issues around how the Fund is progressing the move to a decarbonised global economy. Volatile investment returns Reputational risk where Climate risks, reporting, mitigations an dstrategies are not aligned with member views or poorly communicated Loss of income to the fund from missed opportunities in oil price rally to accommodate the infrastructure to enable to the world to comply with the energy transition Loss of market value Major ecological disaster in the UK could lead to increased morality quicker than anticipated within the funding models impacting on cash outflows and increased workloads for lump sum payments. Possible increase to ill health retirement cases leading to a change in cash flows and possible enhacements beyond those anticipated	4	3	12	Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors and has a strong focus on climate change 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 avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020 Trim unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through agreed removal of traditional index funds Member of Institutional Investors group on climate change The fund carry out annual carbon footprinting to better understand the carbon exposure and energy transiiton plans within the portfolio Signatory to UN PRI with first planned submission in 2022 and commitment to report TCFD's with a first attempt in the Annual Report for 2020/21 The Fund has planned for climate scenario modelling in late 2021 which will help better understand this risk and allow further consider approaches in tackelling these risks. The Fund continue to have some occasional exposure to high carbon emitting or fossil fuel sector companies from a tactical perspective to use its vote to help drive the sector forward through enagement and voting using the power of a collective voice. A number of Fund managers are Climate 100+ enagemnt partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action Very small oustanding percentage exposure with fossil fuel companies that extract oil and gas or coal, which if the sector fall to zero value, the imact of the Fund would be negliable in market movement perspectives.	2	2	4	Head of Pensions	On-going
I8	**Insufficient cash to pay benefits as they fall due**	Too much investment in illiquid assets Failure to track payments due Large investment commitments not anticipated and planned for Contributions not collected when due	Benefits not paid as they fall due Beneficiary financial hardship Forced sale of investments Reputational risk	2	4	8	Contributions monitored on monthly basis monitoring of members close to retirement Daily cash position monitored. Distributing investments to ensure stream of income from investment activity Income from investments is considered as a key risk in all investment strategy decisions and the income profile managed liaison between administration and investment team on cash requirements	1	4	4	Head of Pensions	on-going
I9	**Internal fraud**	Member of staff has multiple accounts and can self authorise Lack of internal controls and sign off procedures Failure to monitor staff actions Failure to monitor payments from the Fund	Loss of Fund assets Reputational risk Loss of member confidence Loss of Fund assets	2	3	6	Quarterly review of log in credentials Senior officer's have sight of bank account Senior officer's are signatories to bank account Multiple sign off needed to make payment	1	3	3	Head of Pensions	On-going
I10	**External fraud**	Failure to properly authenticate benefit claims Failure to identify deceased members	Reputational risk Loss of member confidence	2	3	6	Monthly mortality checks Regular member tracing exercises	1	3	3	Head of Pensions	On-going

Risk Register Risk Scores

The risk scores are calculated using the risk matrix below:

90-100%	This week	Very High	LIKELIHOOD	5	5	10	15	20
60-90%	This Month	High		4	4	8	12	16
40-60%	This year	Medium		3	3	6	9	12
10-40%	Next 5 years	Low		2	2	4	6	8
0-10%	Next 10 years	Very Low		1	1	2	3	4
					1	2	3	4
					IMPACT			

	Negligible No noticeable impact	Minor Minor impact, Some degradation of service	Major Significant impact, disruption to core services	Critical Disastrous impact, Catastrophic failure
SERVICE DELIVERY	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
FINANCAL	Little loss anticipated.	Some costs incurred. Handled within management responsibilities.	Significant costs incurred. Service level budgets exceeded.	Severe costs incurred. Statutory intervention triggered.
REPUTATION	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

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Report to: **Pension Board**

Date of meeting: **5 November 2021**

By: **Chief Finance Officer**

Title: **Work Programme**

Purpose: **To agree the Board work programme**

RECOMMENDATION

The Board is recommended to agree its work programme.

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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, upcoming training and a list of any information requested by the Board or Committee that is circulated via email.

1.3 This item also provides an opportunity for Members to reflect on any training they have attended since the last meeting.

2 Conclusion and reasons for recommendations

2.1 The work programme sets out the Board's work both during formal meetings and outside of them. The Board is recommended to consider and agree the updated work programme including consideration the regularity of agenda items to ensure effective governance of the Fund at the scheduled meetings.

IAN GUTSELL
Chief Finance Officer

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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 Report	A report on governance issues effecting the fund, developments in the LGPS, policy amendments and McCloud working group update	Pensions Manger – Governance and Compliance
Employer Engagement and Contributions Report	A report on Employer Engagement matters to note, Employer Contributions update, Communications from the Fund and Communications working group update	Pensions Manger – Employer Engagement
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration

Appendix 1

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. This is reported in Q2-4 only.	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
5 November 2021		
Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manger – Employer Engagement
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.	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		
Business Plan and Budget 2022/23	Report to set the Budget for the Pension Fund for the Financial Year 2022/23 including the Business Plan with key deliverables for the year.	Head of Pensions
Good Governance Decision making matrix	Report to outline the revise the decision-making matrix for the Pension Fund, delegations and representations in line with SAB Good Governance project	Head of Pensions
Communications Policy	Revision to the Communications Policy	Head of Pensions
Covenant Review Report	Report from PWC on the covenant review project – project expected to complete late 2021	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2021/22	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions
Additional Voluntary Contributions (AVC) review	Paper reviewing the AVC provision to members	Head of Pensions
1 June 2022		
Internal Audit Strategy and Plan	Draft internal audit Pension Fund Strategy and Audit Plan 2022/23	Internal Audit

Governance and Compliance Statement	Annual Review of Governance and Compliance Statement	Governance and Compliance Pensions Manager
Annual Report of the Pension Board	Annual report of the Pension Board to the Scheme manager outlining the work throughout the year	Head of Pensions with the Chair of the Board
Training Policy	Biannual review of the training Strategy	Governance and Compliance Pensions Manager
9 September 2022		
Independent Auditors Report on the Pension Fund Account and Annual Report and Accounts 2021/22	A report on the External Audit findings of the Pension Fund financial Statements and the complete 2021/22 Annual Report and Accounts.	Head of Pensions
2022 Actuarial Valuation and Funding Strategy Statement	Report from the Fund Actuary on the March 2022 triennial valuation process, methodology and assumptions with a draft Funding Strategy Statement for approval prior to consultation	Head of Pensions
15 November 2022		
Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manger – Employer Engagement
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Head of Pensions
8 February 2023		

Business Plan and Budget 2023/24	Report to set the Budget for the Pension Fund for the Financial Year 2023/24 including the Business Plan with key deliverables for the year.	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2022/23	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions
2022 Valuation report and results and Final Funding Strategy Statement (FSS)	Final report and results from the Fund Actuary of the 31 March 2022 triennial valuation with the final FSS for approval post consultation.	Head of Pensions

Actions requested by the Pensions Board		
Subject Area	**Detail**	**Status**
Internal Audit reports	The Board requested that internal audit consider an audit of the common data sets provided to the Pensions Regulator	TBC
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 provided when new KPI tool implemented
Decision making	To revise the decision-making matrix (including a RACI model) and to circulate it for information.	To be provided February 2022
ABS	Request that details of the ABS performance be circulated to the Board by email	Circulated 16/09/2021

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 Report	A report on governance issues effecting the fund, developments in the LGPS, approval of policy amendments and McCloud working group update	Pensions Manger – Governance and Compliance
Employer Engagement and Contributions Report	A report on Employer Engagement matters to note, Employer Contributions update, Communications from the Fund and Communications working group update	Pensions Manger – Employer Engagement
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration
Internal Audit reports	Internal audit reports on the ESPF and annual audit plan.	Head of Internal Audit
East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget - *reported Q2-4 only*	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 – *reported only when a new breach is recognised, or status changed. Report goes quarterly to Board.*	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF - *reported only when outstanding admissions or cessations.*	Head of Pensions
25 November 2021		
Annual Report and Accounts 2020/21	2020/21 Annual Report and Accounts for approval including external audit confirmation of consistency of the report to the published Accounts.	Head of Pensions
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Head of Pensions
24 February 2022		
2020 Stewardship Code	Report outlining the Funds compliance with the 2020 Stewardship Code	Head of Pensions
Business Plan and Budget 2022/23	Report to set the Budget for the Pension Fund for the Financial Year 2022/23 including the Business Plan with key deliverables for the year.	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2021/22	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions

Covenant Review Report	Report from PWC on the covenant review project	Head of Pensions
Additional Voluntary Contributions (AVC) review	Paper reviewing the AVC provision to members	Head of Pensions
Communications Policy	Revision to the Communications Policy	Head of Pensions
17 June 2022		
Internal Audit Strategy and Plan	Draft internal audit Pension Fund Strategy and Audit Plan 2022/23	Internal Audit
Governance and Compliance Statement	Annual Review of Governance and Compliance Statement	Governance and Compliance Pensions Manager
Annual Report of the Pension Board	Annual report of the Pension Board to the Scheme manager outlining the work throughout the year	Head of Pensions with the Chair of the Board
Carbon Footprinting	A report on the carbon footprint of the portfolio of ESPF including whether investments are in line with transition pathways.	Head of Pensions
Training Policy	Biannual review of the training Strategy	Governance and Compliance Pensions Manager
20 July 2022 (no standing items)		

Independent Auditors Report on the Pension Fund Accounts 2021/22	A report on the External Audit findings of the Pension Fund financial Statements for 2021/22	Head of Pensions
Training / Focus of choice	Time for specific training or to focus on a specific topic	Head of Pensions
27 September 2022		
Pension Fund Annual Report and Accounts 2021/22	2020/21 Annual Report and Accounts for approval	Head of Pensions
2022 Actuarial Valuation and Funding Strategy Statement	Report from the Fund Actuary on the March 2022 triennial valuation process, methodology and assumptions with a draft Funding Strategy Statement for approval prior to consultation	Head of Pensions
30 November 2022		
Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manger – Employer Engagement
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Head of Pensions
22 February 2023		
Business Plan and Budget 2023/24	Report to set the Budget for the Pension Fund for the Financial Year 2023/24 including the Business Plan with key deliverables for the year.	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2022/23	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions

2022 Valuation report and results and Final Funding Strategy Statement (FSS)	Final report and results from the Fund Actuary of the 31 March 2022 triennial valuation with the final FSS for approval post consultation.	Head of Pensions

Actions requested by the Committee		
Subject Area	**Detail**	**Status**
Fossil Fuel engagement Report	At its meeting on 11 July 2021 Committee requested a report setting out the specific oil and gas company holdings held by the Fund's absolute return managers (Newton and Ruffer), identifying any of those companies still actively seeking new oil fields; the engagement activity undertaken by these managers, including what escalation measures they have in place if engagement does not work; and the potential cost to the Fund of full divestment over five years.	Scheduled for November committee (due to accounts audit commitments of the team leading to September meeting)

Current working groups		
Title of working group	**Detail and meetings since last Pensions Board and Committee meetings**	**Membership**
Investment Implementation Working Group (IIWG)	The Investment Working Group and ESG working group have been amalgamated, as agreed at Pensions Committee 21 September 2020. The IIWG has an advisory role to over oversee the implementation of decisions by the Pension Committee in relation to investment decisions and carry out detailed research and analysis for Pensions Committee. Recent meetings • 2 June 2021 • 18 June 2021 • 02 September 2021	William Bourne, Russell Wood, Sian Kunert, Representative from Investment Consultant Cllr Fox or substitute committee member is invited to attend
Data Improvement and ABS Working Group	Recent meetings • 29 July 2021 • 12 October 2021 Scheduled • 2 December 2021	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. A high-level impact assessment has been completed to identify those members of the scheme that will be affected by this ruling. The Group have acknowledged there are many data requests of employers and this project needs to be managed carefully with other demands on employers time. Recent meetings • 22 April 2021 – supported by Hymans	Cllr Fox, Stephen Osborn, Lynda Walker, Paul Punter, Sian Kunert, Dave Kellond
Communications Working Group	The Communications Working Group was established by the Pensions Board in February 2021 to drive forward improvements in communications with stakeholders with support from employee and employer representatives. Recent meetings • 2 June 2021 • 20 July 2021 • 14 September 2021	All Board members invited Sian Kunert, Tim Hillman, Izzy Widdowson

Training and Development - recent and future events

Title of Training/Briefing	Detail	Date	Attended
PLSA Annual conference	The PLSA Annual Conference we'll be asking what the road to economic recovery looks like, analysing the hurdles for pensions and revealing the opportunities to lead the race. o Retirement Living Standards o ESG Guidance o Guided Retirement Income Choices o UK pension climate regulation and investment o DB Funding code	12-14 October	Ray Martin, Cllr Hilton
ATLAS Infrastructure - Investment Overview	Overview of infrastructure manager mandate and methodology including ESG overlay with climate modelling	6 October 2021	Cllr Fox, Cllr Hilton, Cllr Hollidge
Title of Training/Briefing	**Detail**	**Proposed Date**	**Invited**
Overview of the Local Government Pension Scheme	Overview of the Local Government Pension Scheme for new Committee or Board members or as a refresher. Webinar hosted by Barnet Waddingham.	28 October	Committee Members and Board members
Cryptocurrency	Training on Cryptocurrency investment provided by Ruffer as requested by Committee on 1 March 2021	TBC	Committee Members
Infrastructure training part 2 - ESG	Continuation of inhouse training item on Infrastructure to understand how ESG is integrated into the Pantheon strategy	TBC	Committee Members
LGA Fundamentals	3 day Fundamentals training day for Members new to Pensions Committee or Board	Oct, Nov, Dec	Committee Members and Board members

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

Agenda Item 16

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