



PENSION COMMITTEE

TUESDAY, 28 SEPTEMBER 2021

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Gerard Fox (Chair)
Councillors Julia Hilton, Ian Hollidge, Paul Redstone and David Tutt

A G E N D A

- 1 Minutes (*Pages 3 - 12*)
- 2 Apologies for absence
- 3 Disclosure of Interests
Disclosures by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.
- 5 Pension Board Minutes (*Pages 13 - 20*)
- 6 Governance Report (*Pages 21 - 58*)
- 7 Pensions Administration report (*Pages 59 - 68*)
- 8 Internal Audit Report - Pension Fund Administration - People, Processes and Systems 2020/21 (*Pages 69 - 96*)
- 9 Independent Auditor's (Grant Thornton) Report to those charged with governance and Annual Report 2020/21 (*Pages 97 - 164*)
- 10 Employer Engagement Report (*Pages 165 - 168*)
- 11 Report of the Pension Board to the Pension Committee (*Pages 169 - 172*)
- 12 Risk Register (*Pages 173 - 184*)
- 13 Work programme (*Pages 185 - 200*)
- 14 Investment Report (*Pages 201 - 276*)
- 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 (*Pages 277 - 284*)
- 18 Breaches Log (*Pages 285 - 290*)
- 19 Employer Admissions and Cessations (*Pages 291 - 298*)
- 20 Independent Advisor Procurement Report (*Pages 299 - 324*)
- 21 Any other exempt items previously notified under agenda item 4

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

20 September 2021

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

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

Agenda Item 1

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 12 July 2021.

PRESENT Councillors Gerard Fox (Chair) Councillors Sam Adeniji, Julia Hilton, Paul Redstone and David Tutt

ALSO PRESENT

Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Russell Wood, Pensions Manager: Investment and Accounting
David O'Hara, ISIO
Andrew Singh, ISIO
Willam Bourne, Independent Advisor
Harvey Winder, Democratic Services Officer

21 MINUTES

21.1 The minutes of the meeting held on 22nd June 2021 were agreed as a correct record.

22 APOLOGIES FOR ABSENCE

22.1 There were no apologies for absence.

23 DISCLOSURE OF INTERESTS

23.1 There were no declarations of interest.

24 URGENT ITEMS

24.1 There were no urgent items.

25 INVESTMENT STRATEGY REVIEW

25.1 The Committee considered a report requesting approval of the East Sussex Pension Fund's (ESPF or the Fund) investment strategy and direction of travel for the Fund.

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

- The Fund requires a rate of return of 3.7% to maintain its current size, but to maintain the current funding levels and account for future accrual of benefits, as more pensioners reach retirement age, it requires an increase of 5.5% per annum. In 2019 the funding rate was 107% and the primary employer contribution rate was 18%. By March 2021 it was 106% but the primary employer rate has increased to 21%. This is because the expected return in 2019 was 5.7% and best estimate now is 5.3%, as result of long term interest rates coming down and making opportunities to find other return-generating

assets harder to achieve. The Fund therefore has less chance of achieving its targets relative to 2019, however, by making the proposed changes the Fund can improve its rate of return without increasing the risk to the Fund, i.e., it will provide a better risk adjusted return than the current strategy. This should help reduce pressure on employers to make up the funding gap.

- Inflation poses a significant risk to the Fund. Infrastructure investments will help mitigate against this risk, as income from infrastructure tracks inflation well and provides greater returns than index linked gilts, which is why it is the focus of the strategy review.
- The proposals include a reduction in the allocation of the Fund in the diversified growth funds – currently held by Ruffer and Newton – as this allocation is overweight. It is proposed that strategic reduction is made in the Newton allocation, as Ruffer provide capital preservation and protection against inflation, which is in keeping with the plan to protect against inflation.
- Under the proposed plan, the diversified credit allocation will be taken from the corporate bonds allocation as it will maintain capital preservation during poor market conditions. This increase in diversified credit could either be an increase in the allocation to the M&G Alpha Opportunities Fund or to a diversified credit sub-fund in the ACCESS pool.

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

- Whilst inflation is a considerable risk to the Fund, it was argued that climate change is the greatest risk and limiting global warming to 1.5C is the only way to protect the Fund long term. The Fund's fiduciary duty should compel it to take all possible actions to mitigate against this risk and there is no more than nine years left to reduce carbon emissions before the 2C warming scenario can no longer be prevented.
- Shareholder engagement has had little impact on changing the behaviour of fossil fuel companies to date and many are still discovering new oil and gas fields. Even though the Fund's exposure is now low, which is to be commended, fossil fuel companies play a central role in driving climate change and need to be singled out. Divesting all holdings in fossil fuel companies will show real leadership and show that the Fund means business in regards to climate change.
- The Fund's Responsible Investment Policy says it retains the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful, so this would be a possible route for the Fund to take.
- Fossil fuels are becoming an increasingly risky, overpriced asset to invest in. this is because they rely for their valuation on more reserves than they can possibly exploit; Governments are introducing policies to encourage the creation of renewable infrastructure; and Governments are beginning to subsidise the cost of green and renewable sources of energy to consumers. Renewable infrastructure offers better returns and is a safer long term investment than oil and gas companies, so the money allocated in oil and gas companies should instead be invested in renewable infrastructure.

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

- Department of Work and Pensions (DWP) guidance to Pension Funds is against the use of divestment as a tool of engagement with companies and the Pension Minister has said it is not a sensible approach to moving the energy transition forward. It may also have limited impact due to the majority of oil reserves being held by state-owned companies like Gazprom. Engagement with fossil fuel companies will help them to become useful actors in the energy transition process and some are beginning to invest in renewable infrastructure, albeit not yet enough. Engagement is also arguably a better way of showing leadership in tackling climate change than divestment.
- Recent engagement by The Institutional Investors' Group on Climate Change (IIGCC) members, Climate Action 100 members and other members to take control of Exxon Mobil's Board goes to show the impact shareholder escalation can have on a fossil fuel company. Half of the IIGCC's target of the 160 biggest polluting companies have agreed to align their activities to 1.5C pathway as a result of IIGCC engagement. All of the Fund's investment managers are signed up to the IIGCC.
- The Fund is moving rapidly in the direction of carbon alignment. It has moved from 6.6% of assets in fossil fuels in 2015 to 4.5% in 2018 and 2% at the end of March 2021. 0.67% of that is in UBS passive fund the Committee has committed to selling and transferring into Osmosis and Bailey Gifford funds. This will leave 1.2% of which 0.3% will be in M&G Corporate Bonds that the Committee is recommended to sell if it agrees this year's strategy review. The private equity portfolios account for 0.1% and that will disappear as those funds are wound down.
- The Fund has moved its exposure to fossil fuels from passive index funds into fossil free funds like Osmosis and Storebrand; impact and sustainability funds like WHEB and Wellington; and the Paris Aligned active fund, Bailey Gifford. The Fund will have 15 or 16 times the assets in climate solutions, resource efficiency, forward looking index, green tilted index, and impact and sustainability funds than it will in residual fossil fuel exposure.
- Once the new strategy is agreed and implemented the Fund will have no strategic exposure to fossil fuel companies, meaning there will no longer be a structural risk to the Fund from fossil fuels. The only exposure at that point will be the two diversified growth funds, Newton and Ruffer, which may invest in fossil fuel companies tactically and who both accept that in the long term exposure will ultimately likely be zero. Both managers have significantly more research resources devoted to analysing investment risk and how effective oil and gas companies' carbon transition plans look, so it would be difficult to dictate to them which companies they should not invest in. If the Fund had prohibited these managers from owning fossil fuel stocks, for example, then in November 2020 they would not have been able to buy into stocks that have doubled in value in six months. Ruffer and Newton are also more heavily involved in Climate Action 100. Ruffer sold the majority of its stake in Exxon when engagement appeared to not work and used its remaining stake to vote in climate activist board members.
- It is very difficult to divest from an individual company, as the Fund invests in financial products not companies and the Fund would have to sell entire holdings to divest from individual companies. This is especially difficult where the Fund is invested in the ACCESS pool, as it is not the only investor and cannot instruct the other LGPS to also sell. Newton and Ruffer funds sit in the ACCESS pool and there are no alternative diversified growth funds that do not invest in fossil fuels in the ACCESS pool, meaning

that the Fund would need to withdraw from that pooled fund in order to invest in alternative diversified growth funds. It would be very difficult to explain to the Ministry of Housing Communities and Local Government (MHCLG) in this circumstance why the Fund's money should be withdrawn from the ACCESS pool.

- Fossil fuel exposure includes exposure via utility companies that may produce electricity from fossil fuels, such as EDF. Utility companies appear to have set out plans for alignment to a below 2C warming scenario, although the Fund has not been able to verify their deliverability. Any divestment would need to be clear whether it would include divestment from utility companies as well as oil and gas companies.

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

- 1) *note the Investment Strategy report (Appendix 1);*
- 2) *Agree the following proposed strategic asset allocation (as set out paragraph 4.1-4.7):*

Asset Class	%
Global Equity	40.0
Diversified Growth	17.0
Private Equity	5.5
Balanced Property	7.0
Inflation-Linked Property	4.0
Infrastructure Equity	11.0
Private Credit	5.0
Diversified Credit	10.5
Corporate Bonds	-
Index-Linked Gilts	-
Cash	-

- 3) *delegate authority to the Chief Finance Officer, in consultation with the Chair, to take all necessary actions to give effect to the implementation of the above recommendation; and*
- 4) *propose to divest from all fossil fuel companies excluding utility companies and to use that money to invest in green infrastructure funds subject to advice from the Fund's professional advisers at the next meeting.*

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

25.5 The Committee RESOLVED to

- 1) note the Investment Strategy report (Appendix 1);
- 2) Agree the following proposed strategic asset allocation (as set out paragraph 4.1-4.7):

Asset Class	%
Global Equity	40.0
Diversified Growth	17.0
Private Equity	5.5
Balanced Property	7.0
Inflation-Linked Property	4.0
Infrastructure Equity	11.0
Private Credit	5.0
Diversified Credit	10.5
Corporate Bonds	-

Index-Linked Gilts	-
Cash	-

- 3) delegate authority to the Chief Finance Officer, in consultation with the Chair, to take all necessary actions to give effect to the implementation of the above recommendation; and
- 4) Request a report at the September Committee meeting 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.

26 WORK PROGRAMME

26.1 The Committee considered its work programme.

26.2 The Committee discussed the benefits of reducing the number of items on future agendas, particularly where they relate to areas of focus of the Pension Board, such as governance and employer engagement; or where they are being presented to the Committee 'to note' and could instead be circulated by email for information. The Committee was also in favour of using the call-over function for reports that require agreement but are not controversial, for example, policy documents that regulations require a new version is agreed every three years or when changes are made to it. This would enable the Committee to focus its time on more complex or controversial issues.

26.3 The Committee agreed to:

- 1) agree its work programme; and
- 2) agree to let officers advise which reports currently listed as standing items should be considered less often by the Committee in future.

27 EXCLUSION OF THE PUBLIC AND PRESS

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

28 ENVIRONMENTAL SOCIAL AND GOVERNANCE IMPACT ASSESSMENT

28.1 The Committee considered a report containing a review on the investment managers' Environmental, Social and Governance (ESG) activities.

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

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

29 INVESTMENT REPORT

29.1 The Committee considered a report providing an update on the investment activities undertaken by the Fund that are exempt in nature.

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

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

The meeting ended at 1.15 pm.

Councillor Gerard Fox (Chair)

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PENSION BOARD

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

PRESENT Councillors Ray Martin (Chair) Councillors 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 Drutt.

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 PENSIONS ADMINISTRATION REPORT

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 overseas 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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Report to: Pension Committee

Date of meeting: 28 September 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 Committee is recommended to:

- 1) Note the latest changes in the regulatory environment
 - 2) Note the change in membership of the Pension Board and Committee
 - 3) Note the update on the work of the McCloud Working Group
 - 4) Approve the changes to the conflict of interest policy (Appendix 1)
 - 5) Note the changes to the abatement policy (Appendix 2)
 - 6) Approve the changes in relation to General Data Protection Regulation (GDPR) on the Fund's Privacy notices (Appendices 3 & 4)
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1. Background

1.1 This report is brought to the Pension Committee 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 approval.

2. Regulatory change

2.1 In July 2021 the Department for Work and Pensions launched a consultation on proposed regulations connected to the Financial Guidance and Claims Act 2018. The new regulations are intended to require Trustees and Scheme Managers to point members towards appropriate guidance when seeking to exercise their pension freedoms.

2.2 The so-called "stronger nudge" would apply to members aged 50 and over seeking to transfer out of the Fund. The consultation ended in September 2021 is available on the gov.uk website. Officers will update the Board and Committee with any changes to regulation resulting from this consultation when available.

3. Change to the Pension Board and Committee

3.1 Following the Local Elections in May 2021 a member of the Pension Board, Cllr. Collier, was elected to the East Sussex County Council. Cllr. Collier was the Borough and District Councils Employer Representative on the Pension Board.

3.2 Cllr. Collier resigned his position on the Pension Board following his change of role and the various Borough and District Councils were asked to nominate a replacement. Three such nominations were received.

3.3 One of the people nominated withdrew from the process and the remaining nominees were invited to meet virtually with the Chair of the Pension Board and the Pensions Manager – Governance and Compliance to discuss the nature of the role and their suitability for the position.

3.4 The Governance Committee, which is responsible for the appointment of new members to the Pension Board, met in July 2021 and determined that Cllr. Illingworth of Wealden District Council should be appointed. He has met with the Head of Pensions, Pensions Manager – Governance and Compliance and the Pensions Training Co-ordinator to discuss his training needs to help meet legislative requirements.

3.5 In addition to the changes to Pension Board, there is a change in membership to the Pension Committee. Cllr Adeniji requested to step down from the Pension Committee in July 2021 and has been replaced with Cllr Hollidge from the same political group to comply with the legislative requirement for political balance on local authority committees.

4. Conflicts of Interest Policy

4.1 The existing conflicts of interest policy approved in November 2020 has been reviewed and amended to note the risk associated with a perceived conflict of interest; in addition to actual and potential conflicts of interest. Additionally, references to officers having responsibilities to the Orbis partnership have been removed as the Fund is no longer party to that arrangement. The revised policy is included in **Appendix 1**.

5. Abatement policy

5.1 At the June 2021 meeting, the Pension Committee determined that the Administering Authority should no longer abate the pensions of members who re-enter the workplace after retiring. The decision was taken that abatement would cease as of the start of the 2021/22 financial year.

5.2 Officers have amended the Abatement Policy to action the Pension Committee's decision. The amended document is included as **Appendix 2**. The document still refers to members informing the Administering Authority if they are an ill health tier 3 member.

5.3 Implementing the new abatement strategy, a notification was placed on the Fund website advising of the policy change inviting anyone effected to contact the team. In addition, the Pension Administration Team (PAT) have reviewed any case where a suspension is in place and contacted the individuals advising their pension would be reinstated from April 2021 and their backdated and pension payments were included in the August payroll. There were 20 cases of suspended pensions from Abatement, now in payment.

6. McCloud Working Group

6.1 This Group has not met since April 2021. The Government announced in May 2021 an intention to consult on its proposals. Further information will be required before the most appropriate response for the Administering Authority can be determined. Information has been requested from employers to support this with a response deadline of October 2021.

6.2 An update email was sent to all members of the working group on 1 June 2021 as the Local Government Minister made a [Written Ministerial Statement on McCloud and the LGPS](#). The

statement confirmed the key changes to scheme regulations that will be made to remove age discrimination from the LGPS. The Statement confirms

- The age requirement for underpin protection will be removed
- A member will not need to leave with an immediate entitlement to benefits to qualify for underpin protection
- The remedy period will end on 31 March 2022
- The underpin calculation will be based on final pay at the underpin date, even if this is after 31 March 2022
- There will be two stages to the underpin calculation: the first on the underpin date which is the date of leaving or age 65, if earlier, the second when the benefits are paid
- The regulations will be retrospective to 1 April 2014

A degree of uncertainty remains for some elements where the Statement is silent, however, it is expected that Ministry of Housing Communities and Local Government (MHCLG) will issue a full response to the consultation and to publish draft regulations later this year. Further details will be shared with the working group, Board and Committee as it becomes relevant.

7. Communicating with Pension Board Representatives

7.1 One of the recommendations from the internal audit on Governance in 2020/21 was that despite the Pension Board being the stakeholder representatives for Fund members and Fund employers there were no details published on how those stakeholders could contact their representative should they wish to, reducing the ability to represent those stakeholders.

7.2 Providing contact details for individual Pension Board members is not a legal requirement and as Pension Board members are not employed by the Council or Pension Fund, they do not have official inboxes to receive communication. The Fund was fully compliant with the regulations without these contact details, however agreed that in the best interest of stakeholders, and the ability for Board members to be truly representative, a solution should be considered.

7.3 The Communications Working Group discussed the most suitable way to enable more direct communications and established that a mailbox monitored by officers to forward onto the Chair of the Board or a named Board member as relevant, would be the most effective manner to allow easy communication without disclosing personal email addresses. Details of this mailbox will be included in the Fund's new website for transparency to stakeholders.

8. Privacy Statements and Data Retention

8.1 As part of the internal audits discussed at the June 2021 Board and Committee meetings, it was determined that both a full and summary privacy notice should be published on the Council's website, whereas previously only a full version was available.

8.2 The new summary privacy notice has been created and will be published when the Fund's new website is launched, and the full privacy notice has been updated to reflect the current data arrangements within the Fund. A copy of the privacy statements can be found in **Appendix 3 and 4.**

8.3 As part of the review of the privacy statements changes were also made to the retention period for member data. Previously it was stated that data would be held for 15 years after a benefit ceased to be payable. This has been shown not to be fit for purpose. For example, the legal case known as “Lloyds 3”, which resulted in the review of Guaranteed Minimum Pension, required records up to around 30 years old to be amended.

8.4 Going forward the Administering Authority will retain member data until such a time that it is satisfied that no claim can be made upon it. A request has been made to East Sussex County Council to amend the retention policy in line with this change. Due to Council timeframes and the relevant committee meeting bi-annually, this change is expected to be made in January 2022.

9. Conclusion

9.1 The Pension Committee is recommended to approve the amended policies as outlined in this report to ensure the Fund operates effectively; note the proposed legislative change and the work of the McCloud Working Group.

IAN GUTSELL
Chief Finance Officer

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

CONFLICTS OF INTEREST POLICY

September 2021



CONFLICTS OF INTEREST POLICY

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Introduction

The potential for conflicts of interest have always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS, as an officer with responsibilities for or within a shared service or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the East Sussex Pension Fund (the Fund), which is managed by East Sussex County Council (the Council) in its capacity as Administering Authority. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity, and seeks to ensure consistency with the Council's policies and codes.

This Conflicts of Interest Policy is established to guide the Pension Committee members, Pension Board members, officers and advisers. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

This conflict of interest policy also identifies areas of potential conflict that are specific to the Local Government Pension Scheme (LGPS) that would be dealt with in the same manner as conflicts of interest under the Members' codes of conduct and Employees' codes of conduct.

In preparing this policy it is noted that it is not just actual or potential conflicts which pose a risk to the Fund. Where there is a perception that a conflict exists, even where it is not the case, this must be taken into account.

Aims and Objectives

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measuring and monitoring success
- Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.

The identification and management of potential and actual conflicts of interest is integral to the Council achieving its governance objectives as the administering authority of the Fund.

To whom this Policy Applies

This Conflicts of Interest Policy applies to:

- all members of the Pension Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not.
- all managers in the Council's Fund Management Team,
 - the Chief Finance Officer (Section 151 Officer),
 - the Chief Operating Officer, and
 - any other officer of East Sussex County Council who has responsibilities relating to the Fund, (from here on in collectively referred to as the officers for or of the Fund).
- all advisers and suppliers to the Fund, whether advising the Pension Board, Pension Committee or Fund officers.

The Head of Pensions will monitor potential conflicts for officers involved in the daily management of the Fund and highlight this Policy to them as they consider appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role and including responsibilities representing the Fund on other committees, groups and bodies.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Council as the administering authority in relation to Fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, shared service partners, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Council rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Council and any other body on which they represent the Council, on any actual or potential conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Council how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the Fund, this is the Administering Authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the Administering Authority for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

[Further, the Act requires that the Council as administering authority must have regard to any such guidance that the national LGPS Scheme Advisory Board may issue (see below).]

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on the Council as administering authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the Board. It also requires those Pension Board members to provide reasonable information to the Administering Authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards. Further, regulation 110 provides that the national LGPS Scheme Advisory Board has a function of providing advice to administering authorities and local pension boards. The LGPS Scheme Advisory Board issued guidance relating to the establishment of local pension boards, including a section on conflicts of interest. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for local pension board members are not being adhered to.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

The CIPFA governance principles guidance states "*the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisors might have.*" It includes some examples of how conflicts of interest could arise in these new roles. It highlights the need for administering authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities; and
- ensure declarations are updated appropriately.

This Conflicts of Interest Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

Localism Act 2011

Chapter 7 of the Localism Act 2011 requires local authorities to produce a code of conduct for members. All members and co-opted members of the Pension Committee are required to register and declare 'disclosable pecuniary interests' and abide by the Council's Code of Conduct for Members. That Code contains provisions relating to Code Interests and Disclosable Pecuniary Interests, their disclosure and limitations on members' participation where they have any such interest.

The Seven Principles of Standards in Public Life

Sometimes known as the 'Nolan Principles', the seven principles of public life apply to anyone who holds public office. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service
- local government
- the police
- the courts and probation services
- non-departmental public bodies
- health, education, social and care services

The principles also apply to all those in other sectors that deliver public services. Many of the principles are integral to the successful implementation of this Policy.

- Selflessness
- Integrity
- Objectivity
- Accountability

- Openness
- Honesty
- Leadership

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any protocol or other document entered into between an adviser and the Council in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Administering Authority Requirements

Pension Committee Members

Committee Elected Members and co-opted members of East Sussex County Council are required to adhere to the **Council's Members' Code of Conduct (annex 1)** which, in Part 2 and 3, includes requirements in relation to the disclosure and management of personal and prejudicial interests.

Pension Board Members

Pension Board members are required under (xxi) of the Board's terms of reference to adhere to the Members' Code of Conduct which, in Part 2 and 3, includes requirements in relation to the disclosure and management of personal and prejudicial interests.

Officers

Officers of the Council are required to adhere to the Council's **Code of Conduct and Conflict of Interest Policy for Employees (annex 2)** which includes requirements in relation to the disclosure and management of all potential conflicts of interests that may impact on their work or that of the Council.

Employees of Surrey County Council who, as part of their responsibilities provide services to or on behalf of the Fund under the Orbis shared service, are required to adhere to the Surrey County Council Code of Conduct for Employees which has similar requirements relating to the disclosure and management of their work for Surrey County Council, which will include their responsibilities for carrying out work for the Fund.

Advisers and suppliers

Advisers and suppliers to the Fund are required to sign up to the **Orbis Supplier Code of Conduct (annex 3)** as part of the tendering process for all East Sussex County Council services. Suppliers are required to declare any conflicts of interest when quoting or submitting a tender for any contract. The terms of contracts for all advisers and suppliers of the Fund will also include specific requirements around conflicts of interest deemed necessary for this specialised type of service.

Conduct at Meetings

There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer

(or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pension Board or Pensions Committee meeting, and that this will be recorded in the minutes.

What is a Conflict or Potential Conflict of interest and how will they be managed?

General conflicts of interest

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Conflicts of interest for Pension Board and Pension Committee members

Conflict of interests as they apply to Pension Board and Pension Committee members are defined in the Members' Code of Conduct which is set out at Annex 1.

As well as the definition in the Code of Conduct, paragraph xxxvi of the terms of reference of the Pension Board states a conflict of interest is defined in the Public Service Pensions Act 2013 as: "in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the Pension Board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)."

Conflicts of interest for Officers

The Council's Code of Conduct and Conflict of Interest Policy for Employees is set out at Annex 2 and defines personal interests in Section 8: Personal interests. Officers are also required to declare any outside commitments under Section 7 of the Code.

Conflicts of interest for advisers and suppliers

The terms of contracts for all advisers and suppliers of the Fund will specify what constitutes a conflict of interest and how it will be managed.

There may be circumstances where these advisers are asked to give advice to scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Fund and on which advice is required or to a supplier or organisation providing services to the Fund. An adviser can only continue to advise the Council and another party where there is no conflict of interest in doing so.

An adviser appointed to advise the Pension Committee or Pension Board, or Fund Officers can be the same person as there is no conflict of interest between the multiple responsibilities.

Areas of potential conflict that are specific to the LGPS

These are areas of potential conflict that the Scheme Advisory Board identifies as specific to the LGPS. They apply to Pension Committee and Pension Board Members, as well as officers, advisers and suppliers and are to be managed in the same way as other conflicts of interest under the relevant policy:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contributions setting for the administering authority and other employers.
- Cross charging for services or shared resourcing between the administering authority and the fund.
- Dual role of the administering authority as owner and client of a pool.
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Members of the Pension Board or Pension Committee would need to consider whether they have a personal interest and whether that is prejudicial or pecuniary under the **Members' Code of Conduct**.

Officers would need to consider whether any of the above conflicts of interest apply to Section 7 or Section 8 of the **Code of Conduct and Conflict of Interest Policy for Employees**.

Advisers and suppliers to the Fund also need to consider whether any of the above conflicts of interest apply to the conflict of interest policy in their contract with the Administering Authority.

Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS Fund administered by the Administering Authority, and
- at the same time has:
 - a separate personal interest (financial or otherwise) or
 - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts of interest relating to the areas of conflict specific to the LGPS are included in Appendix 1.

East Sussex County Council, as Administering Authority, will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest. East Sussex County Council will evaluate the nature of any interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

Gifts and Hospitality

The Members' Code of Conduct sets gifts and hospitality with worth estimated at over £50 as a personal interest under section 8 (3) (a) (iii).

Section 5 of the Code of Conduct and Conflict of Interest Policy for Employees forbids officers from the acceptance of any gifts other than those set out in 5.6. Section 6 sets out that officers should exercise caution in offering and accepting hospitality.

The suppliers code of conduct requires advisers and suppliers to maintain a gifts and hospitality register (relating to Council contracts) that is available on review.

Perceived conflicts of interest

A perceived conflict of interest occurs when it appears that a conflict of interest may exist, even if that is not the case. For example, a committee member might be in a sports team that plays against opponents connected to a third party provider that goes on to tender to provide a service to the Fund; creating a perception that a social connection may have swayed the decision making process.

In this example there is a reputational risk that a decision maker may have been unduly influenced even though they may not have been aware of the situation and it was not relevant to the decision being made.

Where individuals are aware of a perceived conflict this must be declared. Where no conflict exists, this decision can be documented to mitigate the reputational risk.

Managing conflicts of interest

Managing conflicts of interest for members of the Pension Board and Pension Committee

Section 9 of the Members' Code of Conduct sets out the requirements around Members disclosing an interest at a meeting of the authority at which any matter relating to the business is considered, including circumstances where they do not have to disclose an interest. Each agenda of the Pension Board and Pension Committee includes an agenda item seeking declarations of interest from members for all matters for discussion on the agenda.

Section 12 of the Members' Code of Conduct sets out the effect of prejudicial interests on participation at a meeting, including circumstances where they must withdraw from a meeting and where they may continue to attend a meeting but only for the purposes of making representations. Section 15 sets out dispensations to these restrictions. A Member declaring a personal, non-prejudicial interest would not be expected to take any action.

Section 13 of the Members' Code of Conduct deals with the requirement for Members to register in the register of members' interests all personal interests and personal interests that are also disclosable pecuniary interests.

Section 14 sets out the steps taken where a Member considers that the information relating to any of their personal interests is sensitive information, and the authority's Monitoring Officer agrees. Section 14 (3) states that "sensitive information" means information, the details of which, if disclosed, could lead to you or a person connected with you being subject to violence or intimidation.

Section xxxix of the Pension Board terms of reference requires Members of the Pension Board to provide, as and when requested by the Scheme Manager, such information as the Scheme Manager requires to identify all potential conflicts of interest and ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest at appointment or whilst a member of the Pension Board.

Managing conflicts of interest for officers

The Code of Conduct and Conflict of Interest Policy for Employees says all potential conflicts of interest must be declared before the activity commences or the issue arises. If an individual's circumstances change, it is their responsibility to immediately inform their manager and make a new declaration.

Annually, all staff will be reminded of the need to declare potential conflicts of interest and required to complete an annual form, including where a NIL return has been made in the previous declaration.

Appendix 1 of the Code of Conduct and Conflict of Interest Policy for Employees describes how potential conflict of interest are dealt with.

Managing conflicts of interest for advisers and suppliers.

The contract between the adviser and supplier and the Administering Authority will specify how conflicts of interest are managed. This will include All of the advisers and suppliers to the East Sussex Pension Fund being expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with, East Sussex County Council.

All advisers and suppliers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Head of Pensions in relation to how they will manage and monitor actual or potential conflicts of interest relating to the provision of advice or services to the Council
- notify the Head of Pensions immediately should a potential or actual conflict of interest arise

Reporting conflicts of interest

Pension Committee Members

Section 13 of the Members' Code of Conduct requires Members and co-optees of East Sussex County Council to complete a registration of interests form within 28 days of election or appointment to officer (where that is later) containing details of personal and pecuniary interests.

A copy of the register of interest form is available on the Administering Authority's website and available to view on request.

Member Services officers will send an annual reminder to Members to review their registration of interests.

Any declarations of interest made at a Committee meeting will be recorded in the minutes.

Pension Board Members

Pension Board members are required under (xxi) of the Board's terms of reference to adhere to the Members' Code of Conduct.

Section 13 of the Members' Code of Conduct requires Members and co-optees of East Sussex County Council to complete a registration of interests form within 28 days of election or appointment to officer (where that is later) containing details of personal and pecuniary interests.

A copy of the register of interest form is available to view on request.

Member Services officers will send an annual reminder to Board Members to review their registration of interests.

Any declarations of interest made at a Board meeting will be recorded in the minutes.

Officers

Annually, all staff will be reminded of the need to declare potential conflicts of interest and required to complete an annual form, including where a NIL return has been made in the previous declaration.

The officers line manager/Assistant Director will retain a copy of an officer's conflicts of interest declaration?

Responsibility

The Council as the scheme administering authority manager for the Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Head of Pensions is the designated individual for ensuring the procedure outlined above is carried out.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties, to declare and register interests and seek advice and to withdraw from meetings if they are not complying.

Key Risks

The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Head of Pensions will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy or the relevant codes of conduct referred to in this policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- A decision by an individual to disregard advice and be subject to formal action under the Localism Act 2011.

Costs

All costs related to the operation and implementation of this Policy will be met directly by East Sussex Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval, Review and Consultation

This Conflicts of Interest Policy was approved on 28 September 2021 by the East Sussex Pension Committee. It will be formally reviewed and updated by the Committee at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Sian Kunert
Head of Pensions, East Sussex County Council
E-mail - sian.kunert@eastsussex.gov.uk
Telephone – 07701394423

Examples of situations where a conflict of interest may arise

a)	An employer representative on the Pensions Board may be required to consider a policy or covenant change which could result in an increase in employer costs by the employer he or she represents.
b)	A member of the Pension Committee is on the board of an Investment Manager that the Committee is considering appointing.
c)	A Pensions Committee or Pensions Board member is a beneficiary of the East Sussex Pension fund and a discussion item as a result of legislative change could affect members benefits.
d)	An officer of the Pension Fund also has responsibilities within the administering authority or relating to a shared service initiative which provides services to the Fund, and which has objectives which are not fully aligned to that of the Fund.
e)	An employer representative on the Pension Board is employed by a company to which the Council has outsourced its pension administration services and the Pension Board is reviewing the standards of service provided by that company.
f)	The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
g)	The Pension Fund is considering alternative supply of services currently provided by the Administering Authority. The Chief Finance Officer, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee which, if agreed would result in a material reduction in the recharges to the Council from the Fund.
h)	Officers are asked to provide a report to the Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen could result in a change of employer or job insecurity for the officers.
i)	An employer representative appointed to the Pension Board to represent employers generally could be conflicted if he or she only serves to act in the interests of their own authority/organisation, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pension Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.
j)	A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, selection of new investment managers, providing assistance with monitoring the covenant of employers or where they are also advisers to the ACCESS Pool.
k)	An employer or employee representative has access to information by virtue of his or her employment, which could influence or inform the considerations of the Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Board.
l)	An officer of the Fund or member of the Pension Committee accepts a dinner invitation or gift from an Investment Manager who has submitted a bid as part of a tender process.

Annex 1, 2 & 3 have not been reproduced in this policy update as no changes to the ESCC or Orbis internal policies referenced here

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Policy for Abatement of Retirement Pension in New Employment for the East Sussex Pension Fund

2021

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Introduction

This document outlines the position on the abatement of pensions adopted by the East Sussex Pension Fund (the Fund).

If you built up any pension in the Local Government Pension Scheme (LGPS) before 1 April 2014, take payment of your pension and then return to work in local government, or with an employer who offers membership of the LGPS, you must tell the LGPS fund that pays your pension about your new job. This is regardless of whether or not you join the LGPS in your new job. The LGPS fund that pays your pension will then let you know whether your pension in payment is affected in any way.

The East Sussex Pension Fund has resolved, that if a member has a pension with us, **the pension will not be subject to reduction or suspension** should they start a new period of employment with an LGPS eligible employer.

The only exception will be if you are in receipt of a tier 3 ill health pension benefit, which will be stopped if you take up "gainful" employment¹; so your pension may be affected if you return to work in this situation.

Regulatory Basis

Where a Scheme Member is in receipt of a pension in respect of previous membership of the LGPS, that pension may be subject to reduction or suspension where the Member enters a new employment with any Scheme Employer and is eligible to join the LGPS in that employment. A full definition of effected employments is described in Schedule 2 The Local Government Pension Scheme (Administration) Regulations 2008.

The Administering Authority is required to have, and regularly review, a policy on abatements. The relevant requirements can be found in Reg. 70 The Local Government Pension Scheme (Administration) Regulations 2008.

It is for the Administering Authority to decide its policy on abatements.

Policy Decision

In formulating this policy, the Administering Authority has had regard to:

- The level of potential financial gain² at which it wishes abatement to apply;
- The administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur;
- The extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service;

¹ Gainful employment is defined in the scheme rules as any type of paid work, for at least 30 hours a week over a period of at least 12 months

² This is a reference to the financial gain which it appears to the Administering Authority may be obtained by a member as a result of their entitlement both to a pension and to pay under any new Local Government employment

- The changing pensions landscape and approach taken by other scheme's and funds to ensure fairness and consistency for members
- The impact of our employers recruitment policies and needs.

What this policy means for members

Previously when a member of the Fund had already started to claim their pension but started a new period of employment, where they were eligible to join the LGPS, the amount of pension paid was subject to a possible reduction or suspension if they breached their re-employed earnings limit.

This review will no longer happen and the pension amount paid will not be reduced or suspended. Members with an abated pension will be put back in the position they would have been in as if their pension had not been reduced from April 2021. If this applies to you please contact the Pensions team.

Ill Health tier 3 members should continue to inform us of changes to their employment status to ensure our records are correct going forward. The Fund will let you know whether your pension payments should stop in this case.

Contact Details

East Sussex Pension Fund

East F County Hall
St Anne's Crescent
Lewes
East Sussex
BN7 1UE
Phone: 0300 200 1022
Email: pensions@eastsussex.gov.uk



Privacy Notice Summary Version

September 2021

PRIVACY NOTICE (SUMMARY)

for the members and beneficiaries of the East Sussex Pension Fund

As the Administering Authority of the Fund we hold certain information about you ("**personal data**") which we need to administer the Fund.

We have summarised some of the key ways in which we deal with this information below. Further information can be found in the Full Privacy Notice at the following link:

[Privacy Notice \(eastsussexpensionfund.org\)](http://eastsussexpensionfund.org/Privacy%20Notice)

What personal data do we hold?

The types of data we hold and process will typically include:

- Contact details, including name, address, telephone numbers and email address.
- Identifying details, including date of birth and national insurance number.
- Information relating to your benefits in the Fund, including length of service or membership and salary.
- Other information in relation to your membership of the Fund or to enable the calculation or payment of benefits, for example bank account details.
- Information about your family, dependents or personal circumstances, for example, marital status and information relevant to the distribution and allocation of benefits payable on death.
- Financial information relevant to the calculation or payment of benefits, for example, bank account and tax details.
- Information about your health, for example, to assess eligibility for benefits payable on ill health, or where your health is relevant to a claim for benefits following the death of a member of the Fund.
- Information about a criminal conviction if this has resulted in you owing money to your employer or the Fund and the employer or Fund may be reimbursed from your benefits.

We obtain some of this personal data directly from you. We may also obtain data from your employer (for example, salary information) and from other sources including public databases.

What will we do with your personal data?

We will use this personal data to administer the Fund and to calculate and provide you (and, if you are a member of the Fund, your beneficiaries if you die) with benefits. We will also use this personal data for statistical and financial modelling and reference purposes (for example, when we assess how much money is needed to provide members' benefits and how that money should be invested), and to comply with our legal obligations.

From time to time we will share your personal data with third parties, including our contractors, advisors, government bodies and dispute resolution and law enforcement agencies and insurers in order to comply with our obligations under law, and in connection with the provision of services that help us carry out our duties, rights and discretions in relation to the Fund. These organisations are listed in the full Privacy Notice.

In some cases recipients of your personal data may be outside the UK. If this occurs, we will make sure that appropriate safeguards are in place to protect your data in accordance with applicable laws. Please use the contact details below if you want more information in connection with this.

What is the legal basis for our use of your personal data?

The legal basis for our use of your personal data will generally be one or more of the following:

- a) we need to process your personal data to satisfy our legal obligations as the Administering Authority of the Fund; and/or
- b) we need to process your personal data to carry out a task in the public interest or in the exercise of official authority in our capacity as a public body; and/or
- c) we need to process your personal data for the legitimate interests of administering and managing the Fund and liabilities under it, calculating, securing and paying benefits and performing our obligations and exercising any rights, duties and discretions the Administering Authority has in relation to the Fund; and/or
- d) because we need to process your personal data to meet our contractual obligations in relation to the Fund (for example, under an agreement that you will pay additional voluntary contributions to the Fund), or to take steps, at your request, before entering into a contract.

How long will we hold your data?

We will only keep your personal data for as long as we need to in order to fulfil the purpose(s) for which it was collected and for so long afterwards as we consider may be required to deal with any questions or complaints that we may receive about our administration of the Fund, unless we elect to retain your data for a longer period to comply with our legal and regulatory obligations. We keep your information for long enough to ensure that, if a query arises in the future about your benefits, we have enough information to deal with it where we have a legal obligation to do so. This information includes the data we need to identify a specific record. In practice, this means that your personal data will be retained for such a period as you (or any beneficiary who receives benefits after your death) are entitled to benefits from the Fund until such a time that the Fund is satisfied that there is no benefit due to be paid and no person, estate, or organisation exists that may be able to claim a benefit is due to be paid. This is likely to be at least 75 years after a benefit ceases to be payable. For the same reason, your personal data may also need to be retained where you have received a transfer, or refund, from the Fund in respect of your benefit entitlement.

Your rights

You have a right to access and obtain a copy of the personal data that we hold about you and to ask us to correct your personal data if there are any errors or it is out of date or incomplete. In certain circumstances you have the right to object to the processing of your personal data; for example you have the right to object to processing of your personal data which is based on the public interest or legitimate interests identified in the section above headed "*What is the legal basis for our use of your personal data?*", or where the processing is for direct marketing purposes. In some cases you may also have a right to ask us to restrict the processing of your personal data until any errors are corrected or to transfer or (in very limited circumstances) erase your personal data. You can obtain further information about these rights from the Information Commissioner's Office at: www.ico.org.uk or via its telephone helpline (0303 123 1113).

If you wish to exercise any of these rights, please contact the Fund Administrator below. You also have the right to lodge a complaint in relation to this summary notice, the full Privacy Notice or our processing activities with the Information Commissioner's Office, which you can do through the website above or their telephone helpline.

One of the reasons we collect and hold your personal data is to administer your benefits from the Fund. If you do not provide the information we request, or ask that the personal data we already hold is deleted or that the processing of the personal data be restricted, this may affect our ability to administer your benefits, including the payment of benefits from the Fund. In some cases it could mean that we are unable to put your pension into payment or have to stop your pension (if already in payment).

Please contact the Fund for further information.

East Sussex Pension Fund - Pensions Administration, County Hall East Block, F Floor, Lewes, BN7 1UE
pensions@eastsussex.gov.uk

Data Protection Officer

You may also contact our data protection officer for further information.

Data Protection Officer, East Sussex County Council County Hall West Block, G Floor, Lewes, BN7 1UE

To complain about the use of your information, please contact our [Customer Services Team](#) or our [Data Protection Officer](#).

[Further information on making a complaint.](#)

You can also contact the ICO for further information or to make a complaint:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire SK9 5AF

Phone: 0303 123 1113 (local rate) or 01625 545 745 if you prefer to use a national rate number

[Email ICO](#)

[Report a concern on the ICO website](#)



Privacy Notice Full Version

September 2021

FULL PRIVACY NOTICE

for the members and beneficiaries of the East Sussex Pension Fund

This notice is for members and beneficiaries of the East Sussex Pension Fund (the "**Fund**"). Those with a benefit due from paying Additional Voluntary Contributions ("**AVCs**") should also have regard to the Privacy Notice of our AVC Provider, currently Prudential.

This Notice has been prepared by East Sussex County Council (the "**Administering Authority**", or "**we**") in its capacity as the administering authority of the Fund.

This privacy notice is also provided at the following link:

[Privacy Notice \(eastsussexpensionfund.org\)](http://eastsussexpensionfund.org)

Why we are providing this notice to you

As the Administering Authority of the Fund we hold certain information about you ("**personal data**") which we use to administer the Fund and to pay benefits from it. This notice is designed to give you information about the data we hold about you, how we use it, your rights in relation to it and the safeguards that are in place to protect it.

The technical bit

The Administering Authority holds personal data about you in its capacity as data controller for the proper handling of all matters relating to the Fund, including its administration and management. This includes the need to process your data to contact you, to calculate, secure and pay your benefits, for statistical and financial modelling and for reference purposes (for example, when we assess how much money is needed to provide members' benefits and how that money should be invested), and to manage liabilities and administer the Fund generally. Further information about how we use your personal data is provided below.

The legal basis for our use of your personal data will generally be one or more of the following:

- a) we need to process your personal data to satisfy our legal obligations as the Administering Authority of the Fund; and/or
- b) we need to process your personal data to carry out a task in the public interest or in the exercise of official authority in our capacity as a public body; and/or
- c) we need to process your personal data for the legitimate interests of administering and managing the Fund and liabilities under it, calculating, securing and paying benefits and performing our obligations and exercising any rights, duties and discretions the Administering Authority has in relation to the Fund; and/or
- d) because we need to process your personal data to meet our contractual obligations to you in relation to the Fund (for example, under an agreement that you will pay additional voluntary contributions to the Fund), or to take steps, at your request, before entering into a contract.

What personal data we hold, and how we obtain it

The types of personal data we hold and process about you can include:

- Contact details, including name, address, telephone numbers and email address.
- Identifying details, including date of birth, national insurance number and employee and membership numbers.
- Information that is used to calculate and assess eligibility for benefits, for example, length of service or membership and salary information.
- Financial information relevant to the calculation or payment of benefits, for example, bank account and tax details.
- Financial Information relevant to any assessment of whether a fee charged for non-standard information can be waived.
- Information about your family, dependents or personal circumstances, for example, marital status and information relevant to the distribution and allocation of benefits payable on death.
- Information about your health, for example, to assess eligibility for benefits payable on ill health, or where your health is relevant to a claim for benefits following the death of a member of the Fund.
- Information about a criminal conviction if this has resulted in you owing money to your employer or the Fund and the employer or Fund may be reimbursed from your benefits.

We obtain some of this personal data directly from you. We may also obtain data (for example, salary information) from your current or past employer(s) or companies that succeeded them in business, from a member of the Fund (where you are or could be a beneficiary of the Fund as a consequence of that person's membership of the Fund) and from a variety of other sources including public databases (such as the Register of Births, Deaths and Marriages), our advisers and government or regulatory bodies, including those in the list of organisations that we may share your personal data with set out below.

Where we obtain information concerning certain "special categories" of particularly sensitive data, such as health information, extra protections apply under the data protection legislation. We will only process your personal data falling within one of the special categories with your consent, unless we can lawfully process this data for another reason permitted by that legislation. You have the right to withdraw your consent to the processing at any time by notifying the Administering Authority in writing. However, if you do not give consent, or subsequently withdraw it, the Administering Authority may not be able to process the relevant information to make decisions based on it, including decisions regarding the payment of your benefits.

Where you have provided us with personal data about other individuals, such as family members, dependants or potential beneficiaries under the Fund, please ensure that those individuals are aware of the information contained within this notice.

How we will use your personal data

We will use this data to deal with all matters relating to the Fund, including its administration and management. This can include the processing of your personal data for all or any of the following purposes:

- To contact you.
- To assess eligibility for, calculate and provide you (and, if you are a member of the Fund, your beneficiaries upon your death) with benefits.

- To identify your potential or actual benefit options and, where relevant, implement those options.
- To allow alternative ways of delivering your benefits, for example, through the use of insurance products and transfers to or mergers with other pension arrangements.
- For statistical and financial modelling and reference purposes (for example, when we assess how much money is needed to provide members' benefits and how that money should be invested).
- To comply with our legal and regulatory obligations as the administering authority of the Fund.
- To consider requests for a fee for providing information to which the claimant does not have an automatic right to be waived due to financial hardship.
- To address queries from members and other beneficiaries and to respond to any actual or potential disputes concerning the Fund.
- The management of the Fund's liabilities, including the entering into of insurance arrangements and selection of Fund investments.
- In connection with the sale, merger or corporate reorganisation of or transfer of a business by the employers that participate in the Fund and their group companies.

Organisations that we may share your personal data with

From time to time we will share your personal data with advisers and service providers so that they can help us carry out our duties, rights and discretions in relation to the Fund. Some of those organisations will simply process your personal data on our behalf and in accordance with our instructions. Other organisations will be responsible to you directly for their use of personal data that we share with them. They are referred to as data controllers and we have highlighted them in the table below. The data controllers may be obliged under the data protection legislation to provide you with additional information regarding the personal data they hold about you and how and why they process that data. Further information may be provided to you in a separate notice or may be obtained from the advisers and service providers direct, for example via their websites.

These organisations include the Fund's:

Data processors	Data controllers
<ul style="list-style-type: none"> • Administrator – (currently East Sussex County Council) • Tracing bureaus for mortality screening and locating members – (currently under review) • Overseas payments provider to transmit payments to scheme member with non-UK accounts – (currently HSBC) • Printing companies – (currently CFH Ltd) • Pensions software provider – (currently Aquila Heywood) • Suppliers of IT, document production and distribution services (Orbis) • Legal adviser – (currently Eversheds Sutherland) • Scheme benefit consultants – (Hymans Robertson, Mercer, Aon) • External auditor – (currently Grant Thornton) 	<ul style="list-style-type: none"> • Additional Voluntary Contribution providers – (currently Prudential) • Fund Actuary – (currently Barnett Waddingham) • Insurance companies in connection with ill health benefits – (currently Legal and General) • LGPS National Insurance database – (South Yorkshire Pensions Authority) • The Pensions Ombudsman • Administering authorities of other LGPS funds (or their agents, such as third party administrators) where you have been a member of another LGPS fund and the information is needed to determine the benefits to which you or your dependants are entitled • The Department for Work and Pensions • The Government Actuary's Department

<ul style="list-style-type: none"> • Internal auditor – (currently Orbis) 	<ul style="list-style-type: none"> • The Cabinet Office – for the purposes of the National Fraud Initiative • HM Revenue and Customs • The Courts of England and Wales – for the purpose of processing pension sharing orders on divorce
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In each case we will only do this to the extent that we consider the information is reasonably required for these purposes.

In addition, where we make Fund investments or seek to provide benefits for Fund members in other ways, such as through the use of insurance, then we may need to share personal data with providers of investments, insurers and other pension scheme operators. In each case we will only do this to the extent that we consider the information is reasonably required for these purposes.

From time to time we may provide some of your data to your employer and their relevant subsidiaries (and potential purchasers of their businesses) and advisers for the purposes of enabling your employer to understand its liabilities to the Scheme. Your employer would generally be a controller of the personal data shared with it in those circumstances. For example, where your employment is engaged in providing services subject to an outsourcing arrangement, the Administering Authority may provide information about your pension benefits to your employer and to potential bidders for that contract when it ends or is renewed.

Where requested or if we consider that it is reasonably required, we may also provide your data to government bodies and dispute resolution and law enforcement organisations, including those listed above, The Pensions Regulator, the Pensions Ombudsman and Her Majesty's Revenue and Customs (HMRC). They may then use the data to carry out their legal functions.

The organisations referred to in the paragraphs above may use the personal data to perform their functions in relation to the Fund as well as for statistical and financial modelling (such as calculating expected average benefit costs and mortality rates) and planning, business administration and regulatory purposes. They may also pass the data to other third parties (for example, insurers may pass personal data to other insurance companies for the purpose of obtaining reinsurance), to the extent they consider the information is reasonably required for a legitimate purpose.

In some cases recipients of your personal data may be outside the UK. This means your personal data may be transferred outside the European Economic Area ("**EEA**") to a jurisdiction that may not offer an equivalent level of protection as is required by EEA countries. If this occurs, we are obliged to verify that appropriate safeguards are implemented with a view to protecting your data in accordance with applicable laws. Please use the contact details below if you want more information about the safeguards that are currently in place.

We do not use your personal data for marketing purposes and will not share this data with anyone for the purpose of marketing to you or any beneficiary.

How long we keep your personal data

We will only keep your personal data for as long as we need to in order to fulfil the purpose(s) for which it was collected and for so long afterwards as we consider may be required to deal with any questions or complaints that we may receive about our administration of the Fund, unless we elect to retain your data for a longer period to comply with our legal and regulatory obligations. We keep your information for long enough to ensure that, if a query arises in the future about your benefits, we have enough information to deal with it where we have a legal obligation to do so. This information includes the data we need to identify a specific record. In practice, this means that your personal data will be retained for such a period as you (or any beneficiary who receives benefits after your death) are entitled to benefits from the Fund until such a time that the Fund is satisfied that there is no benefit due to be paid and no person, estate, or organisation exists that may be able to claim a benefit is due to be paid. This is likely to be at least 75 years after a benefit ceases to be payable. For the same reason, your personal data may also need to be retained where you have received a transfer, or refund, from the Fund in respect of your benefit entitlement.

Your rights

You have a right to access and obtain a copy of the personal data that the Administering Authority holds about you and to ask the Administering Authority to correct your personal data if there are any errors or it is out of date or incomplete. In certain circumstances you have the right to object to the processing of your personal data; for example, you have the right to object to processing of your personal data which is based on the public interest or legitimate interests identified in the section above headed "*The Technical Bit*", or where processing is for direct marketing purposes. In some cases you may also have a right to ask the Administering Authority to restrict the processing of your personal data until any errors are corrected, or to transfer or (in very limited circumstances) erase your personal data. You can obtain further information about these rights from the Information Commissioner's Office at: www.ico.org.uk or via its telephone helpline (0303 123 1113).

If you wish to exercise any of these rights or have any queries or concerns regarding the processing of your personal data, please contact the Fund Administrator as indicated below. You also have the right to lodge a complaint in relation to this privacy notice or the Administering Authority's processing activities with the Information Commissioner's Office which you can do through the website above or their telephone helpline.

As explained in the section above headed "*How we will use your personal data*", one of the reasons we collect and hold your personal data is to administer your Fund benefits. If you do not provide the information we request, or ask that the personal data we already hold is deleted or that the processing of the personal data be restricted, this may affect our ability to administer your benefits, including the payment of benefits from the Fund. In some cases it could mean the Administering Authority is unable to put your pension into payment or has to stop your pension (if already in payment).

Updates

We may update this notice periodically. Where we do this, we will inform members of the changes and the date on which the changes take effect.

Contacting us

Please contact the Fund for further information.

East Sussex Pension Fund Pensions Administration – County Hall East Block, F Floor, Lewes, BN7 1UE

Data Protection Officer

You may also contact our data protection officer for further information.

Data Protection Officer, East Sussex County Council County Hall West Block, G Floor, Lewes, BN7 1UE

To complain about the use of your information, please contact our [Customer Services Team](#) or our [Data Protection Officer](#).

[Further information on making a complaint.](#)

You can also contact the ICO for further information or to make a complaint:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire SK9 5AF

Phone: 0303 123 1113 (local rate) or 01625 545 745 if you prefer to use a national rate number

[Email ICO](#)

[Report a concern on the ICO website](#)

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Report to: Pension Committee

Date of meeting: 28 September 2021

By: Chief Finance Officer

Title: Pension Administration - updates

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

RECOMMENDATION

The Committee is Recommended to note the updates.

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 July 2020 to June 2021 can be found at **Appendix 1**. The PAT saw performance numbers fall during the first quarter of 2021 (average 92.0%) as predicted and discussed at the last Committee meeting. Quarter two saw an improvement to an average 95.4%. This would have been even better had it not been some delay issues with transfers-in (now resolved).

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 than provided through Orbis Business Services. A fee has been agreed with Aquila Heywood to implement the new performance measurements and this work should be completed in September 2021. At the same time, they will also add any statutory deadlines and benchmarking data. 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**. We are working collaboratively with the Helpdesk Management team to implement an improvement plan covering resourcing, telephony tools, staff training, back-up plans, smoothing peaks & troughs and ultimately the quality of the customer experience. There was a planned three month transition period before we fully handed over all the PAT emails and that phase was completed on 30 June 2021. The final phase is the service improvement period before we commence formal performance management against the new East Sussex County Council (ESCC) KPI's.

3. Pension Administration Transfer and Staffing Update

3.1 All administration staff are continuing to work from home and none have tested positive for COVID-19. Staff remain in good spirits and we closely monitor their wellbeing. It is not anticipated that staff will be returning to Lewes County Hall before October 2021 at the earliest. Then it is very likely to be on a hybrid basis.

3.2 At the last meeting we celebrated the Altair & MSS system had gone live on time and budget. There were a number of actions still to be finalised before the Transition & Project Boards were closed down. The majority of these were completed by the end of June 2021 and the IT Change Advisory Board approved the project closure and the system is now business as usual (BAU).

4. Internal Audit

4.1 The Internal Audit team have 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 will be presented by the internal audit team. We will report again the progress of completing actions at future meetings.

5 Projects update

5.1 Data Improvement Project – Phase 2

The keys areas of focus are:

- Pension differences <£100 that were put on hold. **Complete**
- Annual Benefits Statements (ABS) 2019/20 outstanding actions – **Complete.**
- Outstanding or incomplete items from Phase 1. **Well progressed**
- Common Data report findings that are deemed very high or high risk, namely – **Work underway**

We will reassess the Status 2, 8 and 9 cases in September once the ABS work is completed. This is now considered an annual BAU event.

5.2 GMP Rectification

Orbis commissioned JLT (Mercers) to undertake the reconciliation and rectification work. The project has been held up by HM Revenue & Customs (HMRC) provision of final data. Mercers provided the final reconciliation report to Orbis in January 2021. In April 2021 Officers reconfirmed the 2019 decision to accept the Fund data over NISPI data where discrepancies remain, and the reconciliation is now complete.

The project is on hold whilst the Orbis contract with Mercers is replaced by a ESCC version. We will then provide Mercers with a data extract of the 2021 pension increases for the pensioner population and access to Altair. Mercers can then start determining the over and underpayments for pensioners and looking at the draft communications. It is unlikely the project will be concluded until Q1, 2022.

5.3 Annual Benefits Statements (ABS) for 2020/21

This year the ABS project is being overseen by ESPF and supported by Surrey County Council until 30/6/21. A bespoke project plan was prepared and a project team met fortnightly to review progress and agree actions.

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 2021 and at that time it was estimated over 99% of eligible deferred members and 96% of eligible active members had a statement produced. A more detailed summary is included in **Appendix 3**.

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:

- (a) Updated the policy held on the website to inform members
- (b) Change the administrative procedures and letter templates to members who may make enquiries about abatement
- (c) Identified the historical cases that had been totally ceased or suspended (20 members) as a result of abatement and in August 2021 reinstated their pensions including backdating to April 2021
- (d) Determined a way to try to identify the partially reduced cases with a view to run a report and correct benefits in September/October 2021. It is estimated there are 50 such members in scope.

5.5 Prudential (Pru) Additional Voluntary Contributions (AVC) arrangement

The close ongoing monitoring of the Pru has seen the complaints about the late investment of contributions and untimely settlement of benefits cease and service improve. It was agreed at the June 2021 Pension Committee that once this was achieved the overall Pru AVC service effectiveness would be reviewed. This project is well underway and a verbal update will be provided at the Board meeting.

5.6 Suspension of pensions in payment

As a result of two ongoing projects, the PAT wanted to draw your attention to some pensions being suspended in September 2021:

- (a) Pay slips are issued each year in March, April & May to all pensioners. This year 147 were returned and we have a number of attempts to contact them via phone, email and twice via their banks. About 50 cases remain untraced.
- (b) Overseas pensioners biennial mortality checks are progressing well but we are unable to obtain a response from about 20 pensioners, despite several reminders.

5.7 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.

The PAT has provided Aon with access to Altair in order for them to extract further data and review individual results against the previous calculations. The access to Altair falls outside the contracted permitted scope and therefore an additional but discounted licence was purchased from Aquila Heywood for £5,000 (for the period until 31/12/21). The plan is to prioritise the straight-forward cases first to try to maximise the members completed ahead of the 2021 deadline in October. It is anticipated that a much smaller number will be impacted in a way that results in a tax payment being required.

We have been working closely with HMRC throughout the preparation for the project and intend to submit the resulting tax adjustments to HMRC on a spreadsheet rather than on a quarterly tax return. The ESPF will be liable to pay interest on late payments.

6 Conclusion and reasons for recommendation

6.1 The Pension Committee is recommended to note the updates in relation to the Pensions Administration activities.

IAN GUTSELL
Chief Finance Officer

Contact Officer:
Email:

Paul Punter
paul.punter@eastsussex.gov.uk

APPENDIX 1

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

East Sussex Pensions Administration - Key Performance Indicators

	Activity	Measure	Impact	Target	Jun-21		May-21		Apr-21		Mar-21		Feb-21		Jan-21		Dec-20		Nov-20		Oct-20		Sep-20		Aug-20		Jul-20	
	Scheme members	Pensioners, Active & Deferred			79151		79,070		79,172		79,071		79,027		78,990		78,448		78,426		77,920		77,944		77,619		77,706	
	New starters set up				230		326		178		211		211		176		232		530		299		239		205		409	
					Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	95%	16	100%	18	100%	22	100%	43	100%	29	100%	64	100%	20	100%	28	100%	34	100%	29	100%	17	100%	35	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	95%	12	92%	21	96%	14	100%	9	89%	10	100%	9	100%	11	100%	7	86%	18	100%	9	89%	8	100%	6	100%
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	95%	94	99%	104	100%	81	91%	84	95%	68	56%	74	94%	43	94%	56	97%	63	96%	52	97%	73	91%	74	92%
2b	Payment of lump sum made	within 5 days	H	95%	112	100%	147	97%	136	95%	96	87%	99	94%	82	93%	84	99%	85	97%	140	94%	114	94%	127	94%	103	97%
3	Calculation of spouses benefits	within 5 days	M	90%	18	95%	16	100%	20	100%	24	96%	19	100%	20	95%	8	100%	11	100%	23	100%	13	100%	10	100%	12	100%
4a	Transfers In - Quote (Values)	within 10 days	L	90%	47	73%	22	64%	12	67%	19	79%	26	74%	23	61%	18	95%	17	100%	21	96%	37	100%	20	95%	12	92%
4b	Transfers In - Payments	within 10 days	L	90%	34	65%	8	75%	14	93%	22	91%	17	95%	19	95%	5	100%	19	90%	22	100%	10	90%	15	60%	16	88%
5a	Transfers Out - Quote	within 25 days	L	90%	63	91%	47	98%	23	100%	40	75%	41	93%	28	90%	22	96%	27	97%	33	100%	41	91%	18	100%	20	95%
5b	Transfers Out - Payments	within 25 days	L	90%	33	100%	9	100%	21	91%	22	87%	12	92%	16	100%	8	100%	20	90%	11	100%	13	85%	8	100%	11	100%
6a	Employer estimates provided	within 7 days	M	95%	33	97%	42	96%	23	83%	28	68%	30	80%	33	79%	9	89%	12	100%	10	100%	12	84%	54	73%	45	49%
6b	Employee projections provided	within 10 days	L	95%	19	95%	33	97%	8	88%	14	93%	30	94%	9	100%	9	100%	22	96%	31	94%	19	79%	17	94%	18	84%
7	Refunds	within 10 days	L	95%	33	100%	29	97%	8	100%	22	100%	24	100%	37	100%	21	100%	32	100%	39	100%	23	100%	32	100%	31	100%
8	Deferred benefit notifications	within 25 days	L	95%	150	100%	147	100%	99	99%	127	100%	152	100%	203	100%	150	100%	150	98%	146	100%	122	100%	117	100%	160	100%
	TOTAL TASKS COMPLETED				664	94.73%	643	96.89%	481	94.59%	550	91.45%	557	90.84%	617	93.70%	408	98.28%	486	97.53%	591	98.31%	494	95.34%	516	92.64%	543	92.63%
	Missed target cases				35		20		26		47		51		39		7		12		10		23	5>3days	38		40	
9	Complaints received- Admin				5		7		8		4		2		0		0		2		2		0		6		0	
	Complaints received- Regulatory				0		0		0		0		0		0		0		0		0		0		0		0	
13	Compliments received				1		1		0		0		0		0		0		0		0		0		1		0	
Summary for failed cases					Jun-21		May-21		Apr-21		Mar-21		Feb-21		Jan-21		Dec-20		Nov-20		Oct-20		Sep-20		Aug-20		Jul-20	

1b	Award dependent benefits (Death Grants)	1 overdue			1 Overdue by 2 days		1 Overdue by 13 days		1 overdue - 2 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	7 overdue by average of 4 days			12 Overdue by average of 4 days		1 overdue		6 overdue		7 overdue - average by 12 days		
3	Calculation of spouses benefits				1 Overdue by 4 days				8 Overdue by average of 7 days		6 Overdue - Average 2 days		
4a	Transfers In - Quote (Values)	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				8 overdue - average by 32 days		
5a	Transfers Out - Quote				10 Overdue by average of 15 days		3 overdue				3 Overdue - Average 9 days		
5b	Transfers Out - Payments	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						
8	Deferred benefit (DBSYE)											2 Overdue by average of 6 days	
												1 overdue - 7 days	
												15 overdue - average by 3 days	
												28 Overdue - Average 8 days	
												1 overdue - by 37 days	
												5 Overdue - 1 by 73 days	

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.	More intense training. TV in/out activity high. Projects - DIP, overseas mortality, ABS queries.	39 days holiday = 288 hours. Retirements & Employer estimates at high level. Training new starters.	Overall post up 38% on last month. Team encouraged to take leave.
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.			New structure chart showing new structure and agreed vacancies	Staff roles made permanent - Paul, Jennie, Julie & Joe				7/8 Aaron Martin left Mubu Mubukwanu joined	Job Robinson promoted
Eight vacancies	Nine vacancies	Nine vacancies	Ten vacancies	Ten vacancies	Ten vacancies	Two vacancies	Two vacancies	Two vacancies	Two vacancies	Two vacancies	Two vacancies

Performance for the year July 20 to June 21 inclusive		
Total	Fails	% pass
355	0	100
134	5	96.3
866	69	92.0
1,325	65	95.1
194	3	98.5
274	49	82.1
201	29	85.6
403	31	92.3
184	9	95.1
331	71	78.5
229	17	92.6
331	1	99.7
1,723	1	99.9
6,550	350	94.7

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Appendix 2

Helpdesk performance (all six funds) Currently about 2 FTE allocated to ESPF (team is 14).

Introduced the call centre for ESPF in November 2019 (not taken on managing the corporate email box).

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
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

* Since lockdown the telephone service opening times has been restricted (with NO back-up – phone line is only open from 10am to 2pm and 2pm to 4pm). Following ongoing challenge from East Sussex PAT the telephone opening times are being reverted back to the pre-pandemic opening times of 9am to 4pm from April 2021.

The figures from April 2021 relate purely to ESPF.

Helpdesk (website) performance (the figures relate to all 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

It is anticipated that the July to Sept 21 calls will increase significantly due to the activity normally generated by the issue of ABS.

A new dedicated ESPF website helpline was introduced 14 Aug 21.

ES Helpdesk service levels for helpdesk services 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 apply performance penalties
- Thereafter quarterly performance assessed against the scoring mechanism with rectification plan for underperformance including penalty clauses for sustained underperformance.

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%

2021 ABS Active Members

EAST SUSSEX PENSION FUND - ABS as at 31/03/2021 - analysis of Active Members						
EOY return		Employer Queries			No. of active statements run by 31 August	Total no of records that are eligible to have a statement run
No of employers - EOY not received	No of Employers Queried	Number of individual member Queries	Number resolved	Number outstanding		
0	63	2,387	1,544	843	21,973	22,816
					96.31%	

No of employers - EOY not received	All employers submitted a year end return or their March 21 data was via i-Connect.
Number of Employers queried	Out of the 125 employers who have active members in the LGPS, all sent in initial EOY data. Following an initial clean and upload of the data we sent data queries to 63 individual employers receiving responses from 62. One employer with 78 active records has not responded. The employer has been chased five times.
Employer queries	We identified 2,387 individual member data queries and raised these with the relevant employers. From the responses received, so far we have managed to resolve 1,544. Therefore currently we have 843 outstanding queries which we will continue to work through in the coming weeks. This does not include any queries that were resolved by internal data cleansing prior to querying with the employer, which was a significant number (in excess of 4,000).
2 large employers	There are two large employers with the bulk of the queries. The team are continuing to work through these queries. We originally had 1,014 errors with one employers EOY data. When running the ABS statements out of 7,690 active members, 1,233 were in error, 933 have received responses. The second employer required a significant amount of data cleansing required. 80% of the pay refs were updated by the employer during the 20/21 period without prior knowledge to us, meaning there was a lot of initial work to be done in matching the EOY data with the records. Once we managed to correct all rectifiable issues we could internally we were left with 202 queries for this employer. We identified 98 pay queries, the remaining 104 queries were with regards to the data, the majority of these were leavers and historical leavers which we have now had identified from the employer so we can remove these members from the count.

2020 ABS Active Members - Comparitor

EAST SUSSEX PENSION FUND - ABS as at 31/03/2020 - analysis of Active Members							
EOY return		Missing 19/20 CARE Pay		Other reasons		No. of active	Total no of records that are eligible to have a statement run
No of employers - EOY not received	Nos of records with no statement	No of records affected	Default option for missing pay	2 Reported employers	Casuals with no 19.20 earnings		
5	14	69		540	325	21,639	22,262
						97.20%	

2021 ABS Deffered Members

EAST SUSSEX PENSION FUND - ABS as at 31/03/2021 - analysis of Deferred Members						
Total number produced	Total number of errors	Total number of errors - breakdown				
		Gone away (supressed)	Error on record (calc not allowed)	Not eligible for statement (deferred after 31 March)	Record missing Requisite Spouse's pension from GMP details data view	Other
29,521	1,776	1,447	45	238	41	5

$$1,776 - 1,447 - 238 = 91$$

$$29,430/29,521 = 99.69\%$$

Gone Away	If the record has "gone away" selected, Altair will supress the statement from being run. We would expect the numbers to increase over time as we lose track of some members. The next planned address tracing exercise will begin once the current tender exercise is complete (short list are ITM, Target & Aquila Heywood)
Error on record	45 had record set to not allow a benefit calc to be run (in basic details 2 screen) which will not allow a statement to be run. These require further investigation.
Other	

2020 ABS Deferred Members - Comparitor

EAST SUSSEX PENSION FUND - ABS as at 31/03/2020 - analysis of Deferred Members						
Total number produced	Total number of errorsr	Total number of errors - breakdown				
		Gone away (supressed)	Error on record (calc not allowed)	Not eligible for statement (deferred after 31 March)	Record missing Requisite Spouse's pension from GMP details data view	Other
29,727	1,296	1,132	42	97	23	2

Success Rate

$$1,296 - 1,132 - 97 = 67$$

$$29,660/29,727 = 99.77\%$$

Report to: Pension Committee

Date of meeting: 28 September 2021

By: Chief Internal Auditor

Title: Internal Audit Pension Fund Administration - People, Processes and Systems 2020/21

Purpose: This report advises the Committee of the outcome of the attached audit.

RECOMMENDATIONS

The Committee is recommended to note the Pension Fund Administration - People, Processes and Systems 2020/21 internal audit report.

1. Background

1.1 The review of Pension Fund Administration - People, Processes and Systems was completed as part of the Internal Audit Strategy for Pensions 2020/21 and provides assurance on the overall effectiveness of the system's controls. This audit completes our work for the 2020/21 Strategy.

1.2 As a result of our work, we were able to provide an opinion of **Reasonable Assurance** over the controls in place. This represents a considerable improvement in controls over the previous year, in which we gave an opinion of minimal assurance. The most significant issues, identified in the audit of 2019/20, have now been addressed and work is continuing on the few areas that have not yet been fully resolved. Where areas of improvement were identified, management actions were agreed, together with timescales for their implementation.

2. Conclusions and Reasons for Recommendation

2.1 The Pension Committee is recommended to note the Internal Audit report.

RUSSELL BANKS
Orbis Chief Internal Auditor

Contact Officer: Nigel Chilcott, Audit Manager
Tel No.: 07557 541803

BACKGROUND DOCUMENTS:

None

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Internal Audit Report

Pension Administration - People, Processes and Systems 2020/21

Final Report

Assignment Lead: Elsie Awe, Principal Auditor

Assignment Manager: Nigel Chilcott, Audit Manager

Prepared for: East Sussex County Council

Date: September 2021

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

Report Distribution List

Draft Report:

Paul Punter – Head of Pensions Administration

Sian Kunert – Head of Pensions

Final Report (As per draft report with the following additions):

Ian Gutsell - Chief Finance Officer

Phil Hall - Chief Operating Officer

Pension Board

Pension Committee

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

East Sussex County Council - Internal Audit Key Contact Information

Chief Internal Auditor: Russell Banks, ☎ 07824 362739, ✉ russell.banks@eastsussex.gov.uk

Audit Manager: Nigel Chilcott, ☎ 07557541803, ✉ nigel.chilcott@eastsussex.gov.uk

Anti-Fraud Hotline: ☎ 01273481995, ✉ confidentialreporting@eastsussex.gov.uk

1. Introduction

- 1.1. The Council (East Sussex County Council) is the designated statutory administering authority of the East Sussex Pension Fund. The Council has statutory responsibility to administer and manage the Fund in accordance with regulations of the Local Government Pension Scheme (LGPS).
- 1.2. The governance of the Fund is the responsibility of the East Sussex Pension Committee, and the Pension Board, supported by the Chief Finance Officer for East Sussex County Council. The day-to-day administration of the Fund is provided by the Pensions Administration Team (PAT).
- 1.3. As at 31 March 2020, the Fund comprised 128 scheme employers with 23,835 active, and 31,622 deferred, scheme members. The most recent actuarial valuation of the Fund was carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013, as at 31 March 2019. The valuation found that the funding level has improved from 92% in 2016 to 107% in 2019. In particular, that the Fund's assets and liabilities were valued at £3,633m and £3,386m respectively, a surplus of £247m, compared with a funding deficit of £240m in 2016.
- 1.4. During the financial year 2019/20, the scheme collected £130.4m in contributions from members and their employers, and made pension payments of approximately £125.7m to members who are now pensioners.
- 1.5. This audit has reviewed the controls employed by management in relation to the calculation and payment of pension benefits, transfers to and from the Pension Fund and the collection and recording of pension contributions (incl. contributions from other admitted bodies). Controls over the employer portal (including security of data during transfer) have been reviewed in a separate audit (Pension Fund Information Governance).
- 1.6. This review is part of the agreed Internal Audit Plan for 2020/21.
- 1.7. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - Payments made to pensioners are correct and on time;
 - Income due to the Fund is received in full and in a timely manner;
 - Clear and effective governance processes exist over pension administration to ensure efficient and effective delivery of the administration service;
 - The funding levels of new and existing employers is appropriate to meet their liabilities;
 - Transactions, data, and outputs from the system are complete and accurate.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Pensions Administration - People, Processes and Systems (2020/21).** This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

- 4.1. We have provided **Reasonable Assurance** over the controls in place for Pension Administration for the following reasons:
- 4.2. Following the previous audit in 2019/20 of this area in which an opinion of minimal assurance was provided, management has taken positive action to address the issues identified and this has resulted in the strengthening of controls in several areas. This has happened during the Covid pandemic and also at a time of significant change within the administration service, including the dissolution of the Orbis Pensions Partnership between East Sussex County Council (ESCC) and Surrey County Council (SCC), and the project to introduce the new East Sussex pension database and MSS website.
- 4.3. In particular, the Hymans data improvement plan has enhanced the quality of data in Altair, and there has been improvement in the process of issuing Annual Benefit Statements to members.
- 4.4. In addition, one of the key issues flagged in the previous audit was the use of manual spreadsheets for the calculation of lump sum and transfer out payments without checking back to the source information held in Altair. We found that the spreadsheets have been discontinued and replaced with the Immediate Payment module. The launch of the second module (Admin to Pay) anticipated for September 2021 should fully address the issue of manual calculations outside of Altair.
- 4.5. Following the last audit, management agreed to perform a review of Altair users' access with a view to restrict access appropriately. A review of access was performed in December 2020 and although the list of users was not comprehensive and excluded some internal and external users, a subsequent full review of access controls and profiles was performed in March 2021 as part of the implementation of the East Sussex Altair and MSS website.
- 4.6. Management advised at the start of the audit about issues they had encountered with reconciling contributions from employers versus what should have been paid, including identification of late payments. Following recent updates and review of documentation in March 2021, the process of reconciling and identifying employers who are defaulting and delaying payments has been completed. However, no penalties have been charged for these to-date. We understand the employers are now being contacted in relation to late or incorrect payments and, when appropriate, these will be escalated to the penalty route in line with the administration strategy. In addition, process notes have been produced to around the task of reconciliation.

- 4.7. Although there are clear improvements and a stronger system of control because of these, there are some areas where further improvements are required, as follows:
- 4.8. As highlighted in last year's audit, some manual calculations are still performed (for pro-rated monthly benefits), and the value entered in Altair. This manual intervention is completed because Altair is currently unable to pro-rate benefit payments where a member is not entitled to a full month's pay. As noted in 4.4, we understand that the soon to be implemented 'Admin to Pay' module will address this issue of manual payments outside of Altair.
- 4.9. Where a risk assessment is performed and identifies a level of risk with the body being admitted, an indemnity or bond is required to meet the level of risk to ensure that the administering authority is not exposed to liabilities in the event of any commercial failure during the life of the admission agreement. Our review found some instances where admission agreements for admitted bodies to the Fund indicated a requirement for a bond, although it was subsequently agreed between parties that these were not required. It is therefore important that agreements are clearly worded, and subsequently amended where requirements change and are 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.
- 4.10. Despite the complexity of the pension administration processes, we noted that although checklists are in place which define key tasks associated with the many different pension administration processes, there are no formal documented procedures which define the end-to-end processes performed by the team. The formulation of procedures was expected to happen as part of the Altair integration but, due to the tight timescales, this was pushed back to mid-2021 onwards.
- 4.11. We identified that some key service standards in the Pension Fund's Strategy document are not being tracked on the monthly scorecards. Where key performance standards are not monitored, this increases the risk that service and delivery levels might drop, resulting in dissatisfaction and reputational damage to the Council/Fund. We understand that management is working to include more KPIs in the new database.
- 4.12. Although acknowledging that checking processes are in place in relation to various pension calculations in order to confirm the accuracy of the calculation undertaken, in reviewing a number of these, we noted there was not always evidence of this checking by another member of the team.

5. Action Summary

The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	7	1, 2, 4, 5, 7, 8, 9
Low	This represents good practice; implementation is not fundamental to internal control.	2	3, 6
Total number of agreed actions		9	

- 5.1. Full details of the audit findings and agreed actions are contained in the detailed findings section below.
- 5.2. As part of our quarterly progress reports to Audit Committee, we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

6. Acknowledgement

- 6.1. We would like to thank all staff for their assistance during this review.

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p>Indemnity from Admitted Bodies</p> <p>We reviewed controls over the admission of new bodies into the Fund and identified the following issues.</p> <ol style="list-style-type: none"> 1. For 1 of 5 admitted bodies (N-Viro) tested, clause 9.3 & 9.4 of the signed admission agreement indicated a requirement for a bond of £160,000. The agreement, signed in December 2020, was not accompanied by a completed bond. We understand the bond is not being chased because the contract will be terminated from 1 April 2021. 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, we understand 	<p>In both cases, it transpires that bonds were not required despite the agreements indicating otherwise. It is therefore important that agreements are clearly worded, and subsequently amended where requirements change and are 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.</p>	Medium	<p>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.</p> <p>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</p>

Internal Audit Report – Pension Administration - People, Processes and Systems 2020/21
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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	<p>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 disagreements between parties, additional care should be taken in wording agreements.</p> <p>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.</p>			<p>for termination and a bond will not be sought to align with the agreement.</p> <p>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.</p> <p>In addition, after discussions with legal, the fund has agreed to use a new service through Eversheds for 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.</p>

Internal Audit Report – Pension Administration - People, Processes and Systems 2020/21
Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	Responsible Officer:	Sian Kunert	Target Implementation Date:	November 2021

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p>Processing of Changes to Addresses</p> <p>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:</p> <ol style="list-style-type: none"> 1. Where changes to addresses are made by the Pensions Administration staff, there is currently no independent check (evidenced though 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, 	<p>Lack of independent checking of changes to addresses in Altair increases the risk of errors or invalid changes being processed.</p> <p>Where acknowledgement letters confirming address changes are not sent to members following instructions from employers, any incorrect/invalid changes are less likely to be identified.</p>	Medium	<ol style="list-style-type: none"> 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. While 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 a 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 the accuracy for the record change, the PAT team always write a letter to the new

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	<p>as happens where letters from members are received.</p> <p>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 has advised that the correct postcode was captured on 2/1/20 and was changed on 24/4/20 to TN31 without any explanation on record.</p> <p>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 the members. 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.</p>			<p>address to verify the details.</p> <p>2. With much of Pensions communications moving towards e-comms we are encouraging members to self-serve via the MSS website. Therefore, we accept COA by email as the MSS system informs the PAT team electronically of the change. Any changes via the portal are secure as the member has already passed the website password security to log-in.</p> <p>3. This item has been corrected.</p> <p>4. Same as point 1, at the time the PAT correctly followed the Orbis process which has since been replaced.</p> <p>5. This item has been corrected.</p>

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	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.			
Responsible Officer:		Paul Punter	Target Implementation Date:	Complete

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

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
3	<p>Controls over Changes to Bank Details</p> <p>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 bank account to Nationwide, although the letter did not indicate the new sort code/account numbers. 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.</p>	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 uploaded 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.
Responsible Officer:		Paul Punter	Target Implementation Date:	Complete

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
4	<p>Lack of Formal Documented Pension Administration Procedures</p> <p>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:</p> <ol style="list-style-type: none"> 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, changes to member details such as bank, addresses, 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 	Where procedures are not formally documented, staff may not be fully aware of their responsibilities and key tasks may not be performed.	Medium	<p>ESCC PAT team have inherited the Orbis processes and agree that processes are not well documented, but the checklists are in place for pretty much all tasks.</p> <p>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 timeline, we had to cut out non-essential activities.</p> <p>It was always acknowledged the work would be looked at post go live over the Summer of 2021.</p> <p>We will create a project plan to review these in August 21 with an expectation to complete many of these this year.</p>

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	<p>the processes fit together, including key risks and controls to mitigate these risks.</p> <p>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.</p> <p>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.</p>			
Responsible Officer:		Paul Punter	Target Implementation Date:	August 2022

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
5	<p>Altair User Access Review</p> <p>Following the previous audit of Pensions in 2019/20, management agreed to perform a review of Altair user access with a view to restrict access appropriately.</p> <p>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).</p>	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 East Sussex database. We are working with ICT to create a documented Altair Access Monitoring Process. This will cover Altair, i-Connect, Insights and MSS.
Responsible Officer:		Paul Punter	Target Implementation Date:	Complete

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
6	<p>Processing of Tasks in a Timely Manner</p> <p>1. Five transactions were sampled from the list of outstanding tasks provided as of 2 February 2021. 3 of these had not been resolved at the time of our fieldwork (12 March 2021). 2 of 3 were enquiries 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 February to April 2021 due to the dissolution of Orbis Pensions and the implementation of Altair.</p> <p>2. In one of the three cases above, the member emailed on 15 January 2020 enquiring about two items; one was addressed and the other was not. As noted above, the issue not addressed reflected the member service period as being part time instead of full time. Subsequently, the member made</p>	Where tasks are not resolved on a timely basis, this increases the risk of members dissatisfaction and might potentially result in reputational damage.	Low	<p>It is important to note on this finding that the PAT team 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 achievement target has to date been monitored against a target of 90-95%. The KPI targets are reported quarterly to Committee and Board with explanations on service issues in achieving the targets. The KPI target measures are tighter than the statutory requirements to complete these activities.</p> <p>The KPI's currently in place were a handover from the standard reported Orbis Pensions 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.</p>

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	<p>contact again on 19.02.2021 raising the same issue, but at the time of our audit work, the task was still outstanding.</p> <p>As referred 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 Pension Administration Team. Management have been very vocal to Pension Board and Committee that there would be a noticeable fall in delivery during this period.</p>			<p>In addition to the PAT activity KPI reporting, the team also report Helpdesk monthly performance to the Pensions Board and Committee quarterly.</p> <p>The timing of the audit was unfortunate in that it coincided with the dissolution of the PAT team from Orbis pensions and is not representative of the usual activity, as the team were carrying out dual pensioner payrolls, user acceptance testing and managing the dissolution.</p> <p>The Fund agree that where tasks are not resolved on a timely basis, this increases the risk of members dissatisfaction and might potentially result in reputational damage and this should be monitored as a continual risk but there are no specific actions to address this based on the information noted above.</p> <p>The Fund is continuing to recruit to vacant posts in the team structure as a</p>

Internal Audit Report – Pension Administration - People, Processes and Systems 2020/21
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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
				result of the dissolution and as we continue to get up to establishment, the service we provide our members will continue to improve along with improvements against the KPI's where some areas have dropped while managing the dissolution. KPI's improvements are already being seen.
Responsible Officer:		Paul Punter	Target Implementation Date:	September 2021

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
7	<p>Key Performance Indicators</p> <p>Each month, the Pensions Administration team generates a key performance indicator (KPI) scorecard which is reported to the Pensions Committee. This measures actual performance against a set of agreed standards.</p> <p>Whilst 13 activities are currently measured, some key service standards included in the pension's strategy document are not being tracked, including:</p> <ol style="list-style-type: none"> 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. 	Where key performance standards are not monitored, this increases the risk that service and delivery levels might drop.	Medium	<p>As noted in finding Ref 6 - the KPI's currently in place were a handover from the standard reported Orbis Pensions 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.</p> <p>To monitor against the new KPI activities as per the admin strategy, the Fund has had to request these be built into the ESSC version of Altair after it went live. These have recently been released into the test version 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.</p>

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				<p>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.</p> <p>All calls should go via the Pensions Helpdesk and their performance is again reported to the Pensions Board & Committee.</p> <p>In addition, Altair Insights has been implemented and the Management information module is live and includes a live performance dashboard.</p>
Responsible Officer:		Paul Punter	Target Implementation Date:	September 2021

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
8	<p>Key Person Dependence/Risk - Updates to Altair Factor Tables</p> <p>Our review of processes in place to ensure accuracy of retirement benefit calculations by the Altair system identified a key person dependency within the East Sussex Pensions Administration (PAT) team.</p> <ol style="list-style-type: none"> Currently, only one individual within the ESCC team has responsibility 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 Head of Pension 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 new staff will be recruited. In addition, there is no evidence indicating that there is an independent review of the updates to the factors performed by the individual above. For career average revalued earnings (CARE) benefits, they are revalued annually through updates made to the 	<p>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 appropriate cover to undertake this function.</p> <p>Without independent checks of the factors uploaded, errors in calculations may not be detected timely.</p>	Medium	<p>We are all aware that following the TUPE transfer we have significant recruitment to undertake.</p> <p>Recruitment is now a priority for the Fund, particularly now support for the project work from Surrey ceased on 30/06/21.</p> <p>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.</p> <p>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.</p>

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	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.			<p>When factors are changed and revaluation tables updated, these are communicated to PAT and extra care taken to check the first few cases thereafter to check factors are feeding through cases correctly when processing.</p> <p>A project will be starting in September to carry out a skills matrix to map all PAT skills and identify and gaps and areas of risk to the fund. This will help with development of the team and modify recruitment to vacancies where necessary.</p>
Responsible Officer:		Paul Punter	Target Implementation Date:	December 2021

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

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
9	<p>Lack of Independent Validation and Retention of Supporting Documentation</p> <p>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 (dependant pension payments).</p> <p>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.</p> <p>See Annex A for details of exceptions identified.</p>	<p>Without independent checks, there is a risk of erroneous payments</p> <p>Where documentation is not retained on member records, this results in inadequate audit trails and potentially invalid transactions.</p>	Medium	<p>As previously stated, we currently have checklists as our key evidence of tasks being checked.</p> <p>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.</p> <p>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.</p>
Responsible Officer:		Paul Punter	Target Implementation Date:	Complete

Annexe A (Lack of Independent Validation and Retention of Supporting documentation)

Retirement Benefit Payments

- For 1 of 15 payments tested, there was no evidence of an independent check of the annual pension and lump sum calculated.

Death Benefits Processing

- During our walkthrough of processing of a dependant's monthly benefit in Altair, we noted that the pension administration staff performed some manual pro-rated calculations and entered the value in Altair. This manual intervention is completed because Altair is unable to pro-rate benefit payments where a member is not entitled to a full month's pay. This was highlighted in last year's audit. We understand that the new module 'Admin to Pay' will be implemented in Altair to address this issue (it wasn't prioritised with so many other projects ongoing). This will go live from September 21.
- The work performed by the preparer in the above is subject to checking. However, there are no specific checks indicated on the checklist to perform, and the nature of the checks undertaken is not clear.
- 1 transaction tested identified differences in short and long-term monthly pensions payable to the dependant. The calculation worksheet signed by a checker indicated amounts of £1,042 & £570 as short- and long-term pensions respectively. However, final amounts quoted on the final letter sent to the dependant were £1,414 & £755. In addition, the dependant sent in a letter in October 2020 advising that the amounts on the letter seemed higher than expected. There was no independent check performed of the dependant pension payable on this occasion.
- We noted two signatures on a member record with no evidence indicating the second had been validated. The two versions relate to those used before and after marriage. The second signature was used in confirming the member's husband as the nominated beneficiary in event of death.

New Starters and Transfer In

- One instance where there was no evidence of independent check/checklist completed for the transfer in process.

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Report to:	Pension Committee
Date:	28 September 2021
By:	Chief Financial 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 to those charged with governance, and to report on anticipated unqualified audit opinion on the 2020/21 Pension Fund Accounts

RECOMMENDATION – The Committee is recommended to:

- 1) Note the draft Independent Auditor's (Grant Thornton) report to those charged with governance on Pension Fund Accounts 2020/21 (Appendix 1);**
 - 2) Approve the Pension Fund Accounts for inclusion in the authorities Accounts (Appendix 2).**
-

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 East Sussex County Council's (the Council) accounts.

1.2 The accounts for the Fund are incorporated within the Council's Statement of Accounts, with the East Sussex Pension Fund Annual Report 2020/21 due to be presented to the Pension Board and Pension Committee in November 2021.

2. Supporting Information

Accounting Requirements

2.1 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 complements 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).

Annual Report Requirements

2.3 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 financial 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 in 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.

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 is nearing completion. Whilst there remain a few outstanding items to finalise the audit, I am pleased to be able to report that GT anticipating being able to issue an unqualified audit opinion.

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 Pension Fund accounts is in **Appendix 2** for approval.

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 Committee is recommended to note the Independent Auditors (GT) report to those charged with governance and approve the Pension Fund accounts for inclusion in the ESCC authorities accounts.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions

Email: Sian.kunert@eastsussex.gov.uk

Background Documents

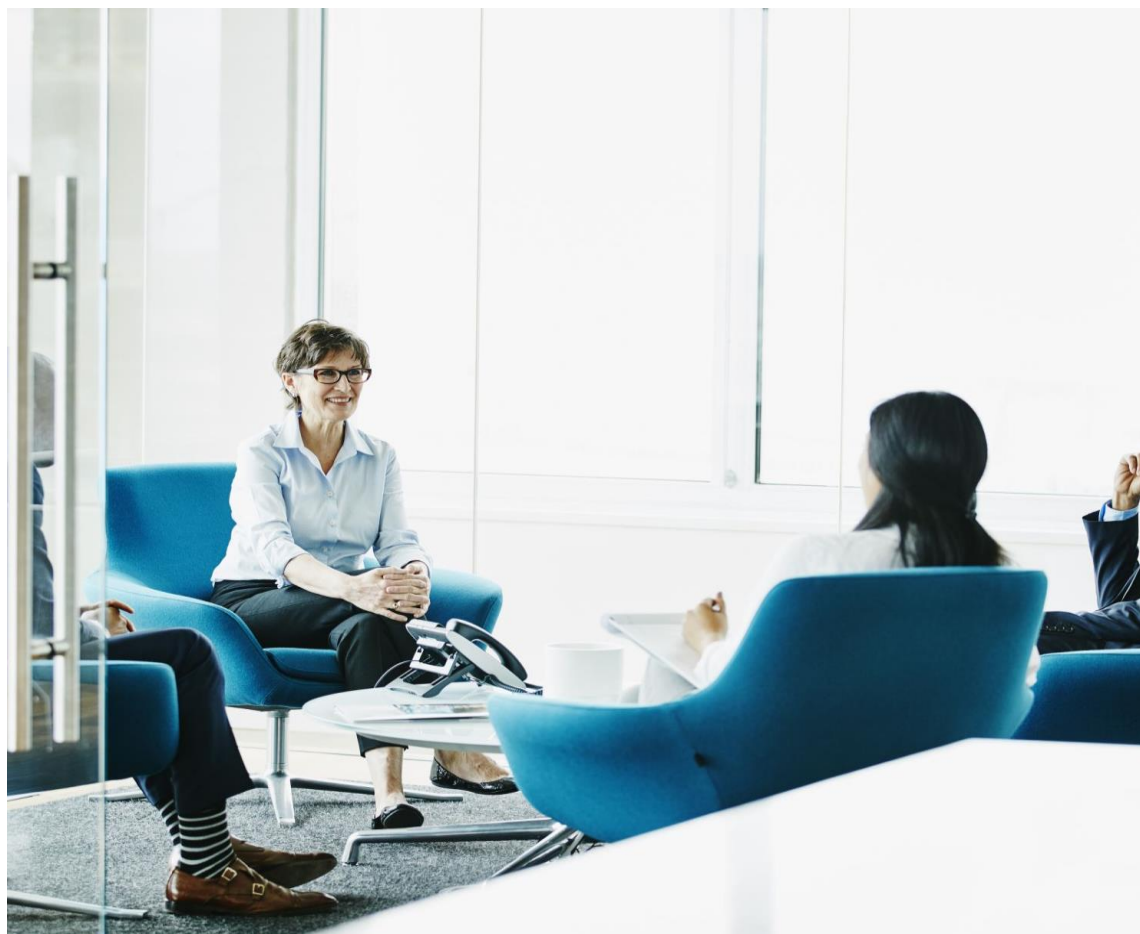
None

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The Audit Findings for East Sussex Pension Fund

Year ended 31 March 2021

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Contents



Your key Grant Thornton team members are:

Darren Wells

Key Audit Partner

E Darren.J.Wells@uk.gt.com

Andy Conlan

Senior Manager

E Andy.N.Conlan@uk.gt.com

Phoebe Yeung

Assistant Manager

E Phoebe.Yeung@uk.gt.com

Ke Ma

In-Charge

E Ke.Ma@uk.gt.com

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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.

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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
<p>Management override of controls</p> <p>Risk description unchanged from that reported in our audit plan.</p>	<p>We have:</p> <ul style="list-style-type: none">• 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. <p>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.</p>

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p>Improper revenue recognition</p> <p>Risk description unchanged from that reported in our audit plan.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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.
<p>Valuation of Level 3 investments</p> <p>Risk description unchanged from that reported in our audit plan.</p>	<p>We have:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p> <p>Note at this date some of the service auditor reports are outstanding from the Fund Managers. We are chasing these with the Managers.</p>

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	<p>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.</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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. <p>As noted above, there are some service auditor reports which are outstanding from the investment Fund Managers, so this work is ongoing.</p>	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	<p>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.</p> <p>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 2020/21 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).</p>	<p>We have:</p> <ul style="list-style-type: none"> 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
<p>Reclassification of Investments between Level 1 and 2 in the Fair Value Hierarchy</p> <p><i>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).</i></p>	<p><i>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.</i></p> <p><i>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.</i></p>	<p>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.</p> <p>Management response</p> <p>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.</p>

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.

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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 spent 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



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).

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Issue	Commentary
Going concern	<p data-bbox="871 464 2056 603">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.</p> <p data-bbox="871 619 2016 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 927" style="list-style-type: none"> • 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. <p data-bbox="871 943 2040 1082">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:</p> <ul data-bbox="871 1098 2029 1241" style="list-style-type: none"> • 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. <p data-bbox="871 1257 2051 1279">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1295 2051 1390" style="list-style-type: none"> • 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	<p>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.</p> <p>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.</p>

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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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

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
Page 118	<p>Internal Controls around investment valuations at year end not operating</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>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.</p>
	<p>Internal Controls around contributions received during the year not operating</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>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.</p>

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
	<p>Journal controls exception</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>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.</p>

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
✓	<p>Material Uncertainty around Investment Valuations</p> <p>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.</p> <p>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.</p>	<p>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.</p>
✓	<p>Investment valuation movements not posted to the accounting system during the year</p> <p>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.</p> <p>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.</p>	<p>The fund has implemented a quarterly investment accounting process to map valuation moves into the accounts.</p>

Assessment

- ✓ Action completed
- ✗ 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



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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.

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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
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£7,000
<i>New issues for 2020/21</i>	
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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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			
(99,018)		Contributions	7	(100,042)	
(31,403)		From Employers		(31,435)	
		From Members			
	(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

XX September 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. 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.	<p>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:</p> <ul style="list-style-type: none"> • 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.

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
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	2020/21
	£000	£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	Management Fees	Performance Related Fees	Transaction costs*
		£000	£000	£000	£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	Management Fees	Performance Related Fees	Transaction costs*
		£000	£000	£000	£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	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 2021
	£000	£000	£000	£000	£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%	158,430	3.7%
ACCESS - Real Return (Newton)	414,784	12.0%	492,250	11.6%
ACCESS - Corporate Debt (M&G)	144,259	4.2%	510,048	12.1%
	1,216,352	35.2%	1,619,514	38.2%
Investments held directly by the Fund				
Prudential M&G	-	-	-	-
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 - Real Return (Newton)	414,784	11.9%	510,048	12.1%
ACCESS - Global Equity (Longview)	238,840	6.9%	492,250	11.6%
ACCESS - Absolute Return (Ruffer)	418,469	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%
Wheb Active 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 may be 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
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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments – Equity and bonds Funds	Level 2	<p>Closing bid price where bid and offer prices are published</p> <p>Closing single price where single price published</p>	<p>The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used.</p> <p>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.</p>	Not Required
Pooled investments – Property Funds	Level 3	<p>Closing bid price where bid and offer prices are published</p> <p>Closing single price where single price published</p> <p>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.</p>	<p>The significant inputs and assumptions are developed by the respective fund manager.</p>	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)	<p>Observable inputs are subject to judgment by the respective manager, but are applied in accordance with the appropriate industry guidelines.</p> <p>Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.</p>	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 £000	Value on increase £000	Value on decrease £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	872,266	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.

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Values at 31 March 2021				
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

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Values at 31 March 2020				
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 Funds UK Passive Fund with UBS 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 Funds category and as the valuation is advised as a unit price.

16c: Reconciliation of fair value measurements within level 3

	Market value 1 April 2020	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2021
Period 2020/21	£000	£000	£000	£000	£000	£000	£000	£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

	Market value 1 April 2019	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2020
Period 2019/20	£000	£000	£000	£000	£000	£000	£000	£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	-	-	128,765	-	-
-	-	-	-	-	-
2,579,793	-	-	3,353,128	-	-
318,129	-	-	319,533	-	-
291,413	-	-	372,564	-	-
-	-	-	-	-	-
-	63,715	-	-	56,736	-
-	1,746	-	-	1,560	-
340	-	-	357	-	-
-	14,876	-	-	14,115	-
3,402,006	80,337	-	4,174,347	72,411	-
Financial liabilities					
-	-	-	-	-	-
(475)	-	-	(775)	-	-
-	-	-	-	-	-
-	-	(2,774)	-	-	(1,933)
(475)	-	(2,774)	(775)	-	(1,933)
3,401,531	80,337	(2,774)	4,173,572	72,411	(1,933)

*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	31 March 2021
	£000	£000
Financial assets		
Fair value through profit and loss	(167,355)	729,207
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)	728,609

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 from 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	Value on increase	Value on decrease
	£000	£000	£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	Value on increase	Value on decrease
	£000	£000	£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 £000	Impact of 1% increase £000	Impact of 1% decrease £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 £000	Value on 1% increase £000	Value on 1% decrease £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 £000	Value on 1% increase £000	Value on 1% decrease £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 £000	Potential Market movement £000	Value on increase £000	Value on decrease £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 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	
<i>Base tables</i>	Based on Club Vita analysis
<i>Projection model</i>	CMI 2018
<i>Long-term rate of improvement</i>	1.25% p.a.
<i>Smoothing parameter</i>	7.0
<i>Initial addition to improvements</i>	
<i>Males</i>	0.5% p.a.
<i>Females</i>	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 equities 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%	3,465,246	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 \(www.gov.uk\)](https://www.gov.uk/government/consultations/equalisation-of-gmp-in-public-service-pension-schemes)

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 \(www.gov.uk\)](https://www.gov.uk/government/consultations/indexation-of-public-service-pensions).

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 inc 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 (inc 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	17,695

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	2020/21
	£000	£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	31 March 2021
	£000	£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 guarantee;
- 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	-
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	-

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
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	-
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 Municipal 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	-

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
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:

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

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.

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Report to: Pension Committee

Date: 28 September 2021

By: Chief Financial Officer

Title: Employer Engagement Report

Purpose: This report updates the Committee on Employer Engagement activities including communications and the collection of Employer contributions up to June 2021 which were due on 19 July 2021.

RECOMMENDATION

The Committee is recommended to note the report

1. Background

1.1 This report is brought to the Pension Committee to provide an update on employer engagement tasks that directly affect the East Sussex Pension Fund (ESPF or 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 as the 'East Sussex Pension 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 contributions 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. Officers have been focusing on establishing relationships with a number of the different employers across numerous projects. The team continue to develop a complete list of employer contacts for all employers within the Fund. This list will then be used going forward and updated when employers join or leave or any changes in staff within the individual employers.

2.2. The Employer Engagement Team have been busy working alongside the Pensions Administration (PAT) technical team to help deliver the Annual Benefit Statements (ABS). The communications and data queries have formed a large amount of work but has provided a real opportunity to establish a strong working relationship with the Technical team. The team have actively helped resolve employer queries on completing the data requests and sent reminders and

chasers to employers in line with the ABS project plan. There has been a good response from employers and the engagement with all employers has been positive.

2.3. The Employer Engagement team have been working alongside the PAT to help the onboarding process of the i-Connect project. We have onboarded the employers shown below which consists of 23 employer payrolls. The next stage of the roll out will be carried out from September once the ABS project has reached its conclusion. The team will be reaching out to other employers during September to initiate the first steps on the onboarding process. Initial conversations have taken place with the employers below with onboarding scheduled over the next few months.

Employers Onboarded	Employers due to be onboarded shortly
Aldridge Academies x3 Biffa East Sussex County Council x17 East Sussex College Group Flagship School	Aurora Academies – Oct/Nov Eastbourne Borough Council – Sept/Oct Rother – Oct/Nov Royal Pavilion & Museums Trust – Nov University of Brighton – Oct/Nov

2.4. The roll out of the i-Connect system to the larger employers in the Fund has been pushed back as the larger employers have requested further time to build their monthly payroll files. They have also had other projects which have meant they were unable to onboard earlier. 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. The Engagement team are aware that some employers may find the transition to i-Connect problematic with limits on time and technology. They will offer the relevant time and support to allow for a smooth transition alongside appropriate training.

Communications

2.5. The new Communications Working Group has been established and meet at least quarterly. The group has been reviewing high level communications carried out by the Fund and spent some time discussing newsletters. The most recent meeting focused on the new Pensions Fund Website which gave the engagement team some strong ideas to take forward and implement.

2.6. The Engagement Team are currently drafting the Active and Employer Autumn newsletters. The newsletters should be circulated from the start of September and provide an update on current news within East Sussex Pension Fund and relay details on existing and forthcoming projects. The format and timetabling of newsletters will be reviewed as part of the communications working group and a full review of these communications will be carried out.

2.7. Officers have been constructing the content and information held on the new East Sussex Pension [Fund website](#). All relevant content held on the old website has been transferred to the new website and has provided a good opportunity to focus on the overall look and feel. All content has been assessed to meet the needs of the East Sussex accessibility criteria. The new website is scheduled to go live from the 1st September and will continue to be reviewed and expanded over the next 12 months. 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 and documents used by employees and other content.

2.8. The Employer Engagement Team has now recruited a new Employer Engagement officer who joined the team in late August. The new officer will be leading on various projects including the i-Connect roll out along with helping to establish a more robust and efficient admission and cessation process.

2.9. The team have also been part of the covenant project being carried out with a selection of higher risk employers. The team have been working alongside PwC to help provide questionnaires

and information gathering to assess the covenant of some employers that have been recognised as higher risk in their ability to meet liabilities. The higher risk employers are mostly those employers where the Fund does not have security or a guarantee in place in the case of financial difficulties in ability to pay pension contributions. The project will be carried out over the next couple of months with results due later in the year to be presented to Pension Board and Committee. Training on employer covenants was rolled out to officers and pension board members during August.

2.10. Future projects that the Engagement Team will be focusing on in the coming months include the Annual Employer Forum due to take place virtually in November, the McCloud data project in which employers have been written to, to request data sets for eligible employees and the Annual Allowance project.

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.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
*Total payments due	120	120	122	123	125	126	126	128	128	129	129	127
Payments received late	2	4	3	3	3	8	3	3	7	11	8	8

**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 63 late payments of contributions out of 1,503 expected payments. 12 of the 27 late payments in first quarter of 2021/22 were one off offenders during the quarter, with 4 employers being late twice and 1 employer late in all three months. The employer with persistent late payments has changed payroll provider and moved the service in house, resulting in the loss of relevant contacts with the Fund for payroll matters. The engagement team have been working hard to connect with the relevant members of staff at the employer however this is proving to be a struggle, although we anticipate this issue to resolve once the team have obtained the new Finance Director details, to rebuild relationships and ensure the employer has sufficient training and support to complete their regulatory obligations in relation to the LGPS.

3.3 Where payments have been received late, the team have communicated with the employers requesting payment and advising responsibility of the employer in relation to the regulations. The majority of responses are apologies and holiday notifications. From September the team will start to assess each employer on its merit for lateness as to whether a fine is required in line with the administration strategy, whether they should be monitored for further failures or whether there is a valid reason and a first offence.

3.4 The jump in late payments in April has arisen due to two issues. Firstly in April some employers had amendments to their contribution rates, resulting in a slight delay in receiving the funds for those employers. In addition, one of the late employer's was responsible for more than one payroll.

3.5 The main cause of ongoing late payments continues to be from a few smaller employers making payments by cheque. 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. The Engagement Team are 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 are also suggesting the use of BACs payments wherever possible. As Covid restrictions are removed it should improve efficiency of collating and paying in of cheque payments. The introduction to i-Connect may also provide an opportunity for cheque paying employers to review their processes.

3.6 The Engagement Team also note that in the 1st part of the new tax year the number of discrepancies on contribution amounts can increase. This is normally due changes in the contribution rates not being actioned correctly by the employers. The Team notify all employers of the new contribution rates in sufficient time for employers to adjust contribution payments for April. Any discrepancies from the employers' contributions are checked straight away and employers are notified of any adjustments that are required. The notification of employer rates will be reviewed to establish if efficiencies can be made in this area.

Improvements to the contributions monitoring

3.7 The Fund has undertaken a thorough reconciliation of the 2020/21 position of contributions owed and paid across by employers in the Fund. The Fund now has detailed information in relation to employer contributions and have a clear understanding of any late or missing payments. The Fund's Employer Engagement Team has approached each employer where it found there to be missing or inaccurate contributions paid and have reconciled these accordingly. The Engagement Team now monitor all contributions paid and pick up on any discrepancies on a monthly basis and revert 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.

3.8 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 are aware that it is essential the Fund reinforces the statutory obligation of employers to pay contributions on time or they suffer the risk of fines or penalties and any breaches are reported accordingly to the Regulator. If any employers continue to provide incorrect payments or pay contributions late then employers will be warned and issued with relevant fines accordingly. 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 Committee is recommended to note the updates provided in the report.

IAN GUTSELL
Chief Finance Officer

Contact Officer:
Email:

Tim Hillman, Pensions Manager Employer Engagement
Tim.Hillman@eastsussex.gov.uk

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**
-

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 shortly 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 Chartered Institute of Public Finance and Accountancy (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

Contact Officer:	Sian Kunert, Head of Pensions
Tel. No.	07701394423
Email:	Sian.Kunert@EastSussex.gov.uk

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Report to: Pension Committee

Date of meeting: 28 September 2021

By: Chief Finance Officer

Title: Pension Fund Risk Register

Purpose: To consider the Pension Fund Risk Register

RECOMMENDATIONS: The Pension Committee is recommended to:

- 1) Review the Pension Fund Risk Register
 - 2) Identify any additional risks for the Risk Register
 - 3) Note the events that have tested the mitigations already in place
 - 4) Consider and agree the risk rating of recognised risks
-

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**.

2.2 In relation to risk G3 (cyber security) Officers have commenced the creation of a data flow map. This will allow the Administering Authority to better understand all access and exit points for data to and from the Fund. In turn this will support further analysis of the security of the Fund. Additionally, the flow map will support any further mitigation that is required in support of risk G5 (compliance with GDPR).

2.3 The resignation of Cllr. Collier from the Pension Board has tested the mitigations in place as part of risk G2 (loss of Pension Committee/Board member). The main challenge was obtaining prompt responses to the request for nominees. In part, this was linked to uncertainty as to the most appropriate points of contact. Whilst a new Pension Board member, Cllr. Illingworth, was appointed in an acceptable timeframe further work will be conducted ensuring the Administering Authorities list of employer contacts is as complete and accurate as possible.

2.4 The Pensions Committee is invited to review the risk register and consider and agree the recognised risks and their ratings.

3 Changes to the Risk Register

3.1 A change is recommended to risk E3 – delay in employers agreeing Admission Agreements to increase the likelihood of this occurring to an amber rating. This change comes as a result of the delay that has been seen in a number of the outstanding older admissions, which although reducing are still ongoing. In addition, some of the mitigations are in development and not yet fully implemented, so until such time as they are complete it is recommended that the risk is increased from Green to Amber post mitigation. Further details have been added to this risk with changes in Green text.

3.2 It is recommended that risk I2 - Brexit - is removed from the risk register as the EU-UK Trade and Cooperation Agreement was formally ratified and came into force on 1 May 2021. This agreement negates the risk triggers that are outlined in the risk register which were risks due to significant uncertainty in the trade deal and resulting impact on markets and legislation.

3.3 A change has been made in relation to risk I6 resulting from discussion at the June Pension Committee to split out Environmental, Social and Governance (ESG) risk and Climate change risk as they are both large risks to the Fund with different impacts and mitigations. As a result, I7 is a new risk with amended numbering to risks I8-I10 from the last report.

4. Conclusion

4.1 Monitoring of the Risk Register is an important role for the Pension Committee and Pension Board. The Board and Committee are asked to consider the appropriateness of the existing risks and recommend changes and consider whether further risks should be reviewed for inclusion.

4.2 Note the mitigations in the Risk Register for G2 (loss of Pension Committee/Board member) have been tested in the last quarter and the learning points noted by officers of the Fund.

IAN GUTSELL
Chief Finance Officer

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

Pension Fund Risk Register September 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		
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			Risk Control / Response	Post Mitigation			Risk Owner	Timescales
				Likelihood	Impact	Risk Score		Impact	Likelihood	Risk Score		
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 outsourcing 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 negotiation phase, and ciuld result in retirement or death 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 admission agreement ensuring no addition terms are changed and provides assurance from external legal term that the agreement are comprehensie and enforceable Guide to outsourcing 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 outsourcing 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 the Admissions in progress are reported quaertly to Board and Committee to ensure awareness of status	2	2	4	Head of Pensions	On-going
Administration												
Page 176 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 September 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		
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 managing 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 September 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 September 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		
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 statements 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 to 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 implications 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	Brexit Risk The decision to leave the European Union without a trade deal causing significant economic instability and slowdown, and as a consequence lower investment returns - RECOMMEND THIS RISK IS WITHDRAWN	Inability to access certain investment vehicles Changes to Banking legislation and MIFID II and Basel requirements outside of EU directives Falls /instability in markets Currency fluctuations Increased taxation on transition of assets between investment vehicles depending on tax region	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	2	2	4	Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller. The long-term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time. The Govt. is likely to ensure that much of current EU regulation is enshrined in UK law. Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented Currency Hedging requirements will be considered within the investment strategy	1	2	2	Head of Pensions	On-going

Pension Fund Risk Register September 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		
13	Regulatory risk Failure to comply with regulations, legislation and guidance from an accounting and investment perspective	<p>Failure to comply with CIPFA code of practice for accounting for the pension fund</p> <p>Failure to provide employers with accurate reporting for their financial statements</p> <p>Failure to comply with the LGPS investment regs</p> <p>Failure to Comply with statutory guidance from MHCLG</p> <p>Failure to comply with the Pensions Regulation requirements</p>	<p>Risk of the accounts being qualified by the auditors.</p> <p>Risk to employers of qualified accounts causing reputational damage and potential costs</p> <p>Intervention by the secretary of state in investment strategy</p> <p>Breaches occurred</p>	3	3	9	<p>Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures.</p> <p>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.</p> <p>Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers.</p> <p>Internal Audits - carried out in line with the Pension Audit strategy.</p> <p>External Audit review the Pension Fund's accounts annually</p> <p>Breaches policy in place to ensure breaches mapped and reported</p>	1	2	2	Head of Pensions	On-going
14	Investment pooling risk	<p>Asset classes not available in line with the funds investment strategy</p> <p>Excessive asset transition costs</p> <p>Poor governance of the ACCESS pool</p> <p>Investment beliefs on ESG issues not shared within the pool</p> <p>Inability to report performance to the fund</p> <p>Inability to manage the investment managers and structure to deal with poor performance</p> <p>Insufficient Capacity in sub funds</p> <p>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.</p> <p>ACCESS pool unable to generate cost efficiencies</p>	<p>Increase in investment risk taken to access higher returns</p> <p>Increased costs</p> <p>Poor governance and reputational damage</p> <p>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.</p> <p>Asset transition costs are greater than forecast.</p> <p>Failure to control operational risks and transaction costs during the transition process</p> <p>Insufficient risk and return parameters to comply with guidance on pooling and the investment strategy</p> <p>Intervention of the secretary of state in failing to invest in line with the statutory guidance on pooling</p> <p>An increase in the set-up costs for implementing new asset classes and managers</p>	3	3	9	<p>ACCESS Support Unit team provide support to the pool</p> <p>Operator contract provided by Link for assets held within the ACS</p> <p>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</p> <p>KPI's introduced within revised operator agreements</p> <p>Consultants involved in analysing the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios.</p> <p>Opportunities to transfer securities in 'specie'. Reducing cost on transition</p> <p>Transition manager in place to preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.</p> <p>Due Diligence completed by legal advisers to ensure no hidden costs or governance issues not known at time of decision to invest.</p> <p>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</p> <p>Regular meetings between officers and ACCESS pool with officers on a number of working groups to ensure involvement in decision making</p>	2	3	6	Head of Pensions	On-going
15	Funding risk due to higher inflation leading to increased liabilities and a funding gap	<p>Inflation rises faster than the actuarial assumption as a result of Govt. response to COVID-19</p> <p>Bond yields return to much higher levels</p>	<p>Liabilities are higher than expected.</p> <p>Bond-equity correlations rise, and equities also fall in price</p> <p>Fund's solvency level falls</p>	2	2	4	<p>Investment strategy include weighting to index linked gilts, infrastructure and real estate which are all inflation correlated to mitigate increases in liabilities from inflation.</p> <p>Potential to further increase infrastructure weightings</p> <p>Fund monitor portfolio sensitivity to inflation via expert investment consultants</p> <p>Triennial Valuation assumptions include local knowledge of the Administering authority on anticipated pay inflation.</p> <p>Quarterly monitoring of funding position helps identify risk early</p>	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		
16	Environmental, Social and Governance risks within Investment strategy and implementations on investment decisions	<p>Incorrect assumptions on current exposure , risk profiles and scenarios analysis leading to poor decision making</p> <p>Risk to income yields by restricting the market due to ESG concerns without considering the bigger picture of the investment strategy to compensate</p> <p>Investment environment changes radically, and Fund is slow to respond</p> <p>Risk to wider social and economic risks by focusing on a single issue</p> <p>Poor transparency on underlying investment manager investments decisions on behalf of the fund</p> <p>Failure of fund managers to explain or comply against voting guidelines</p> <p>Poor corporate Governance or corruption in underlying investments</p> <p>Risk of regulatory policy changes resulting in fines to underlying investments</p>	<p>Volatile investment returns</p> <p>Loss of market value</p> <p>Reputational risk where EGS beliefs and strategy are not aligned with expectation of members</p> <p>Increased workload responding to questions and challenges over ESG risks taking officer time away from manging the fund effectively</p> <p>Increase in investment risk taken due to unassessed ESG issues</p> <p>Weaker control leading to poorer governance</p> <p>unconscious exposure to companies in violation of UN policies, human rights violations, poor governance structures</p>	3	2	6	<p>Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors.</p> <p>Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions</p> <p>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</p> <p>Tracking of the portfolio as underweight in fossil fuel exposure to benchmarks</p> <p>Production of annual reports on the carbon footprint of the Fund and review of managers from EGS perspective including transition pathway of underlying companies</p> <p>Signatory to Stewardship code with commitment to comply with the new 2020 code</p> <p>Challenging managers on their holdings with regard ESG issues</p> <p>Introduction of an ESG assment for all managers reported in July 2021 including imprevement actions for each manager on ESG methodology, reporting or collabortaion. This will be updated and reported anually</p> <p>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</p>	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			Risk Control / Response	Post Mitigation			Risk Owner	Timescales
				Likelihood	Impact	Risk Score		Impact	Likelihood	Risk Score		
17	Climate change - risk on assets and liabilities associated with Climate Change	<p>Uncertainty in energy transition impacts and timing</p> <p>Risk of stranded assets where invested in fossil fuel companies</p> <p>Lack of reliable carbon measurement data for investment pooled funds and or underlying holdings of those pooled funds.</p> <p>Risk of natural disasters on underlying investments</p> <p>Risk of changes in oil prices</p> <p>Increased capital costs of underlying investment companies to transtion to greener energy solutions or lower carbon emitting supply chain models and production methods</p> <p>Fines or penaties incurred by underlying holdings by company or sector</p> <p>Increased global temperature and or erratic climate events cuasing devistation to underlying holings</p> <p>Social consequence on members welfare and longevity within the fund</p>	<p>unconscious exposure to high carbon emitters</p> <p>Reputation issues around how the Fund is progressing the move to a decarbonised global economy.</p> <p>Volatile investment returns</p> <p>Reputational risk where Climate risks, reporting, mitigations an dstrategies are not aligned with member views or poorly communicated</p> <p>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</p> <p>Loss of market value</p> <p>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</p> <p>Possible increase to ill health retirement cases leading to a change in cash flows and possible enhancements beyond those anticipated</p>	4	3	12	<p>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</p> <p>Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions</p> <p>Restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020</p> <p>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</p> <p>Member of Institutional Investors group on climate change</p> <p>The fund carry out annual carbon footprinting to better understand the carbon exposure and energy transtion plans within the portfolio</p> <p>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</p> <p>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.</p> <p>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+ enagemnt partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action</p> <p>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 imact of the Fund would be negliable in market movement perspectives.</p>	2	2	4	Head of Pensions	On-going
18	Insufficient cash to pay benefits as they fall due	<p>Too much investment in illiquid assets</p> <p>Failure to track payments due</p> <p>Large investment commitments not anticipated and planned for</p> <p>Contributions not collected when due</p>	<p>Benefits not paid as they fall due</p> <p>Beneficiary financial hardship</p> <p>Forced sale of investments</p> <p>Reputational risk</p>	2	4	8	<p>Contributions monitored on monthly basis</p> <p>monitoring of members close to retirement</p> <p>Daily cash position monitored.</p> <p>Distributing investments to ensure stream of income from investment activity</p> <p>Income from investments is considered as a key risk in all investment strategy decisions and the income profile managed</p> <p>liaison between administration and investment team on cash requirements</p>	1	4	4	Head of Pensions	on-going
19	Internal fraud	<p>Member of staff has multiple accounts and can self authorise</p> <p>Lack of internal controls and sign off procedures</p> <p>Failure to monitor staff actions</p> <p>Failure to monitor payments from the Fund</p>	<p>Loss of Fund assets</p> <p>Reputational risk</p> <p>Loss of member confidence</p> <p>Loss of Fund assets</p>	2	3	6	<p>Quarterly review of log in credentials</p> <p>Senior officer's have sight of bank account</p> <p>Senior officer's are signatories to bank account</p> <p>Multiple sign off needed to make payment</p>	1	3	3	Head of Pensions	On-going
110	External fraud	<p>Failure to properly authenticate benefit claims</p> <p>Failure to identify deceased members</p>	<p>Reputational risk</p> <p>Loss of member confidence</p>	2	3	6	<p>Monthly mortality checks</p> <p>Regular member tracing exercises</p>	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 Committee

Date of meeting: 28 September 2021

By: Chief Finance Officer

Title: Work Programme

Purpose: To agree the Committee work programme

RECOMMENDATION

The Committee is recommended to agree its work programme.

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

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions

Email: Sian.Kunert@EastSussex.gov.uk

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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	Head of Pensions
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	Head of Pensions
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration

Internal Audit reports	All internal audit reports on the ESPF are reported to the Board	Head of Internal Audit
East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget. 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	Head of Pensions
Covenant Review Report	Report from PWC on the covenant review project – project expected to complete late 2021	Head of Pensions
Independent Auditors Report on the Pension Fund Account	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

and Annual Report and Accounts 2020/21		
Communications Policy	Revision to the Communications Policy	Head of Pensions
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming 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
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
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
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		
8 February 2023		
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 November 2021
Decision making	To revise the decision-making matrix (including a RACI model) and to circulate it for information.	To be provided November 2021
Abatement Policy	The Board requested officers report back to the Pension Board and Committee once the number of affected members is known and what the impact of backdating the change in policy will mean for the Fund and its administration.	Provided at the September 2021 meeting

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	Head of Pensions
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	Head of Pensions
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 - <i>reported Q2-4 only</i>	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 – <i>reported only when a new breach is recognised, or status changed. Report goes quarterly to Board.</i>	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF - <i>reported only when outstanding admissions or cessations.</i>	Head of Pensions
28 September 2021		
Investment Strategy Statement including Statement on Responsible Investment Principles	Annual review of Investment Strategy Statement to reflect asset allocation and other changes including a review of the Statement on Responsible Investment Principles	Head of Pensions
GDPR	Refresh of the GDPR policies including the Privacy notice including the communications of these documents	Governance and Compliance Pensions Manager
Contracts and Tenders	Appointment of Independent Advisor	Head of Pensions
Responsible Investment implementation Statement	Report outlining the implementation of Responsible investment within the Fund as outlined in the Statement of Responsible Investment Principles	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

Covenant Review Report	Report from PWC on the covenant review project	Head of Pensions
Communications Policy	Revision to the Communications Policy	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
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		
22 February 2023		

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
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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)	<p>The Investment Working Group and ESG working group have been amalgamated, as agreed at Pensions Committee 21 September 2020.</p> <p>The IIWG has an advisory role to oversee the implementation of decisions by the Pension Committee in relation to investment decisions and carry out detailed research and analysis for Pensions Committee.</p> <p>Recent meetings</p> <ul style="list-style-type: none"> • 2 June 2021 • 18 June 2021 • 02 September 2021 	<p>William Bourne, Russell Wood, Sian Kunert, Representative from Investment Consultant</p> <p>Cllr Fox or substitute committee member is invited to attend</p>
Data Improvement and ABS Working Group	<p>Recent meetings</p> <ul style="list-style-type: none"> • 29 July 2021 <p>Scheduled</p> <ul style="list-style-type: none"> • 12 October 2021 • 2 December 2021 	<p>Cllr Fox, Ray Martin, Diana Pogson, Stephen Osborne, Paul Punter, Sian Kunert, Ian Gutsell</p>

McCloud Working Group	<p>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.</p> <p>A high-level impact assessment has been completed to identify those members of the scheme that will be affected by this ruling.</p> <p>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.</p> <p>Recent meetings</p> <ul style="list-style-type: none"> • 22 April 2021 – supported by Hymans 	<p>Cllr Fox, Stephen Osborn, Lynda Walker, Paul Punter, Sian Kunert, Dave Kellond</p>
Communications Working Group	<p>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.</p> <p>Recent meetings</p> <ul style="list-style-type: none"> • 2 June 2021 • 20 July 2021 • 14 September 2021 	<p>All Board members invited</p> <p>Sian Kunert, Tim Hillman, Izzy Widdowson</p>

Training and Development - recent and future events			
Title of Training/Briefing	Detail	Date	Attended
An introduction to covenant	PWC training session for officers, Committee and Board members to understand Employer covenants and their importance. Part of the Covenant review project.	3 August	Ray Martin, Niki Palermo, Stephen Osborn
Employers in distress	PWC training session for officers, Committee and Board members to understand how to manage Employers in distress following the employer covenants analysis. Part of the Covenant review project.	10 August	Stephen Osborn
Infrastructure Training	In house session with guest presentations from Pantheon and GLIL	8 July	Cllr Fox, Cllr Hilton, Cllr Redstone
Fixed Income Training and Investment Strategy Training	In house session run by Isio to support the investment strategy discussions at the upcoming committee	9 July	Cllr Fox, Cllr Hilton, Cllr Redstone, Cllr Tutt
CIPFA LGPS Local Pension Board Annual Event	CIPFA LGPS Local Pension Board Annual Event	23 June	Ray Martin
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

Report to: Pension Committee

Date: 28 September 2021

By: Chief Financial Officer

Title: Investment Report

Purpose: This report provides Pension Committee with an update on the investment activities undertaken by the East Sussex Pension Fund.

RECOMMENDATION

The Pension Committee are recommended to:

- 1) note the Investment Workplan (appendix 1);
 - 2) note the Quarterly Investment Report from the Investment Advisor, Isio (appendix 2);
 - 3) note the update on the progress implementing the revised equity structure;
 - 4) note the update on the responsible investment implementation;
 - 5) note the update on the UK stewardship code;
 - 6) note the ACCESS Pool update;
 - 7) Approve the changes to the Investment Strategy Statement (appendix 4);
-

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Pension Committee is required to maintain an Investment Strategy Statement (ISS) to govern the Funds' investments and receives a quarterly investment monitoring report, from its investment consultant, Isio.

1.2 The ACCESS Joint Committee has been established as a result of the changes implemented in the 2016 LGPS Investment regulations to facilitate the arrangements relating to the collective investment vehicles, to allow the administering authorities to pool their respective investments. The ACCESS Joint Committee meets quarterly.

2. Action Log and Investment Workplan

2.1 Appendix 1 shows a Workplan which will act as a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the workplan are to be considered by the Committee or a comment provided explaining why the item is not to be covered at this time.

2.2 The workplan picks up actions agreed at the 12th July 2021 Committee meeting. The Investment Workplan details the areas of work that are anticipated over the next 12 months.

2.3 The main focus over the next 12 months is an undertaking of the climate modelling scenario analysis for the Fund and implementation of the revised investment strategy where investment opportunities are possible, as agreed at the 12 July 2021 Pension Committee meeting.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report is attached as Appendix 2. Since the last quarter, the valuation of the Fund increased from £4.2bn as at 31 March 2020 to £4.5bn as at 30 June 2021 (an increase of £0.3bn). A positive absolute return of 5.5% over the quarter, outperforming its respective benchmark by 1.1%.

3.2 Over the period, the Harbourvest private equity mandate was the standout performer in both absolute and relative terms. Benefitting from a number of initial public offerings and asset sales as well as a general uptick in the valuation of assets as markets continue to open and normalise following various COVID lockdowns.

3.3 Two of the main detractors to relative performance over the period was the Longview and WHEB investments. Longview's underweight position to the Information Technology sector was a significant detractor from relative performance, as valuations of fast growing technology stocks benefitted from the fall in long term yields. which suffered as a result of limited exposure to the stronger performing infrastructure sectors over the quarter. WHEB's underperformance was partly driven by the Fund's lack of exposure to certain sectors which are unrelated to Sustainability, but which performed strongly over Q2. However both investments produce positive absolute performance. Which was achieved by all managers this quarter.

4. Equity Review

4.1 Since the meeting of Committee in June 2021, the Fund has been working to implement the preferred option for strategic equity allocation approach. Which is to replace the passive market capitalisation investment with UBS.

The total planned equity allocation set out below:

•	Storebrand Global ESG Plus	10%
•	Osmosis Resource Efficiency	5%
•	WHEB Sustainability	5%
•	Wellington Global Impact	5%
•	Longview Global Equity	10%
•	Ballie Gifford Global Alpha – Paris Aligned	5%

4.2 In August 2021 the Fund made the switch between its UBS passive market capitalisation indexes and the ACCESS Ballie Gifford Global Alpha Fund, which is currently on the ACCESS platform. This sub fund is planned for conversion to the Ballie Gifford Global Alpha – Paris Aligned Fund in the near future. The Fund are reliant on ACCESS obtaining Financial Conduct Authority (FCA) approval to implement this change. The transition into the pool happened without major incident and is a step further towards reducing the unintended fossil fuel holdings in the Fund.

4.3 A separate paper in the exempt Investment report will discuss in detail the progress made with UBS and Osmosis.

4.4 In August the Fund undertook the transition of the Storebrand Global ESG Plus investment from the Storebrand Norwegian Fund into an AMX run Irish Fund. This is still managed by Storebrand however the move was undertaken to access a tax transparent vehicle which did not exist at the time the initial investment was made. It is estimated the savings for the Fund will be around 0.15% (approximately £700k pa) through this structure.

5. Responsible Investment Principles Implementation

5.1 At the Committee meeting in November 2020 the Fund's first statement on responsible investment principles (SRIP) was agreed. Within this document it set out a set of commitments that the Fund has made around climate monitoring and action.

5.2 The table below sets out commitments made in the SRIP and how the Fund is progressing with these.

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 equities 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 Environmental, Social and Governance (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 managers 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 Responsible Investment (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	The Fund has been establishing the gaps within the current documentation and the requirements for the	As the first signatories have been released, we are now able to review those reports that have been accepted to

requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.	UK Stewardship code 2020 requirements to enable a complete report.	help to assess the Funds responses for submission in April 2022.
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6. UK Stewardship 2020 update

6.1 The Financial Reporting Council (FRC) run the UK Stewardship Code 2020 (the Code) which sets high stewardship standards for asset owners and asset managers, and for the service providers that support them.

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

Application

6.3 Organisations have to submit an annual Stewardship Report explaining how they have applied the Code over a 12-month period. The Report must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer.

6.4 First applications for the UK Stewardship Code 2020 closed on 31 March 2021 for asset managers and service providers and 30 April 2021 for asset owners. The next window to be included in the list of signatories will close on 31 October 2021. Successful applicants will be added to the signatory list once updated.

6.5 From 2022 the spring application deadline will be 30 April 2022 for all applicants. Organisations will also have the opportunity to apply by 31 October 2022.

Assessment

6.6 Reports submitted to the FRC are read in full and assessed against the Principles and reporting expectations of the Code in a way that is proportionate to the organisation's size and type. This assessment is then reviewed and discussed among FRC staff to ensure it is fair and appropriate. A sample of reports reflecting a range of applicants are reviewed by the FRC's panel of independent advisors to ensure consistency.

6.7 Both successful and unsuccessful applicants are provided a summary of where their reporting met our expectations and where improvement is required when re-applying to the Code. Unsuccessful applicants may address the feedback and re-apply in a future reporting window.

Publication

6.8 Once the applicant has been accepted as a Code signatory and the Report is approved by the FRC, the Report will be a public document. The signatory must also make it available on their website within one month of being notified by the FRC.

6.9 On the 6 September 2021, the FRC released the UK Stewardship Code 2020 signatory list. Later applicants to the Code, if successful, will be added to the list. Signatories to the 2020 Code will have to annually update and submit their report to remain on the list. A list of our managers that have been successful are:

Manager

Ballie Gifford
Longview
M&G
Newton
Ruffer
UBS
Wellington

Current position

6.10 The Fund has gone through the UK Stewardship 12 principles (set out in the table below) and assessed the current position of the Fund against these. We now have a set of asset owners approved responses and will be able to compare this to the Funds response. We will be looking to submit this in April 2022.

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS
Purpose and governance
1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance
Investment approach
6. Client and beneficiary needs
7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers
Engagement
9. Engagement
10. Collaboration
11. Escalation
12. Exercising rights and responsibilities

7. ACCESS update

Illiquid assets

7.1 The Joint Committee agreed the proposed Implementation Advisor for ACCESS at its last meeting on 6 September 2021 and work will be progressing during Q4 2021 to begin the process of implementing these workstreams.

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

7.2 Minerva, the appointed third party advisor to assist ACCESS with creating its ESG/RI guidelines, have undertaken a survey of each Authority's current position on ESG/RI matters and their aspirations in this space.

- 7.3 The results from this survey has helped Minerva create a draft set of guidelines covering:
- Governance - ACCESS' approach to the responsible oversight and management of the Partner Funds' investments;
 - Process - ACCESS' approach to identifying RI factors and their potential impact on investments;
 - Implementation - the approach taken to implementing the Pool's RI objectives;
 - Stewardship - ACCESS' approach to voting, engaging with investee companies and assets, securities lending policy and working collaboratively with third parties; and
 - Monitoring & Reporting – the Pool's approach to assessing ongoing effectiveness and communicating findings to Partner Funds and stakeholders.

7.4 Minerva will be conducting a workshop training session with the Joint Committee during Q4 2021 to discuss their thoughts on the proposed document, to ensure these are interpreted correctly. The final ESG/RI Guidelines are set to be presented to the November Joint Committee for approval.

Joint Committee

7.5 The Joint Committee met on 6 September 2021. The agenda has been included in Appendix 3 and public papers can be located on Kent County Council website here [Agenda for ACCESS Joint Committee on Monday, 6th September, 2021, 11.00 am \(kent.gov.uk\)](https://kent.gov.uk/agenda-for-access-joint-committee-on-monday-6th-september-2021-11.00-am)

Sub Fund Progress

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

Tranche	T1	T2	T3	T3a	T4	T5a	T4a	T4b	T5b	T5c	Total
Asset class											
Global equities	1	5	1	1		4	1			1	14
UK equities		2				1		1			4
EM equities										1	1
Fixed income			1		1		1		3	2	8
Diversified growth					3						3
Total	1	7	2	1	4	5	2	1	3	4	30

7.7 Tranches 1 – 5a are live ACCESS pooled funds with £21.0bn of assets under management. Tranche 5b has been delayed until October due to a pause on launches which was caused by an insurance arrangement issue.

7.8 Tranche 5c has a mix of global equities and fixed income sub funds being launched, included in this is M&G Alpha Opportunities sub fund, which East Sussex have an investment in. The Committee agreed at its November 2018 meeting to invest in this sub fund through the ACCESS platform when it became available. Due to technical issues around the ACS, the launch of this fund was postponed until a solution could be agreed between all parties. Arrangements were finalised earlier this year and the launch of the sub-fund has been reinstated with the current plan for it to go live in Q4 2021.

7.9 Work is also taking place to set up the protocols for the creation of future sub-funds within the ACS. A draft of this was taken to the Section 151 officer group and there have been some

points raised through their review or the proposed structure. These are being incorporated and will be work through by the ASU with the aim of this going to the next joint committee meeting.

8. Investment Strategy Statement

8.1 The Fund is required to produce an Investment Strategy Statement (ISS) under regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

8.2 The Investment Strategy Statement required under Regulation 7, must include:

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

8.3 As a result of the decisions made at Pensions Committee in July 2021, to amend the Investment Strategy and asset allocation, officers have updated the ISS to reflect the approved changes. The revised ISS can be seen in **Appendix 4** to this report with areas with changes from the 2020 approved document highlighted.

9. Conclusion and reasons for recommendation

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

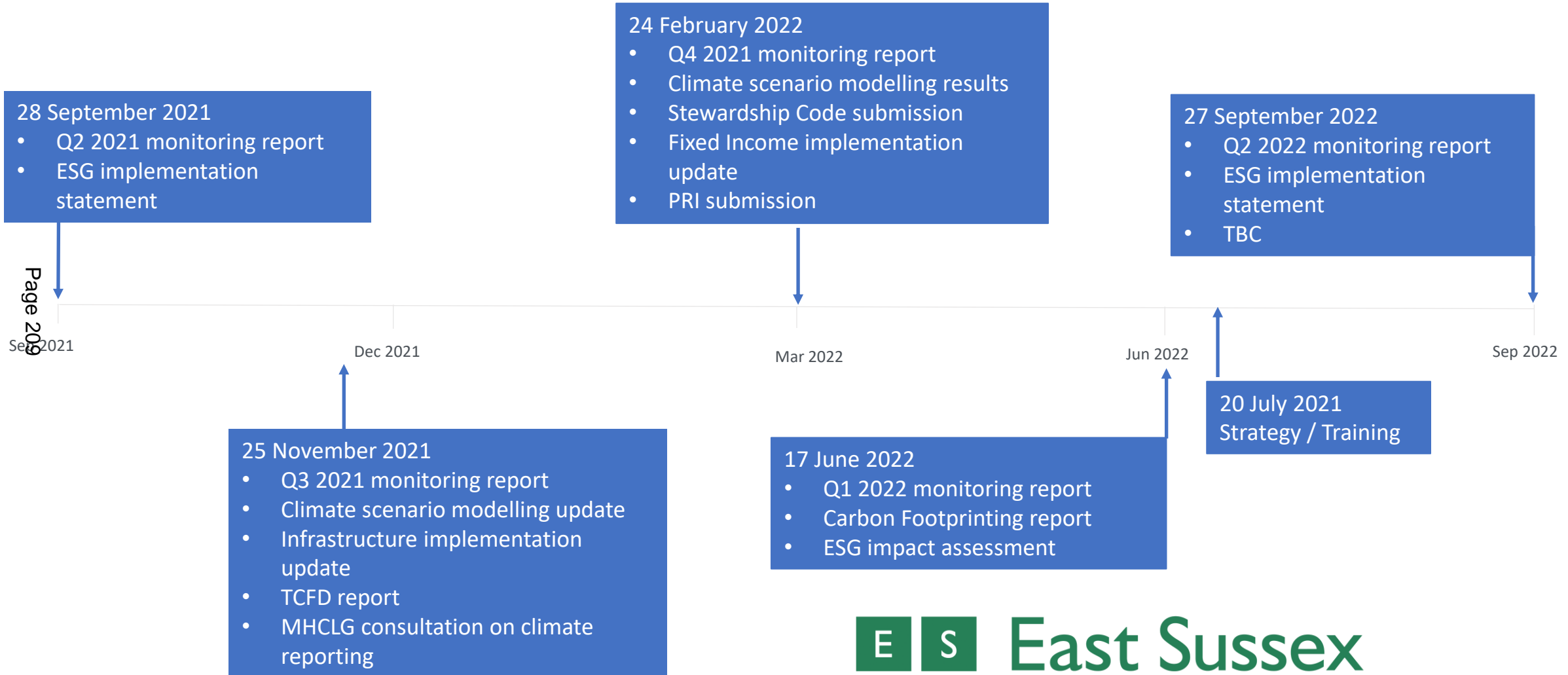
10.2 The Pension Committee are recommended to:

- 1) note the Investment Workplan (appendix 1);
- 2) note the Quarterly Investment Report from the Investment Advisor, Isio (appendix 2);
- 3) note the update on the progress implementing the revised equity structure;
- 4) note the update on the responsible investment implementation;
- 5) note the update on the UK stewardship code;
- 6) note the ACCESS Pool update;
- 7) approve the changes to the ISS (appendix 4)

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions
Tel. No. 01273 337177
Email: Sian.kunert@eastsussex.gov.uk

12 month workplan



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East Sussex Pension Fund

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Investment Performance
Quarter to 30 June 2021

Isio Investment Advisory

isio.

Appendix 2

Document Classification: Confidential

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- Adams Street Private Equity
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- Appendix 1: Market Background: Global Equity, DGF, Real Assets, Credit & Yields
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Highlights

Executive Summary – 30 June 2021

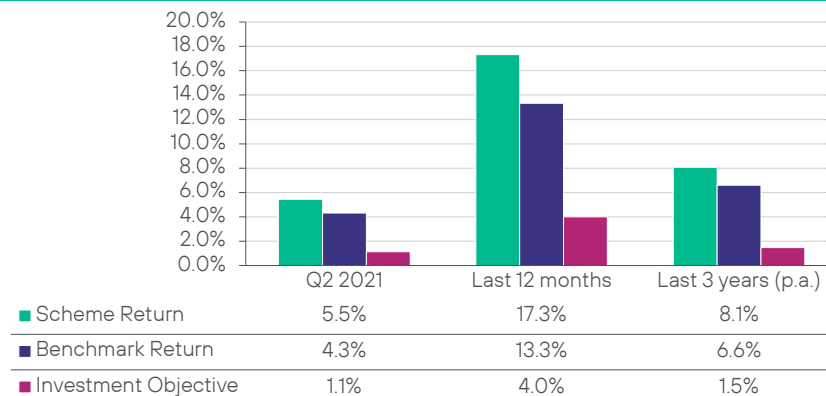
The Fund's assets delivered a positive return of 5.5% over the quarter, outperforming its respective benchmark by 1.1%.

Over the quarter all of the Fund's mandates returned positive absolute performance, as markets continued to react positively to the global vaccine rollout and supportive monetary measures from central banks.

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Access Pool	Fund	Q2 2021 Performance			Value at quarter end	
		Fund	Benchmark	Relative	31-Mar-21	30-June-21
Yes	UBS - UK Equity	6.1%	5.6%	+0.5%	£66.7m	£70.8m
Yes	UBS - Global Equity	6.8%	6.9%	-0.1%	£362.0m	£386.6m
Yes	Longview - Global Equity	5.9%	7.3%	-1.4%	£458.8m	£485.8m
No	WHEB - Sustainability Fund	6.4%	7.8%	-1.4%	£222.7m	£236.9m
No	Wellington - Global Impact Fund	9.0%	7.6%	+1.4%	£222.8m	£242.7m
No	Storebrand - Global ESG Plus Fund	7.4%	7.8%	-0.4%	£454.5m	£488.5m
No	Harbourvest - Private Equity ^{1,2}	40.8%	7.6%	+33.2%	£110.5m	£151.3m
No	Adams Street - Private Equity ^{1,2}	12.0%	7.6%	+4.4%	£154.5m	£166.4m
Yes	Newton - Absolute Return	2.5%	0.7%	+1.8%	£492.3m	£504.5m
No	Schroders - Property	3.8%	3.8%	+0.0%	£347.8m	£358.1m
No	UBS - Infrastructure ²	1.0%	2.2%	-1.3%	£37.7m	£28.1m
No	Pantheon - Infrastructure ²	5.0%	2.2%	+2.7%	£38.1m	£43.9m
No	M&G Infrastructure ²	2.4%	2.2%	+0.2%	£32.7m	£35.0m
No	ATLAS Global Infrastructure Equity Fund	2.0%	2.7%	-0.7%	£77.3m	£78.8m
No	M&G - Private Debt ²	1.4%	1.0%	+0.4%	£42.4m	£40.2m
No	M&G - Alpha Opportunities	1.6%	0.8%	+0.8%	£285.1m	£289.7m
Yes	Ruffer -Absolute Return	0.1%	0.7%	-0.5%	£510.0m	£510.7m
Yes	M&G -Corporate Bonds	2.6%	2.7%	+0.1%	£158.4m	£162.5m
Yes	UBS - Over 5 Year IL Gilt Fund	3.8%	3.9%	-0.1%	£128.8m	£133.7m
Total Assets		5.5%	4.3%	1.1%	£4,235m	£4,466m

Period returns – to 30 June 2021



Commentary

- The Fund's assets delivered a strong positive absolute return of 5.5% over the quarter, outperforming the respective benchmark by 1.1%. Over the quarter all of the Fund's assets returned positive absolute performance, as investor optimism increased with the successful vaccine rollout and continued supportive central bank measures.
- Over the period, the Harbourvest private equity mandate was the standout performer in both absolute and relative terms with the Fund benefitting from a number of IPOs and asset sales as well as a general uptick in the valuation of assets as markets continue to open and normalise following various COVID lockdowns.
- The Fund's benefited over the quarter, as risk assets continued to perform well, underpinned by easing US inflation concerns and improving investor sentiment.
- Longer term returns at fund level remain strong, particularly over the 12 month period where the Fund has returned 17%, outperforming the benchmark by 4.0%.

Manager Performance – 30 June 2021

The Table shows manager performance over the short medium and long-term.

The UBS Infrastructure Fund continues to materially underperform its respective benchmark across all time periods and should continue to be monitored closely.

The Schroders property fund has also underperformed its benchmark since inception but to lesser degree.

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Fund	Q2 2021 Performance			1 Year Performance			3 Year Performance			Since Inception performance		
	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS - UK Equity	6.1%	5.6%	+0.5%	21.3%	21.5%	-0.1%	2.3%	2.1%	+0.2%	2.3%	2.2%	+0.0%
UBS - Global Equity	6.8%	6.9%	-0.1%	23.6%	24.2%	-0.6%	12.4%	12.6%	-0.3%	12.1%	12.3%	-0.2%
Longview - Global Equity	5.9%	7.3%	-1.4%	25.8%	24.6%	+1.2%	-	-	-	10.6%	16.6%	-6.0%
WHEB - Sustainability Fund	6.4%	7.8%	-1.4%	-	-	-	-	-	-	8.3%	13.2%	-4.9%
Wellington - Global Impact Fund	9.0%	7.6%	+1.4%	-	-	-	-	-	-	12.4%	12.3%	+0.1%
Storebrand - Global ESG Plus Fund	7.4%	7.8%	-0.4%	-	-	-	-	-	-	13.4%	13.8%	-0.3%
Harbourvest - Private Equity ¹	40.8%	7.6%	+33.2%	52.7%	26.1%	+26.6%	24.0%	14.3%	+9.7%	9.4%	11.5%	-2.1%
Adams Street - Private Equity ¹	12.0%	7.6%	+4.4%	52.1%	26.1%	+26.0%	23.0%	14.3%	+8.7%	11.4%	10.9%	+0.5%
Newton - Absolute Return	2.5%	0.7%	+1.8%	12.9%	2.6%	+10.3%	-	-	-	6.2%	2.9%	+3.3%
Schroders - Property	3.8%	3.8%	+0.0%	8.2%	8.5%	-0.4%	2.6%	3.0%	-0.4%	6.8%	8.1%	-1.3%
UBS - Infrastructure	1.0%	2.2%	-1.3%	-18.2%	4.5%	-22.7%	-5.1%	3.4%	-8.6%	4.3%	1.6%	2.7%
Pantheon - Infrastructure ¹	5.0%	2.2%	+2.7%	3.6%	4.5%	-0.9%	4.7%	3.7%	+1.0%	5.5%	3.7%	+1.8%
M&G - Infrastructure	2.4%	2.2%	+0.2%	18.7%	4.5%	+14.2%	-	-	-	8.2%	3.6%	+4.6%
ATLAS - Global Infrastructure Equity Fund	2.0%	2.7%	-0.7%	-	-	-	-	-	-	-0.8%	2.7%	-3.5%
M&G - Private Debt	1.4%	1.0%	+0.4%	9.1%	4.1%	+5.0%	-	-	-	1.6%	4.6%	-3.0%
M&G - Alpha Opportunities	1.6%	0.8%	+0.8%	10.7%	3.1%	+7.6%	5.3%	3.5%	1.7%	4.1%	1.4%	+2.7%
Ruffer - Absolute Return	0.1%	0.7%	-0.5%	16.7%	2.6%	+14.1%	-	-	-	16.7%	3.0%	+13.8%
M&G - Corporate Bonds	2.6%	2.7%	-0.1%	1.3%	0.9%	+0.4%	-	-	-	3.1%	1.5%	+1.6%
UBS - Over 5 Year IL Gilt Fund	3.8%	3.9%	-0.1%	-6.3%	-4.4%	-1.8%	4.7%	5.3%	-0.6%	5.3%	5.9%	-0.6%
Total Assets	5.5%	4.3%	1.1%	17.3%	13.3%	4.0%	8.1%	6.6%	1.5%			

Looking Forward

Summary

This page sets out the main action / discussion points.

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Status key

Action

Decision

Discussion

Information only

Key issues		
Item	Action points / Considerations	Status
Overall Investment Strategy	Fossil Fuel Analysis <ul style="list-style-type: none">Isio is producing a short paper highlighting and comparing the relevant investment and fossil fuel risks that the Fund is exposure to. The paper will also include an introduction to the climate scenario modelling that we recommend the Fund carries out over the later part of the year. The paper will be presented at the September Committee meeting.	<div></div>
	Infrastructure Allocation Implementation <ul style="list-style-type: none">Isio is preparing a paper to allow the Committee to make a decision in how to implement the newly agreed increased allocation to Infrastructure equity. This will include a comparison of a range of open ended funds as well as our assessment on their capabilities, ESG credentials and their ability to incorporate renewables within their mandates. The paper will be presented at the September Committee meeting.	<div></div>
	Fixed Income Allocation Implementation <ul style="list-style-type: none">Isio is liaising with the Access Pool to ascertain the fixed income options currently available on their platform as well as the timescales of future options becoming available. Once this position is clear, Isio will propose an implementation route for the newly agreed fixed income allocation to the Committee.	<div></div>
Investment Managers	<ul style="list-style-type: none">We have no immediate concerns regarding the investment managers at this time.We suggest to continue monitoring the Longview Global Equity Fund given recent team changes and propose the Fund conduct a formal review of the position towards the end of 2021.Given weak UBS infrastructure performance since inception, we propose this fund continues to be monitored closely.	

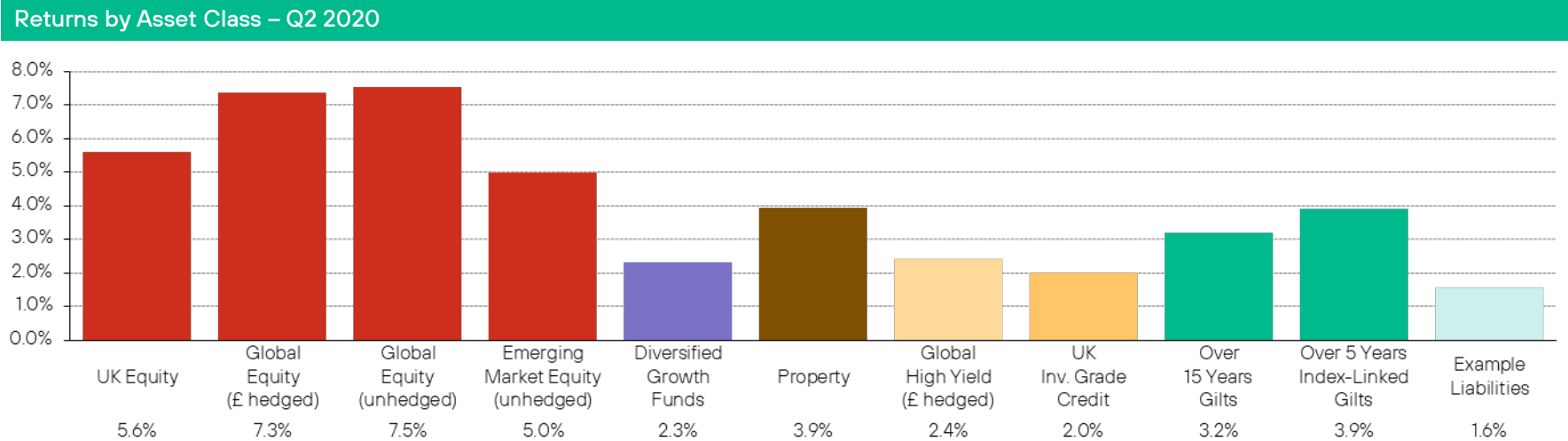
Market Background

Market Background – Overview Q2 2021

Summary

Global equity markets were the strongest performing asset class over the quarter, as economies continued to reopen and global monetary policy remains accommodative.

Gilt yields declined over the quarter following a resurgence in Page 218, as investors became concerned about the impact of the COVID-19 delta variant and increasingly sceptical of the potential for continued inflationary pressures.



- Key Upcoming Events
- The dates for the Bank of England’s Monetary Policy Committee (MPC) announcements in Q3 2021 are 5 August (despite inflation concerns, UK base rate held, and MPC voted to continue its bond purchasing programme) and 23 September.
 - The dates for the US Federal Reserve’s Federal Open Market Committee (FOMC) announcements in Q3 2021 are 28 July and 22 September. At the 28 July announcement, the US base rate and bond purchases were held steady, while the Fed noted the economy has improved, but suggested some way to go before tapering monetary policy.

- Commentary
- Global equity markets registered positive returns over Q2, this was primarily due to investor optimism strengthening as COVID-19 vaccinations continue to be successfully rolled out and businesses re-open. Performance over the quarter was further backed by the reassurance on continued monetary stimulus measures from central banks.
 - Credit markets delivered positive performance as they have benefitted from narrowing credit spreads, positive fundamentals, including low expected default rates and supportive monetary policy.
 - Gilt yields declined over the quarter following a significant rally in Q1, as investors weighed the impact of the COVID-19 delta variant on the promise of an economic reopening. Additionally, consideration was given to what extent the recent inflationary pressures would be transitory in nature.

Note: Please see Appendix 3 for details of the returns representing each asset class.
Source: Refinitiv, DGF investment managers, Isio calculations.

Market Background – Government Bond Yields Q2 2021

Summary

These charts show yield movements at the 20-year tenor over the past year.

The “Example Liabilities” indicate how a typical scheme’s past-service liabilities may have moved.

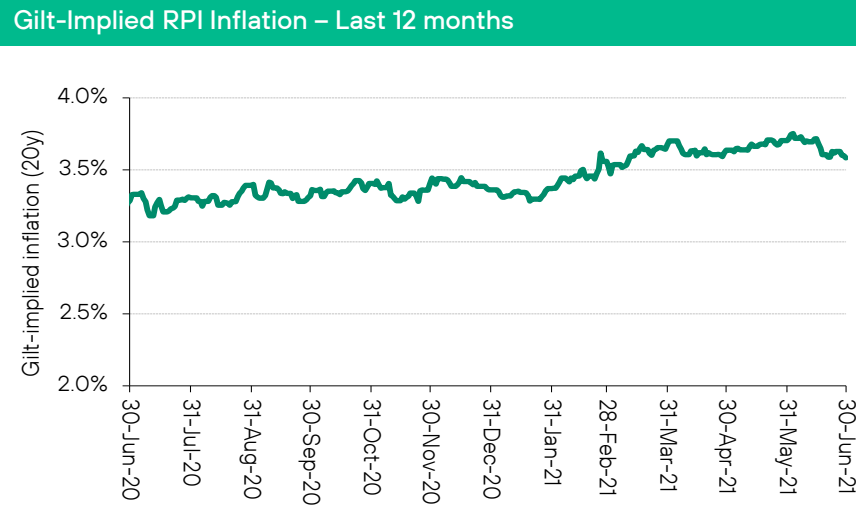
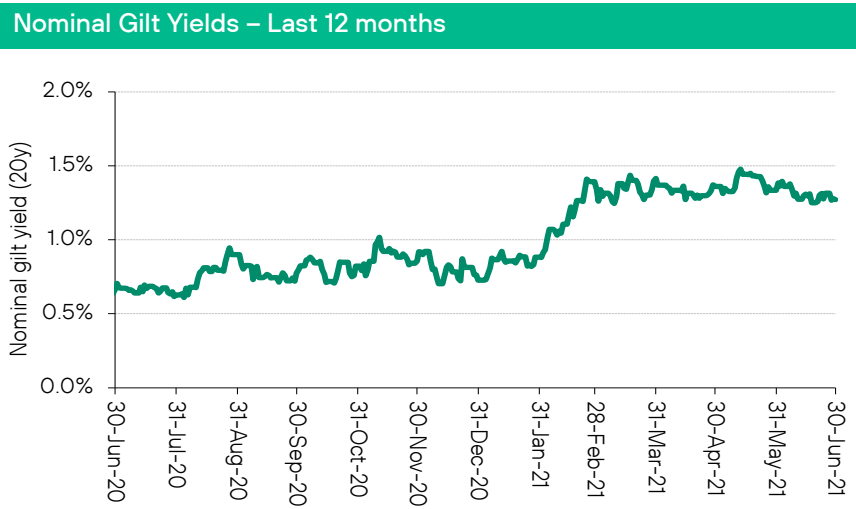
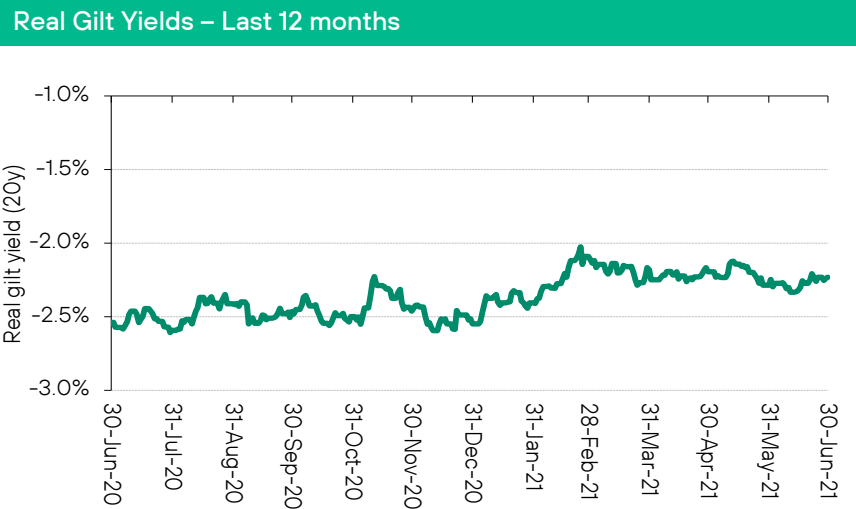
Gilt Yield Changes:

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20-year Real Gilt Yield	
April	-0.01%
May	-0.09%
June	0.05%
Quarter	-0.05%

20-year Nominal Gilt Yield	
April	-0.05%
May	-0.03%
June	-0.06%
Quarter	-0.14%

20-year Gilt-Implied Inflation	
April	-0.04%
May	0.07%
June	-0.12%
Quarter	-0.09%



- Example Liabilities
- The liabilities for an example DB pension scheme increased by c.1.6% over the quarter. This can be broken down into the following components:
 - c. 0.7% increase, due to the fall in real yields;
 - c. 0.9% increase, due to the fall in nominal yields; and
 - c. 0.0% due to the “unwinding” effect (also known as “interest” on the liabilities).
 - The liabilities for an example DB pension scheme decreased by c.8.0% over the last 12 months.

Strategy Overview

Asset Allocation – at 30 June 2021

Summary

As at June 2021, the Fund’s asset allocation remains broadly inline with Fund’s strategic benchmark and small under or over-weights can will occur over time as the valuation of the Fund’s assets respond to market performance.

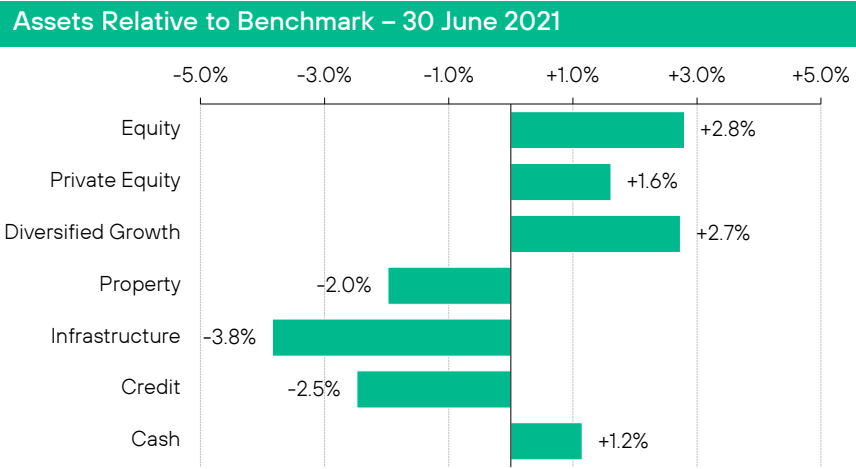
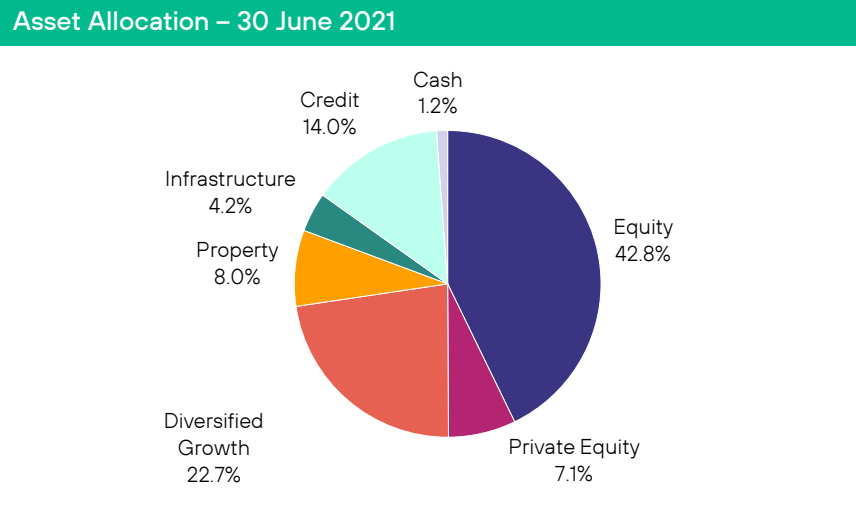
We will report against the newly agreed strategic benchmark from Q3 2021 onwards.

Total Assets

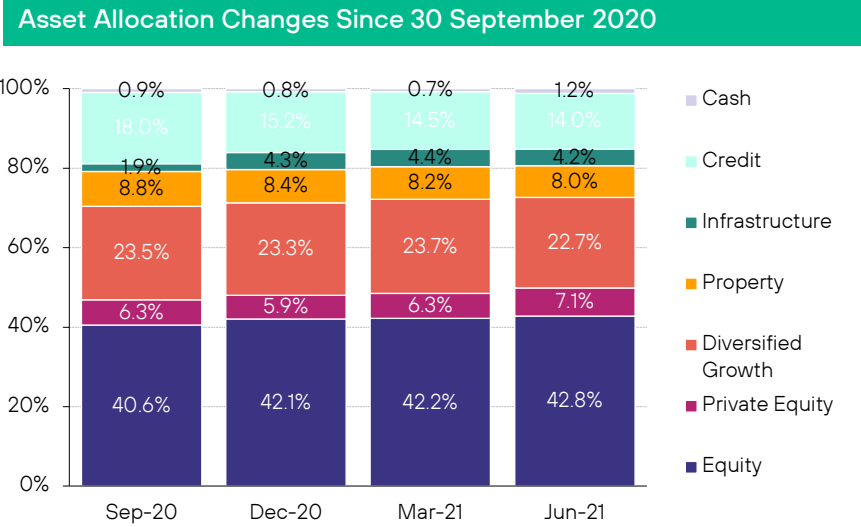
Start of quarter	£4,235m
End of quarter	£4,466m

Target Allocation

Equity	40.0%
Diversified Growth	20.0%
Private Equity	5.5%
Property	10.0%
Infrastructure	8.0%
Private Debt	3.0%
Diversified Credit	7.0%
Index-Linked Gilts	3.0%
Fixed Interest Bonds	3.5%



Note: Totals may not sum due to rounding.
 Source: Investment managers, Isio calculations.



Commentary

- As at June 2021, the Fund’s asset allocation remains broadly in line with Fund’s strategic benchmark, with slight overweight to equity (including private equity) and diversified growth, with underweight positions in infrastructure, credit and property.
- The biggest positive shift in relative weighting over the quarter occurred within the Fund’s equity holdings. This was largely driven by the overall positive performance of global equity markets compared to other risk asset classes.
- Over the last 12 months the Fund’s asset allocation continues to remain relatively stable.
- The Committee has agreed to review the credit and infrastructure mandates over the second half of the year and we suggest that this is rebalanced towards the agreed benchmark once this is complete.
- In July, following quarter end, the Committee agreed a new strategic allocation, which will be implemented over the coming months and will be reported against from Q3 2021.

Investment Managers

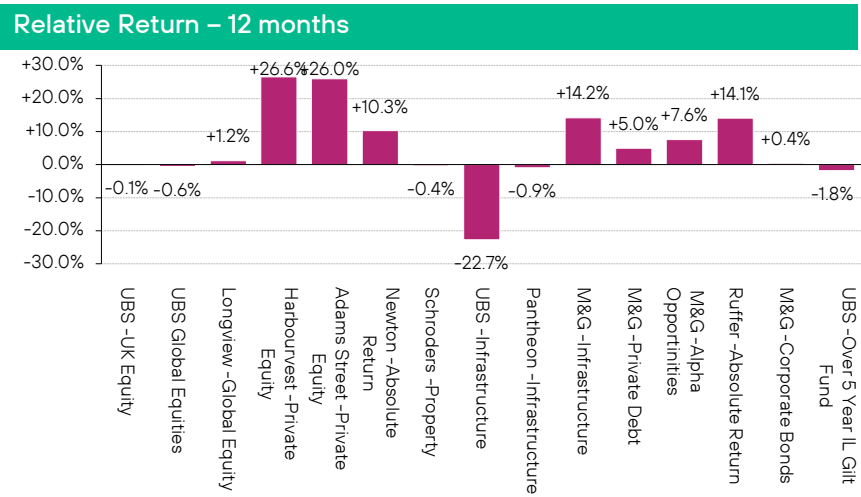
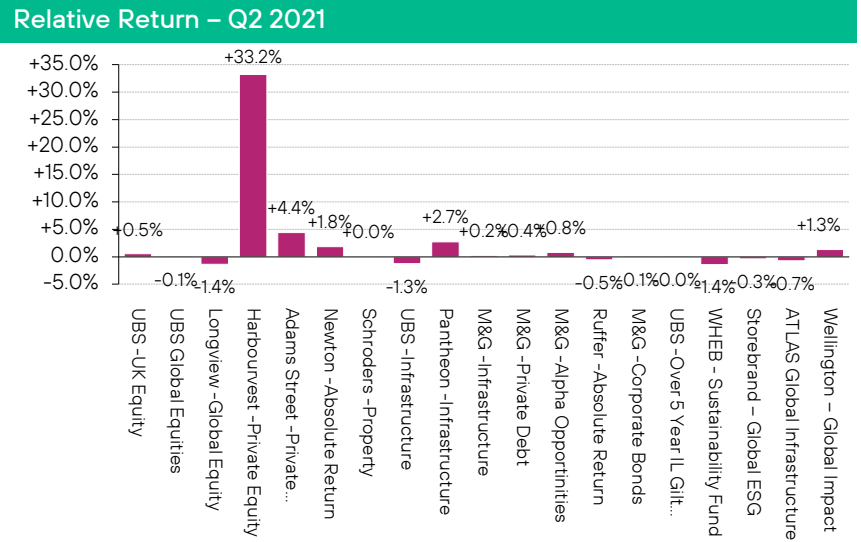
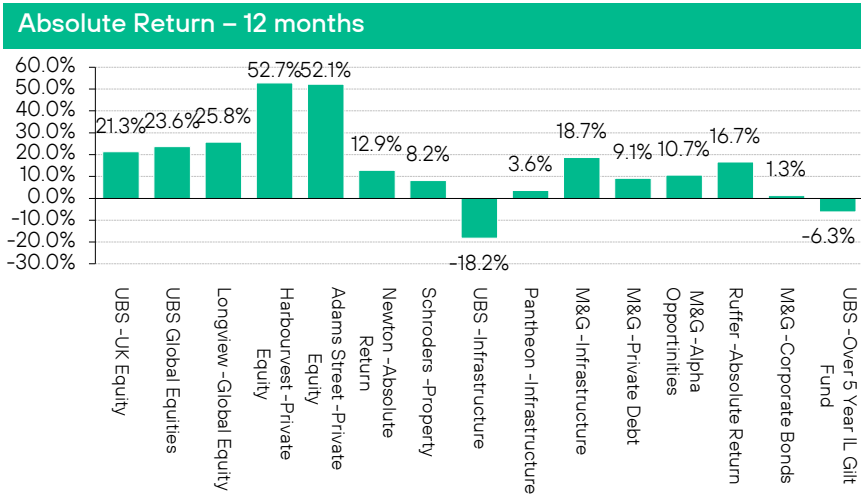
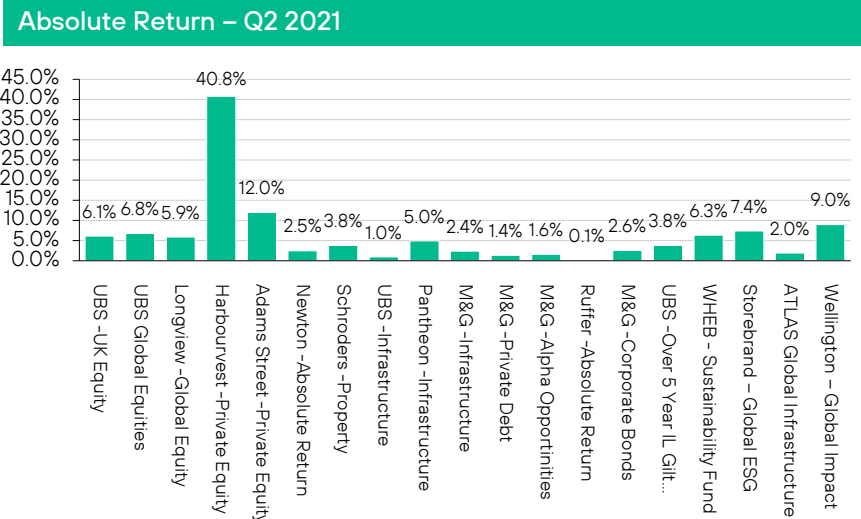
Performance Summary – to 30 June 2021

Summary

All of the Fund's assets delivered positive absolute performance over the quarter.

The Fund's private equity mandate with Harbourvest was the standout performer in both relative and absolute terms.

Relative performance over the quarter was more mixed with HEB and Longview equity funds and the UBS infrastructure fund all posting a small relative underperformance.



Note: Returns net of fees. 12 month relative and absolute returns are not available for the WHEB, Storebrand, ATLAS & Wellington mandates as they were inception in Q4 2020.
Source: Investment Managers, Northern Trust, Isio calculations.

UBS – Equity

Mandate: Passive Equities

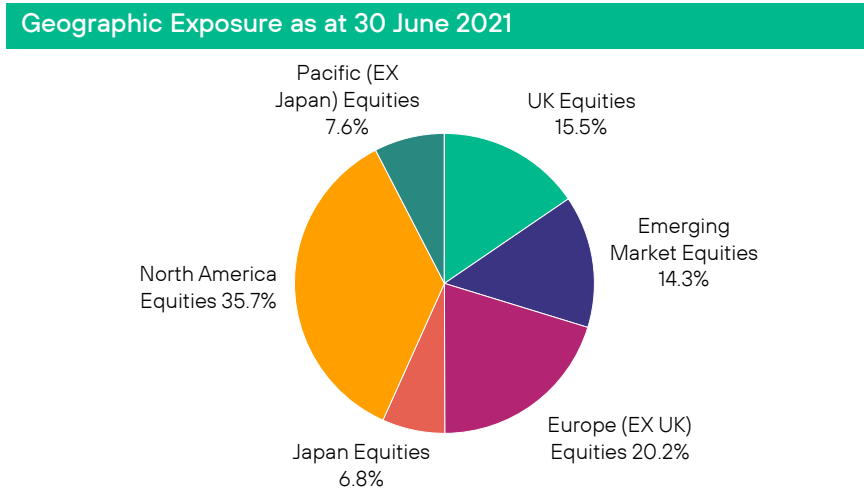
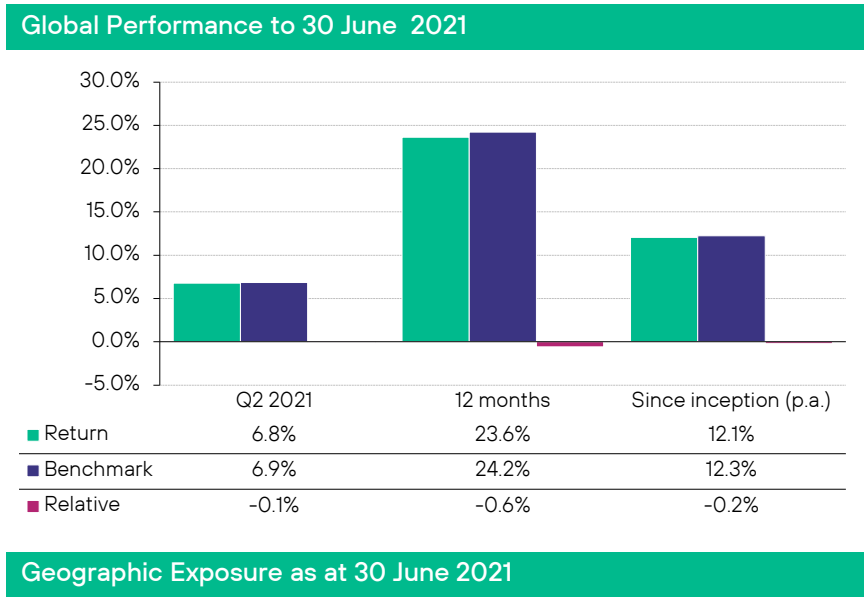
Current Value: £457.4m

Current Weighting: 10.2%

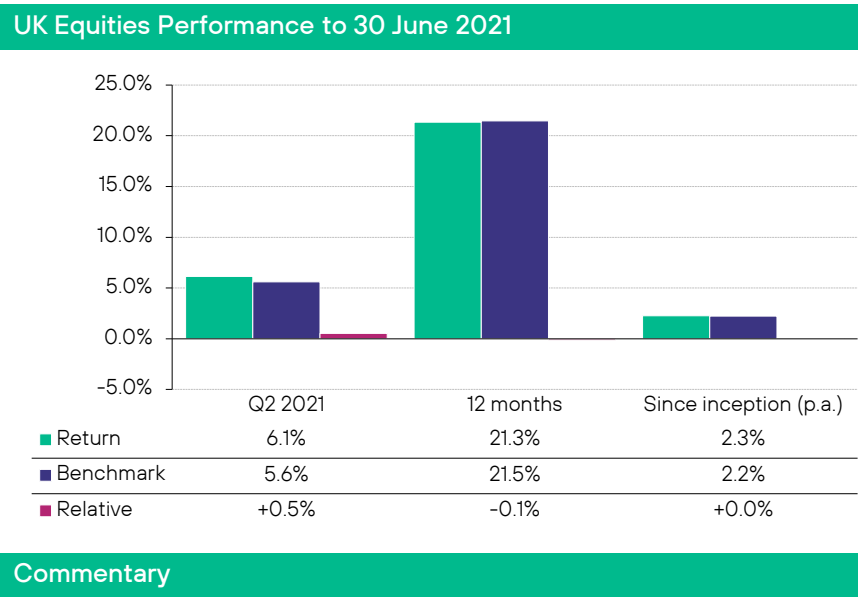
Inception: UK Equities – 31 December 2017 & Global Equities 31 January 2018

Objective: To track their respective underlying respective regional equity benchmarks

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.



Commentary

- Both UBS equity mandates delivered positive performance, in line with their respective benchmarks, over the period
- Global equity markets continued to perform strongly as positive investor sentiment was underpinned by the success of the COVID-19 vaccine deployment and encouraging macro-economic and corporate earnings growth data.
- The US was the strongest performing regional market, with company profitability benefitting from supportive fiscal stimulus, and economic re-opening.
- By contrast, Japanese equities delivered flat performance, as gradual increases in COVID-19 case numbers over the quarter led to a delay in the lifting of restrictions. This was reflected in the release of relatively weak short-term economic data.
- While posting positive returns, UK equities lagged relative to the UK and Europe, as the emergence of the 'delta' variant of COVID-19, led to a delay in lifting of some restrictions, negatively impacting sectors such as retail, travel and leisure.

Longview - Global Equity

Mandate: Active Global Equities

Current Value: £485.8m

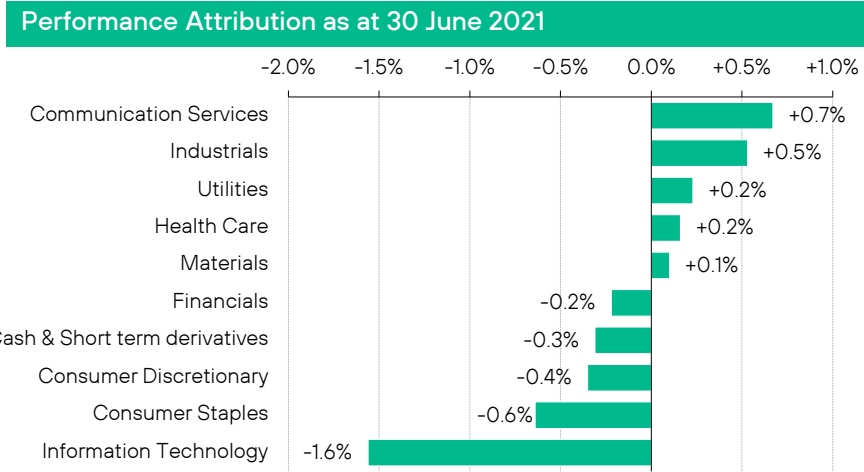
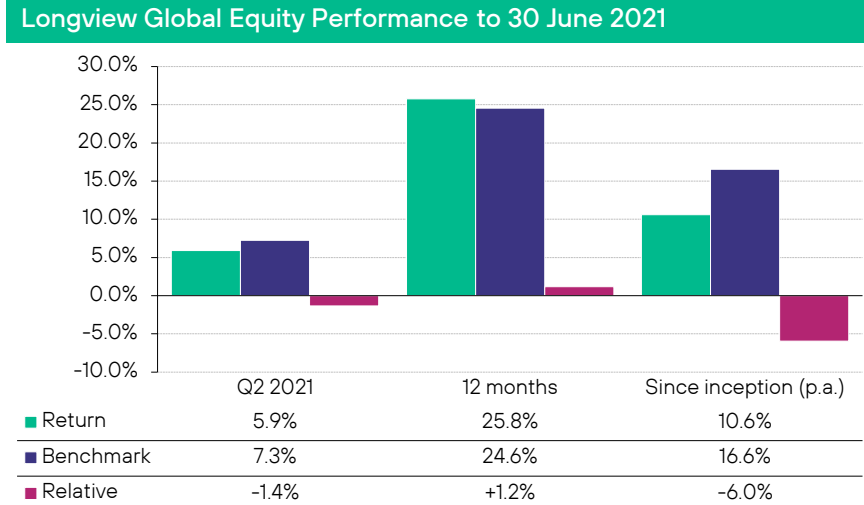
Current Weighting: 10.9%

Inception: 4 February 2019

Objective: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods.

Benchmark: MSCI ACWI

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Geographic Allocation at 30 June 2021

Region	Allocation
North America	79.4%
Europe	16.5%
Cash & Short Term Derivatives	2.2%
Japan	1.9%

Commentary

- The fund delivered a positive absolute return of 5.9% over the quarter, lagging the benchmark by 1.4% and continues to underperform since inception.
- Stock selection in communication services was the largest contributor to relative performance over Q2, with the Fund's holdings outperforming the broad sector returns.
- By contrast, Longview's underweight position to the Information Technology sector was a significant detractor from relative performance, as valuations of fast growing technology stocks benefitted from the fall in long term yields.
- The Fund continues to seek to consistently generate alpha through investing in a concentrated portfolio of global companies, focusing on a bottom up approach. As at 30 June 2021 there were 33 stocks held within the portfolio.
- Longview view macro factors as risks rather than opportunities and they continue to emphasise the importance of focussing on companies whose strong market position is protection against macro shocks, whilst still maintaining a long-term focus.

WHEB – Sustainability Fund

Mandate: ESG focused Global Equity

Current Value: £236.9m

Current Weighting: 5.3%

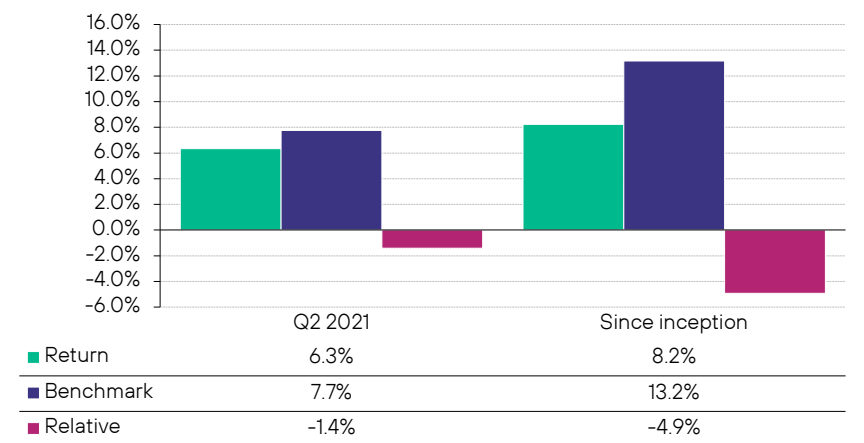
Inception: 1 December 2020

Benchmark: MSCI World Total Return Net GBP

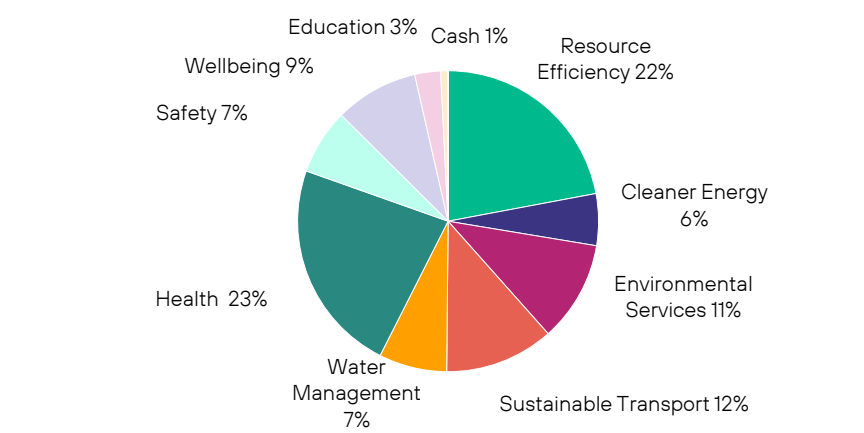
Objective: To achieve capital growth over the medium to longer term.

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WHEB – Sustainability Fund Performance to 30 June 2021

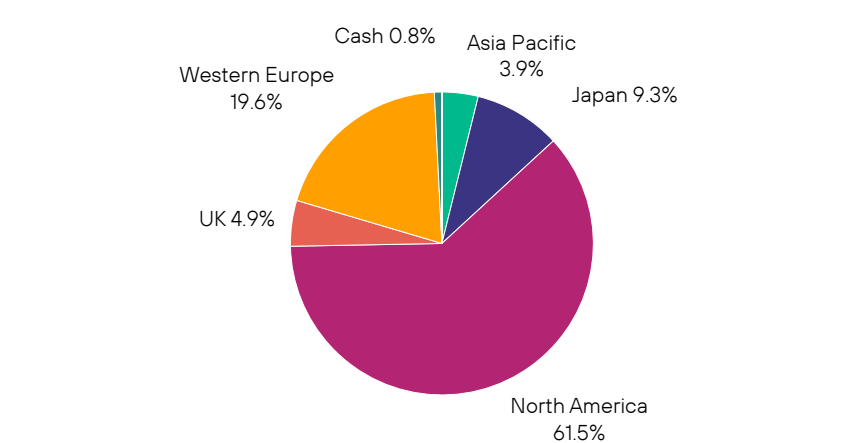


Impact Positioning at 30 June 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Geographic Allocation at 30 June 2021



Commentary

- The fund produced positive absolute performance of 6.3% over the quarter, however underperformed the benchmark by 1.4%.
- Underperformance was partly driven by the Fund's lack of exposure to certain sectors which are unrelated to Sustainability, but which performed strongly over Q2. Negative relative returns were also driven by various stock-specific idiosyncratic factors, such as the impact of changes in regulation on Grand Canyon Education, as well as underwhelming earnings guidance from industrial firm Daifuku.
- The Fund's health and wellbeing themes were the strongest contributors, with Sonova delivering particularly strong performance, as demand for specialist hearing care solutions recovered strongly. HelloFresh, a new addition to the portfolio, also contributed strongly, with economic restrictions having benefitted its business model.
- WHEB initiated a new position in First Solar over the quarter as part of the clean energy theme. The manager believes that the solar company's use of specific raw materials gives it a competitive advantage relative to its peers, given evolving regulation.

Wellington – Global Impact Fund

Mandate: Global Impact Equities

Current Value: £242.7m

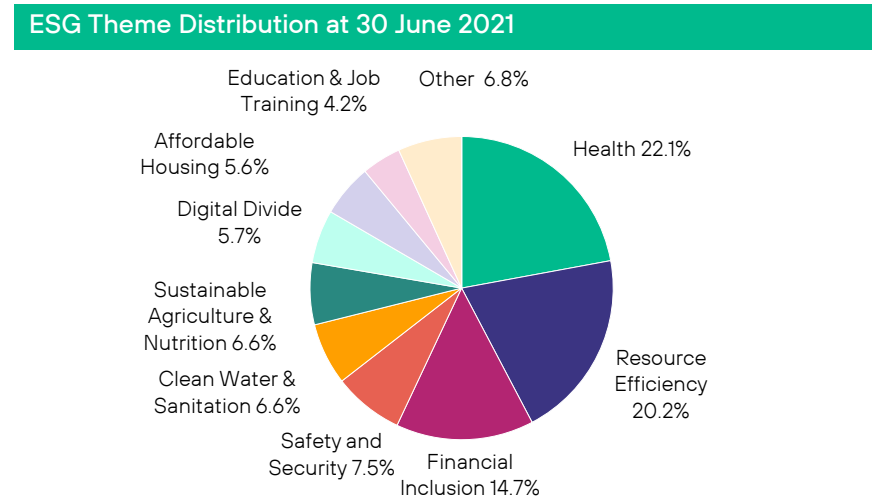
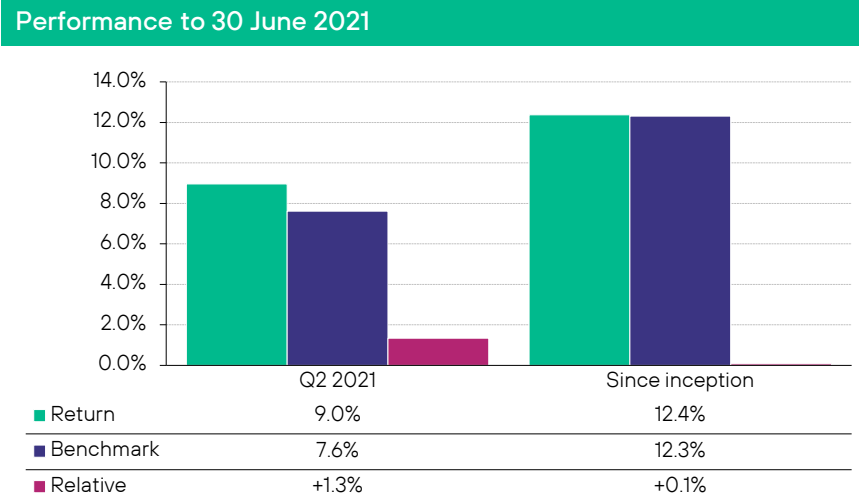
Current Weighting: 5.4%

Inception: 2 December 2020

Benchmark: MSCI AC World

Objective: To outperform the MSCI All Country World Index over the long-term.

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Geographic Allocation at 30 June 2021

Geographic Region	Percentage
North America	57.3%
Europe	21.3%
Emerging Markets	16.6%
Japan	2.4%
Asia Pacific (ex Japan)	1.1%
Middle East / Developed	1.4%

Commentary

- The Global Impact Fund delivered a return of 9.0% over the quarter, outperforming broader equity markets by 1.3%, in what was a strong quarter for risk assets.
- The Fund's Life Essentials, Human Empowerment and Environment themes all contributed positively to returns, while Alternative Energy was the only detractor from performance in absolute terms.
- Stock selection within Industrials and Information Technology drove outperformance over the period, with Wellington noting that cybersecurity companies added particular value, following weak performance in Q1. Additionally, the fund's holdings in infrastructure companies continued to benefit from the agreements of green infrastructure deals in the US.
- While Wellington continue to see opportunities across their themes, they remain cognisant of several risks, most notably the impact of rising Covid-19 infection rates and the potential for rising inflation expectations to drive tightening monetary policy.

Storebrand – Global ESG Plus Fund

Mandate: ESG Focused Global Equities

Current Value: £488.5m

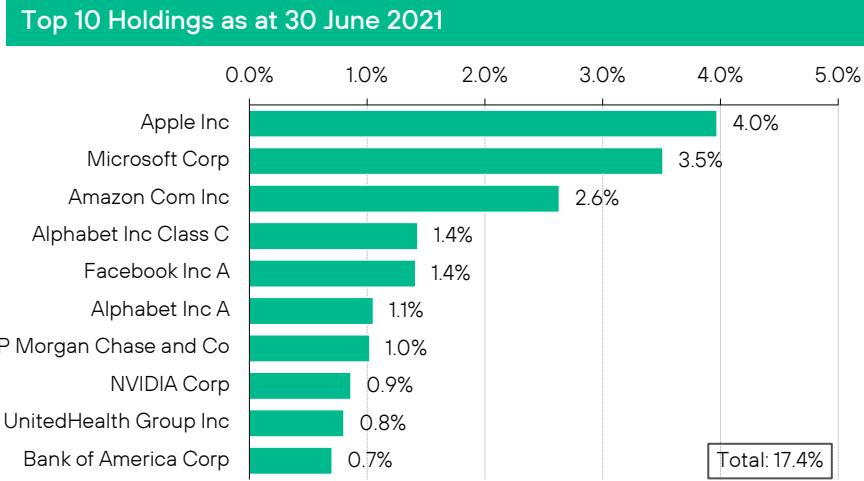
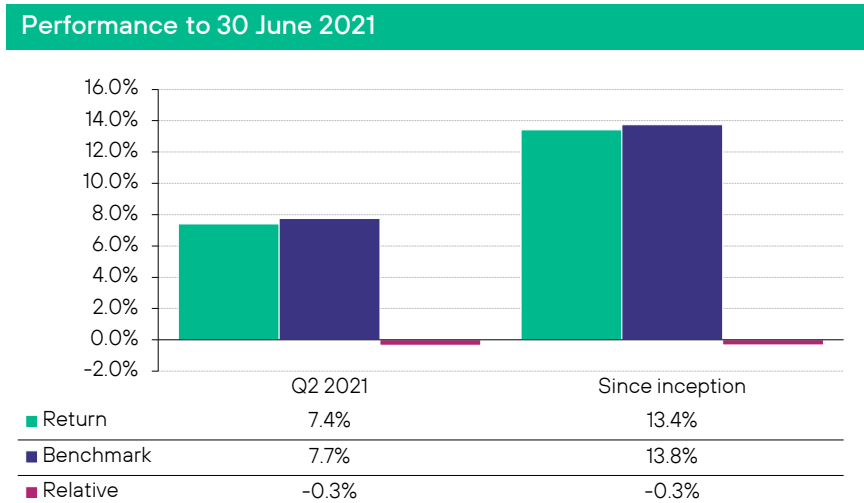
Current Weighting: 10.9%

Inception: 3 December 2020

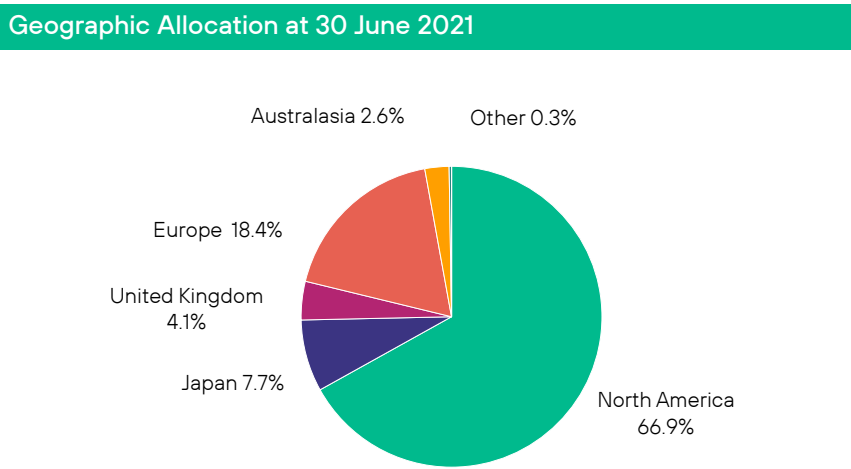
Benchmark: MSCI World NR

Objective: Outperform benchmark by 4.0% p.a. (net of fees)

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.



Commentary

- The fund delivered absolute performance of 7.4%, marginally underperforming its MSCI World benchmark by 0.3% over the quarter. The small magnitude of relative performance is in line with expectations, given the Fund's risk-controlled process.
- The main drivers of relative underperformance came from the climate solutions segment of the Fund. Within this, green transport was negatively impacted by the UK railroad nationalisation, as well as the spread of the 'delta' variant of COVID-19.
- Renewable energy also underperformed, continuing a trend from Q1; however this comes following an extremely strong period of performance for the sector.
- On the other hand, the Fund's lack of exposure to fossil fuels was the main contributor to performance, as Storebrand note that the economic cost of CO2 emissions has reached record highs.
- Storebrand's outlook regarding remains optimistic, with the manager believing that incorporation of science based targets, decarbonisation and green exposures make the fund well positioned to capitalise on the transition to a low carbon economy.

Harbourvest – Private Equity

Mandate: Private Equity

Current Value: £151.3m

Current Weighting: 3.4%

Inception: 31 January 2003

Benchmark: MSCI World +1.5%

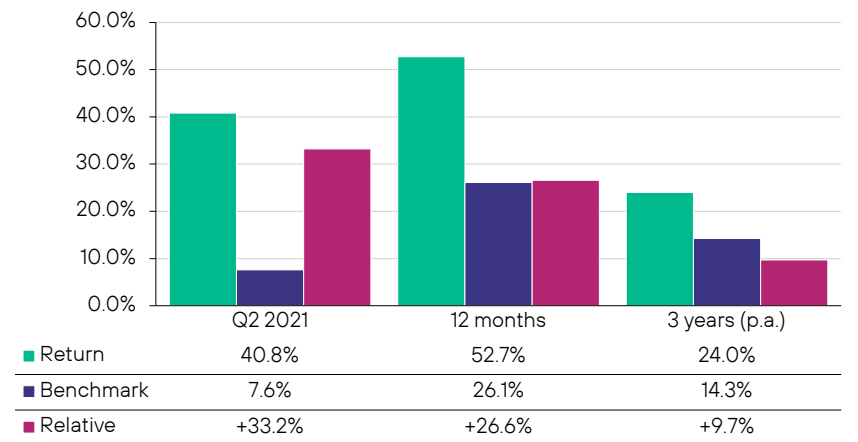
Objective: MSCI World +3.0%

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Harbourvest	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
HIPEP IV SUPPLEMENTAL EUROPEAN COMPANIONFUND	0.0	-	-	0.0
HARBOURVEST PTRS VIII - CAYMAN VENTURE FUND	1.3	-	0.2	1.9
HARBOURVEST INTL PEP V - CAYMAN PSHP FD	1.6	-	-	2.2
HARBOURVEST PTRS VIII - CAYMAN BUYOUT FUND	1.5	-	0.3	1.5
HARBOURVEST PARTNERS IX- CAYMAN BUYOUT FUND	11.3	-	0.9	13.4
HARBOURVEST PARTNERS XI AIF	12.9	2.1	0.9	18.8
HARBOURVEST INTL PEP VI - CAYMAN PSHP FUND	14.8	-	0.8	19.5
HIPEP VII (AIF) PARTNERSHIP FUND LP	12.4	0.1	0.9	16.5
HIPEP VIII (AIF) PARTNERSHIP FUND LP	11.2	1.2	0.4	16.2
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND I	11.0	-	-	18.1
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND II	18.6	0.3	1.4	26.5
DEFAULT ISSUER HARBOURVEST PTNS VII CAYMAN BUYOUT FD LP	0.3	-	-	0.2
HARBOURVEST PTRS VIII - CAYMAN MEZZANINEAND DISTRESSED DEBT FD	0.1	-	-	0.1
HARBOURVEST PTRS VII - CAYMAN VENTURE FUND	0.8	-	-	0.6
HARBOURVEST PARTNERS VII - CAYMAN MEZZANINE FUND	0.0	-	-	0.0
HARBOURVEST PARTNERS IX CAYMAN VENTURE FUND	10.1	-	1.5	13.5
HARBOURVEST PARTNERS IX CAYMAN CREDIT OPPORTUNITIES FUND	1.3	-	0.1	1.4

Note: Totals may not sum due to rounding. Performance quoted net of fees. Harbourvest valuations are lagged by 3 months.
Source: Investment manager, Northern Trust, Isio calculations.

Performance to 30 June 2021



Commentary – 3 Month Lagged

- The HarbourVest portfolio produced an exceptional return of 40.8% over the quarter, translating into 33.2% outperformance relative to the public equity market benchmark.
- Quarterly returns were underpinned by the HIPEP VII & VIII Funds as well as the IX Venture Fund, all of which benefitted from IPO and sale activity, as liquidity continued to pick up in the market. There was also a broad upward tick in valuations across the portfolio, reflecting continued strong investor demand for private equity assets and continued strong public equity market performance.
- Prior to 2014, investments with HarbourVest were made through, Buyout, Mezzanine or Venture fund-of-funds and since then commitments from the Fund have been to the annual vintage of two of HarbourVest’s flagship fund-of-fund products HIPEP or the Fund program.
- The overall portfolio has been volatile over the past 12 months, however is now ahead of the benchmark over the period, as well as over the longer term.
- We note the future commitments required to maintain the allocation with the manager have been agreed in principle.

Adams Street – Private Equity

Mandate: Private Equity

Current Value: £166.4m

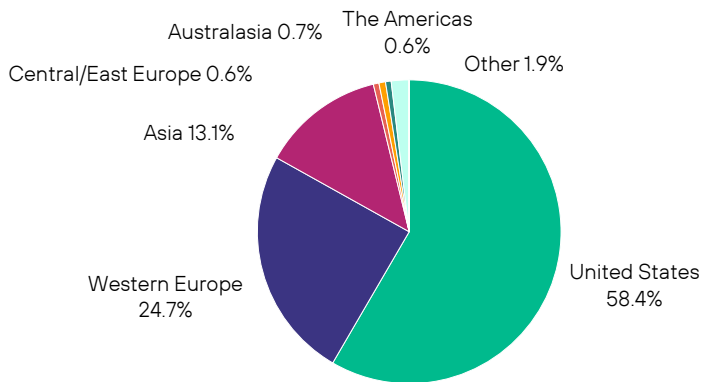
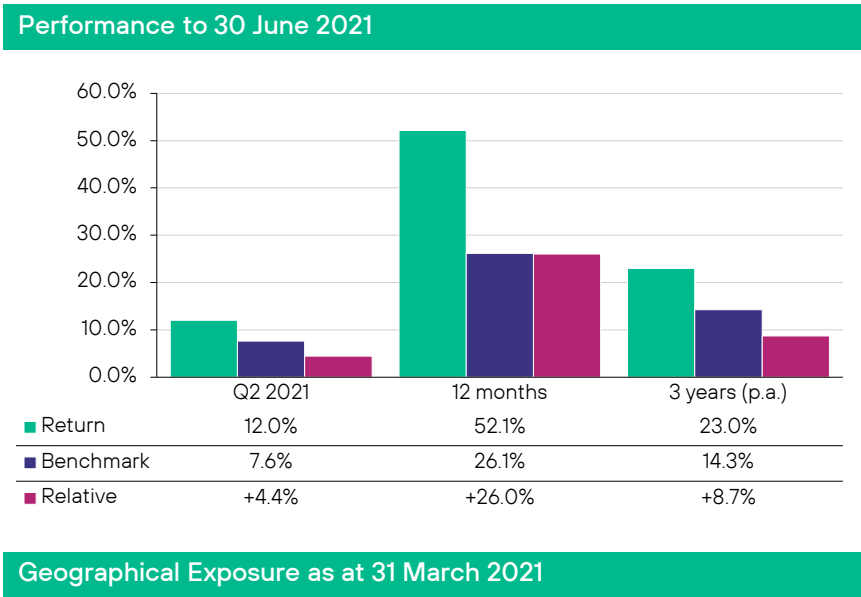
Current Weighting: 3.7%

Inception: 31 March 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Adams Street	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
Adams Street Direct Funds	2.1	0.0	0.1	2.1
Adams Street Co-Investment Fund II	1.5	-	-	1.8
Adams Street Global Funds 2014-2019	29.1	1.4	3.5	29.7
Adams Street Partnership Funds	26.1	0.0	2.7	25.8
Adams Street Feeder Funds	66.2	4.1	2.0	77.7
Adams Street Offshore Company Limited Funds	29.5	0.0	3.3	29.3

Commentary – 3 Month Lagged

- The Adams Street portfolio produced a positive absolute performance of 12.0% over the quarter, outperforming its composite benchmark by 4.4%.
- The continued strong returns in private equity over the period were partially driven by exposure to growth areas of the market such as technology and healthcare, for which demand has remained very strong, thereby supporting increasing valuations.
- Adams Street remain optimistic regarding the outlook across private equity investments, believing the increase in economic activity and abundance of available cash for investment will contribute toward substantial deal flow for the remainder of 2021. Adams Street also note a significant pick up in liquidity from asset sales over the first quarter of 2021, and anticipate a continued pick up in distributions over the coming quarters.
- We note the future commitments required to maintain the strategic allocation with the manager have been agreed in principle.

Newton – Absolute Return

Mandate: Diversified Growth Fund

Current Value: £504.5m

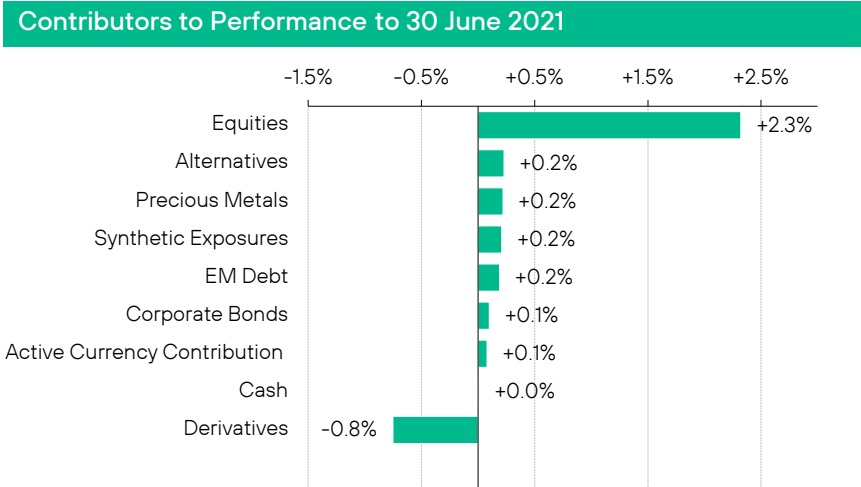
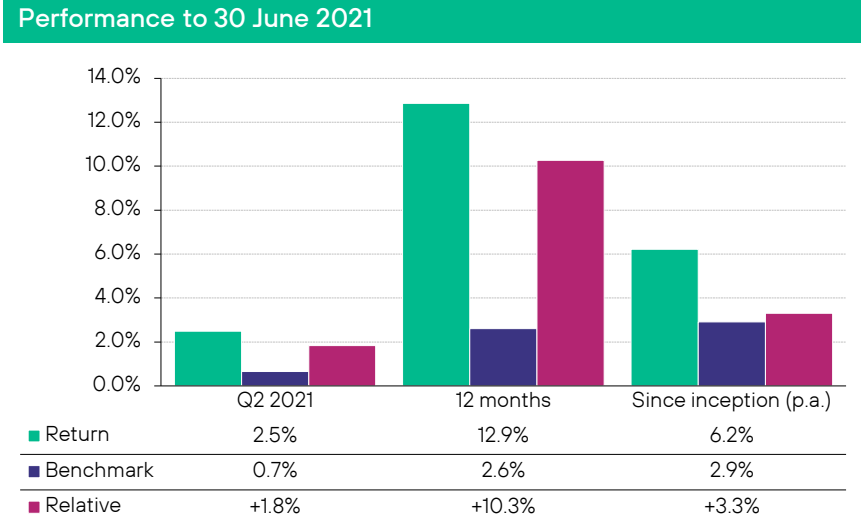
Current Weighting: 11.3%

Inception: 21 January 2020

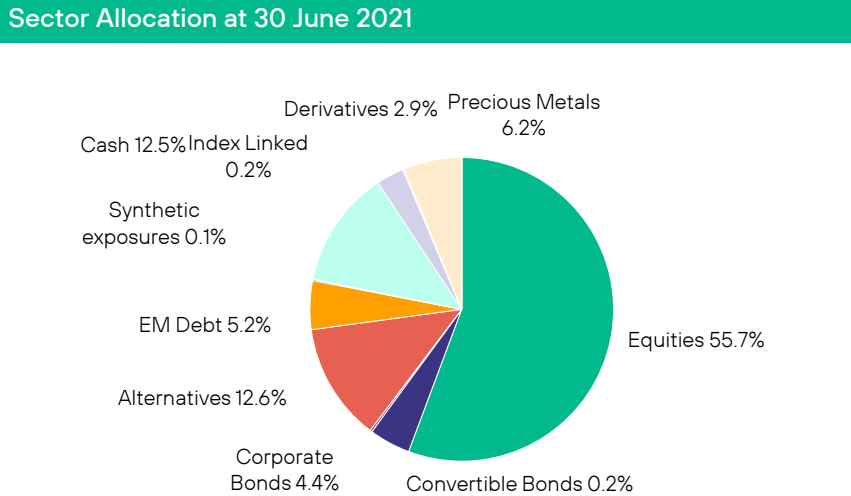
Benchmark: 3 Month LIBOR+2.5%

Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.



- ### Commentary
- Positive returns over the quarter remained in line with peers during a strong quarter for global markets. All elements of the 'return-seeking core' contributed positively, with equity the main driver once again as risk assets benefitted from strong economic and earnings data following continued vaccine rollout efforts and the gradual unlocking of economies. The Fund's 'stabilising layer', most notably equity market protection, detracted from performance.
 - The Fund removed the small remaining exposure to developed market government bonds for the first time since the financial crisis, anticipating future yield rises. Additionally, exposure to credit was reduced marginally, with Newton viewing the environment of spread compression as unappealing for credit risk-return.
 - Newton believe that risk assets have already experienced the lions share of returns from the pickup in economic activity for the year, anticipating market volatility for the second half of the year, and as such, maintain heightened protection and cash levels.

Schroders - Property

Mandate: Balanced Property

Current Value: £358.1m

Current Weighting: 8.0%

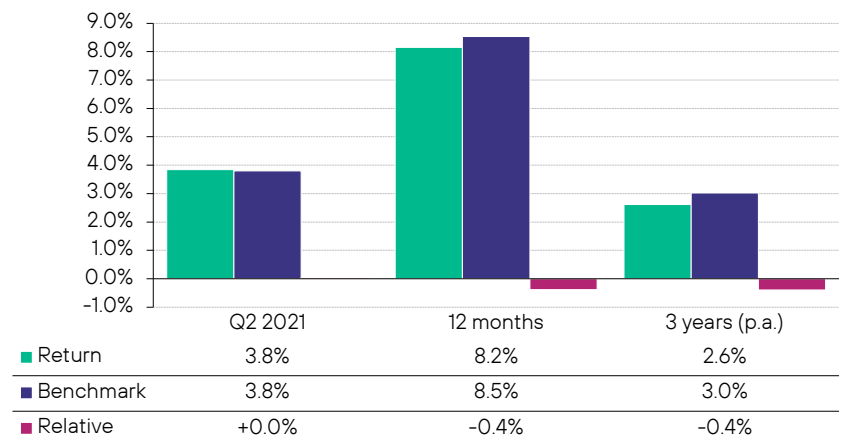
Inception: 31 December 2009

Benchmark: IPD All Balanced Fund Index

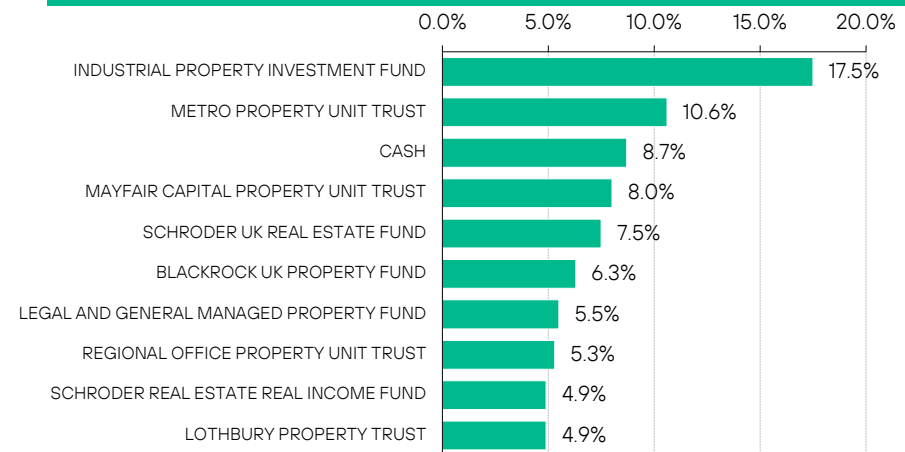
Objective: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years

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Performance to 30 June 2021

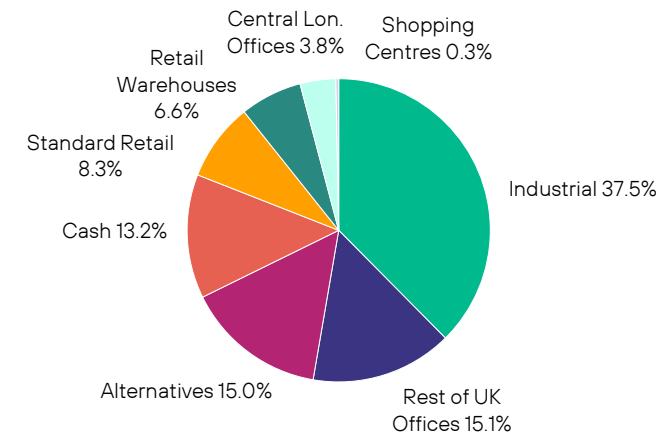


Top 10 Holdings as at 30 June 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees. Within the portfolio sector allocation, cash also includes cash held within the underlying funds.
Source: Investment manager, Northern Trust, Isio calculations.

Sector Allocation at 30 June 2021



Commentary

- The fund delivered a positive absolute return of 3.8% over the quarter, performing in line with its benchmark.
- Industrial assets performed strongly over the quarter following further yield compression in the sector, with Schroders confident that it will be the best performing of the main property sectors over 2021. Tenant demand remains strong for assets such as logistics spaces, as many businesses focus on growing their online exposure and home delivery.
- The Fund made one acquisition over the quarter, as a £1.2m commitment to the UK Retirement Living Fund was drawn down. This capital is to be used to fund the purchase and development of retirement communities in Tunbridge Wells.
- Overall, Schroders remain optimistic about the future of UK commercial property and expect to see a rebound in demand for offices towards the end of the year.

UBS - Infrastructure

Mandate: Infrastructure

Current Value: £28.1m

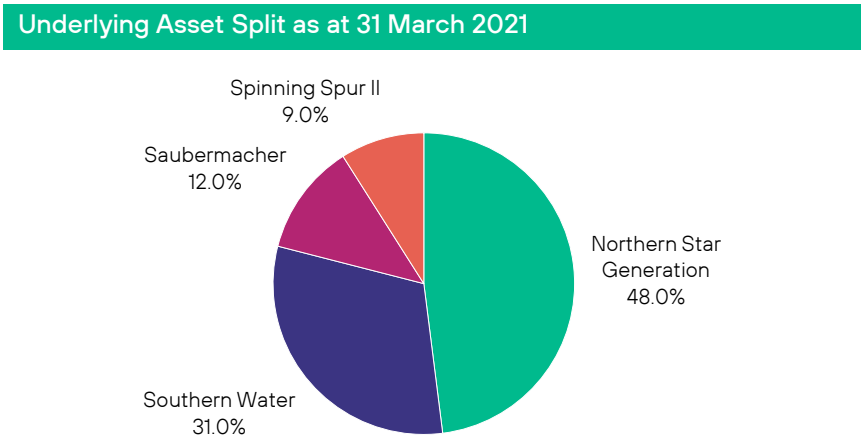
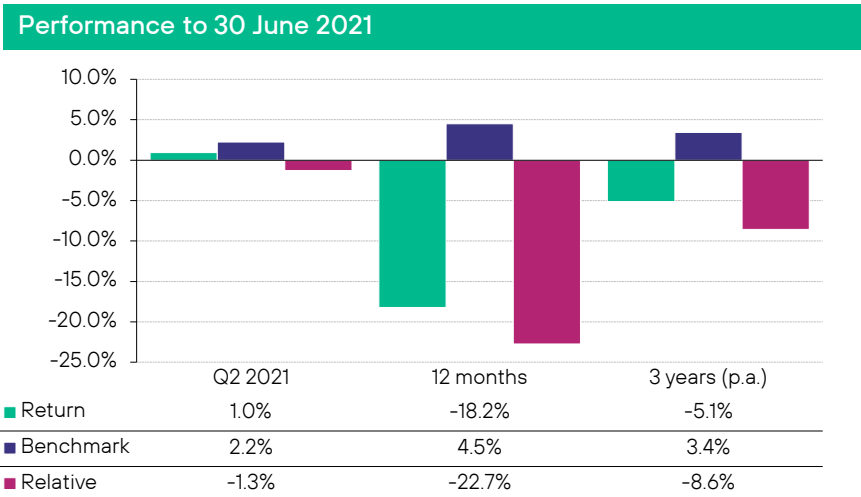
Current Weighting: 0.6%

Inception: 31 January 2008

Benchmark: CPI + 2.0%

Objective: CPI + 3%

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commitments and Distributions to 30 June 2021		
UBS	Fund I	Fund III
Total Commitment (\$m)	35.0	50.0
Commitment Drawn (\$m)	33.3	35.4
Distributions (\$m)	23.8	-
Outstanding Commitment (\$m)	1.7	14.6
Estimated Market Value (£m)	8.6	19.5

Commentary – 3 Month Lagged

- Over the quarter the portfolio returned 1.0%, underperforming the CPI linked benchmark by 1.3%.
- Fund I remains in the value realisation phase and is paying capital back to Investors, whilst Fund III is in its investment phase and continues to draw capital for investment.
- Underperformance continues to be driven by Fund I, where the Fund’s large holding in Southern Water (SW) is detracting from the overall portfolio. Despite revenue being c. 4% above budget for the quarter, EBITDA was c. 8% below. SW management have agreed a 2-5 year execution plan following on from an independent review of the business’ total expenditure. The firm has also raised £300m from the issuance of a 6 year bond, to ensure sufficient liquidity for the remainder of 2021.
- Fund III continues to see strong deal flow and are targeting small-to-middle market deals across digital infrastructure, energy transition, unregulated utilities and transportation in Europe, whilst focusing on energy storage and telecom opportunities within the Americas.

Pantheon – Infrastructure

Mandate: Infrastructure

Current Value: £43.9m

Current Weighting: 1.0%

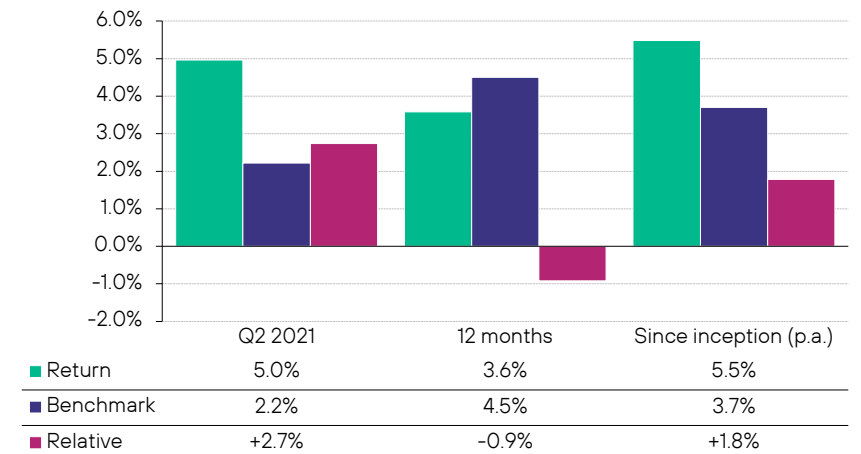
Inception: 4 May 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

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Performance to 30 June 2021

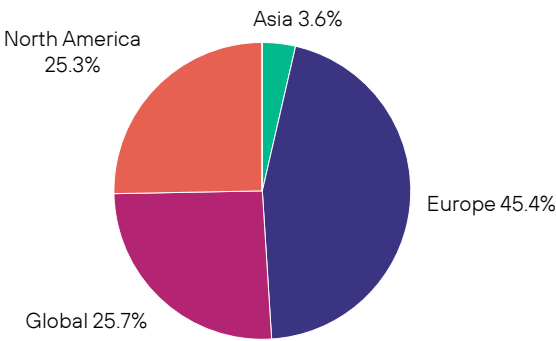


Commitments and Distributions to 31 March 2021

Pantheon	
Total Commitment (\$m)	117.0
Commitment Drawn (\$m)	52.6
Distributions (\$m)	5.9
Outstanding Commitment (\$m)	64.4
Market Value (£m)	43.9

Note: Totals may not sum due to rounding. Performance quoted net of fees. Performance information available to 31 December 2020 due to 3 month reporting lag.
Source: Investment manager, Northern Trust, Isio calculations.

Geographical Allocation at 31 March 2021



Commentary - 3 Month Lagged

- The fund delivered a positive absolute return of 5.0% over the quarter, outperforming the benchmark by 2.7%.
- Performance was underpinned by strong market demand for assets, driving increased valuations for the majority of the portfolio. The biggest uplift was in Telxius, a leading provider of telecommunication infrastructure in Europe and the Americas, whose valuation increased by 135% in light of plans to sell some apportion of its assets.
- Pantheon note they have seen a marked increased in deal flow over the year to-date. The firm closed one investment over Q1, a £32m stake in MapleCo, a UK-based smart meter business with strong regulatory dynamics and positive tailwinds. Pantheon also have a significant number of deals they expect to complete over Q2, being funded from a combination of the Fund’s credit facilities and expected capital calls.
- Pantheon are monitoring the increasing inflationary environment and its potential impact on Fund assets.

M&G – Infrastructure

Mandate: Infrastructure

Current Value: £35.0m

Current Weighting: 0.8%

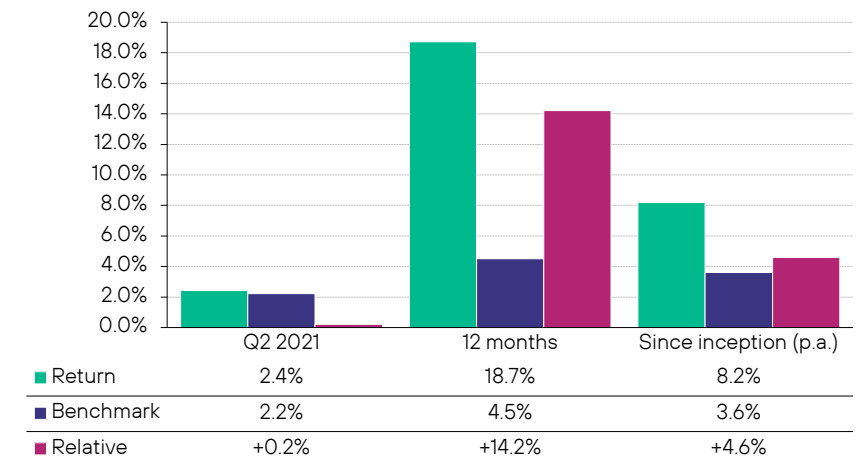
Inception: 31 October 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

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Performance to 30 June 2021

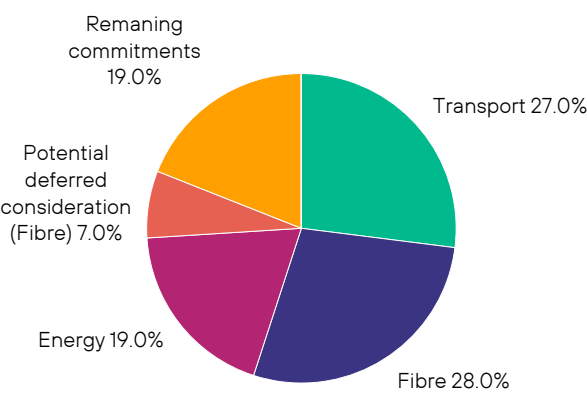


Commitments and Distributions to 30 June 2021

M&G – Infracapital	Brownfield III	Greenfield II
Total Commitment (£m)	42.0	20.0
Commitment Drawn (£m)	30.6	-
Distributions (£m)	4.4	-
Outstanding Commitment (£m)	11.4	-
Market Value (£m)	35.0	-

Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Brownfield Sector Exposure to 30 June 2021



Commentary

- The Portfolio delivered positive performance over Q2, marginally outperforming its benchmark. Performance continues to be solely driven by the Brownfield III Fund as the Greenfield fund remains undrawn. Current net IRR on the Brownfield III fund is 13.9%.
- Performance over Q2 was driven by valuation uplifts across the portfolio, with particular strong performance from the Fund’s Infracapital Germany holding. The asset rose in value following a positive settlement agreement being reached with a former shareholder, which allows the business to move past historical issues.
- The Fund made one acquisition over the quarter, due to complete in July, for BCTN, a leading European inland terminal operator which provides end-to-end logistics solutions. The Fund acquired 100% ownership for c. €90m and believe there is strong growth potential for the asset, which also brings positive ESG credentials to the Fund.
- Greenfield II has reached c.97% of its capital commitment target and M&G expect drawdowns to commence over the remainder of 2022.

ATLAS – Global Infrastructure Equity Fund

Mandate: Global Infrastructure Equity

Current Value: £78.8m

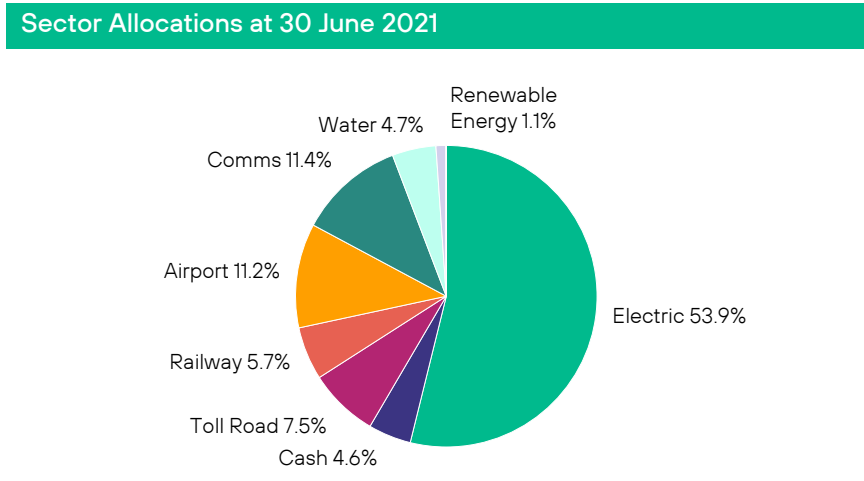
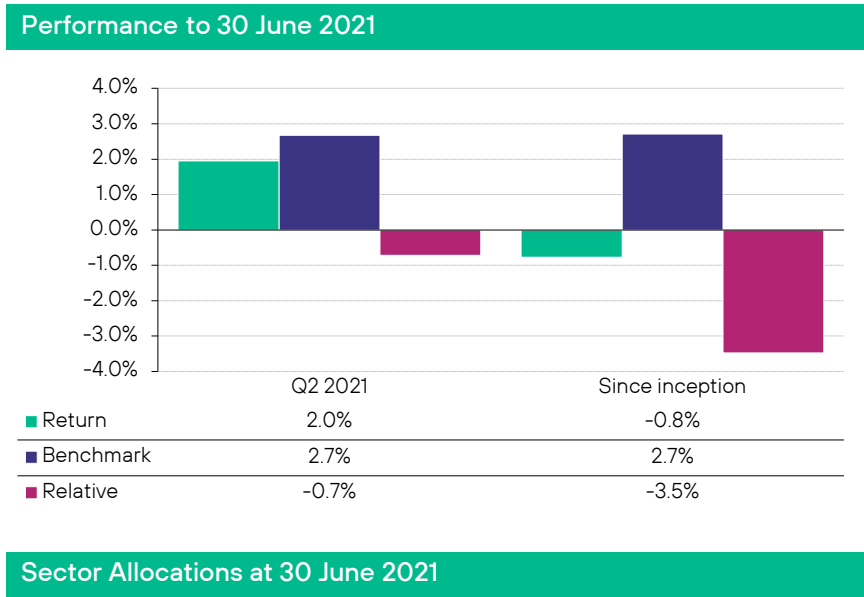
Current Weighting: 1.8%

Inception: 2 December 2020

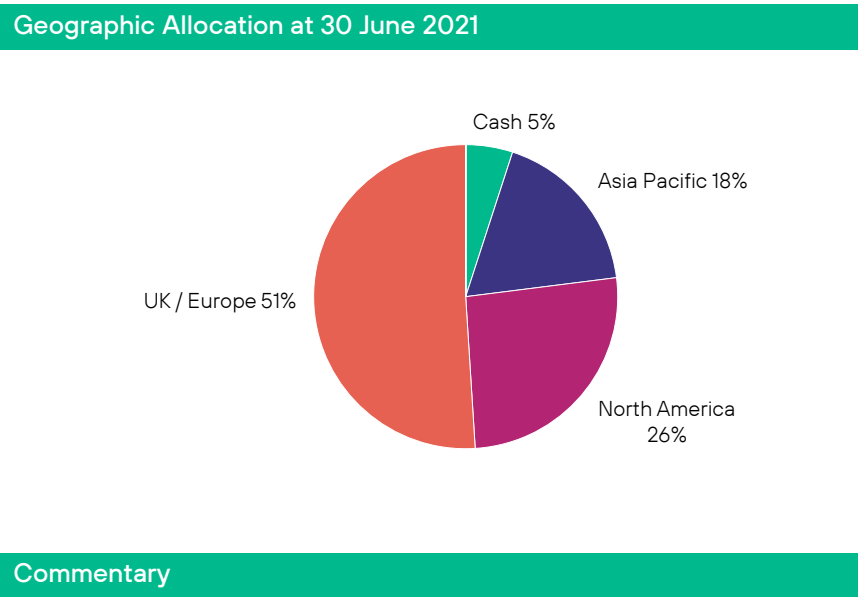
Benchmark: FTSE Developed Core 50/50 Infrastructure Index

Objective: CPI + 5%

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.



- ### Commentary
- The Fund delivered a return of 2.0% over the quarter, underperforming its market benchmark by 0.7%.
 - Underperformance over the quarter was driven by a number of factors, including a lack of exposure to sectors which performed well, such as pipelines and storage, as well as North American Towers. At a stock level, European communications company Eutelsat weighed on performance, with the market reacting negatively to the firm's M&A activity.
 - Performance was helped by stock selection in the electric utilities sector across Asia Pacific and North America.
 - The team added two new positions over Q2: National Grid (UK electric) and Acciona (Spanish renewables). These were funded through reductions in the size of existing positions in SSE and Red Elctra, both of which had been strong recent performers, and for whom expected forward expected returns had fallen.

Ruffer – Absolute Return

Mandate: Diversified Growth Fund

Current Value: £510.7m

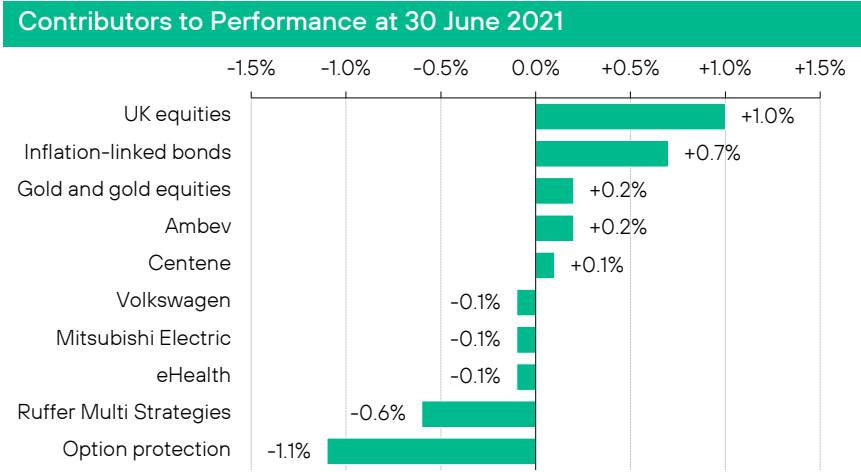
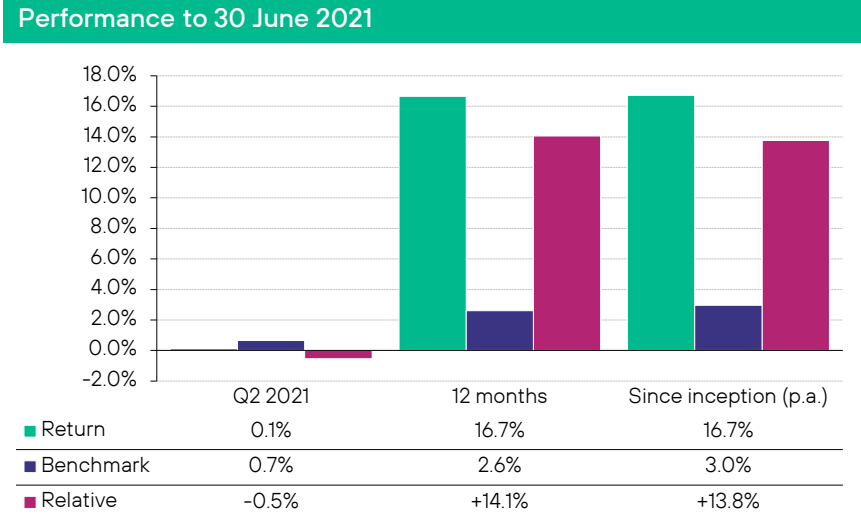
Current Weighting: 11.4%

Inception: 4 December 2019

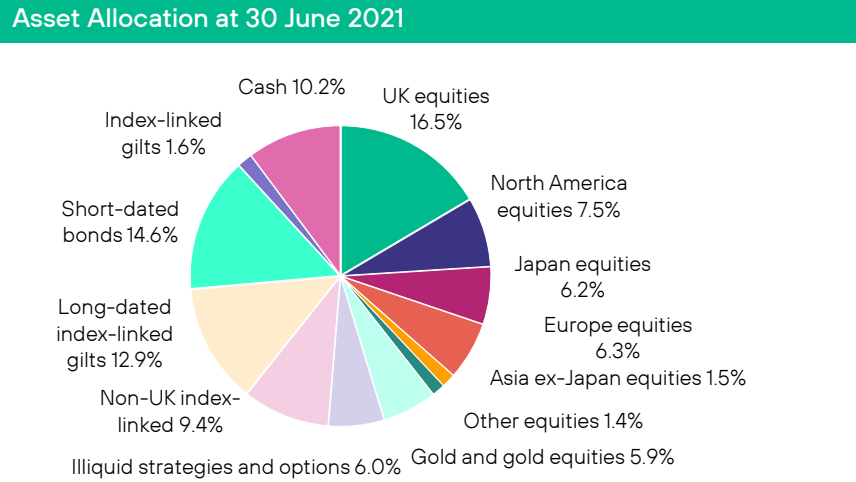
Benchmark: 3-month LIBOR + 2.5%

Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.



- ### Commentary
- The Fund lagged its peers in Q2, however longer term returns remained strong. Equities were the largest contributors to positive performance, most notably UK value and cyclical stocks which performed well in anticipation of economies reopening. As markets rallied protection strategies detracted from performance whilst interest rate protection (against rising rates) was the largest performance detractor, as bond yields fell giving up some of the gains seen from Q1.
 - Over the quarter Ruffer tilted the equity portfolio slightly away from cyclicals, while adding protection against equity market falls. The gold allocation was trimmed due to a strengthening US dollar - an environment associated with gold falling in value.
 - Ruffer maintain their view that the combination of lower interest rates and fiscal support from governments will lead to higher inflation, and therefore continue to hold assets which offer inflation protection such as Inflation Linked Bonds and Gold.

M&G – Real Estate Debt Fund

Mandate: Private Debt

Current Value: £40.2m

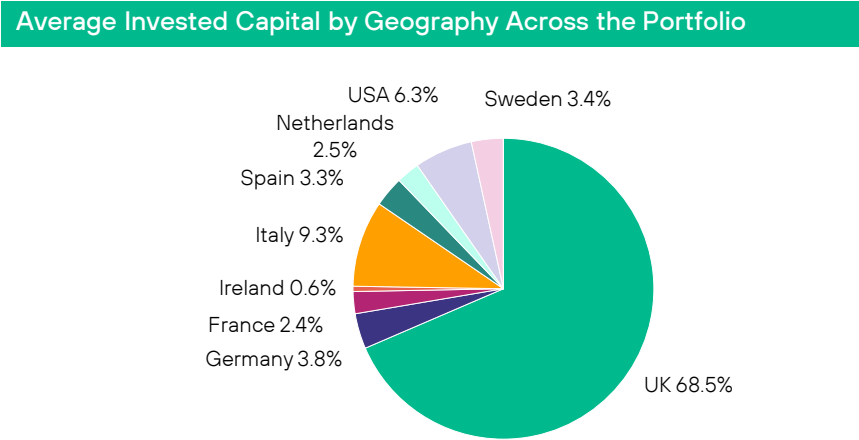
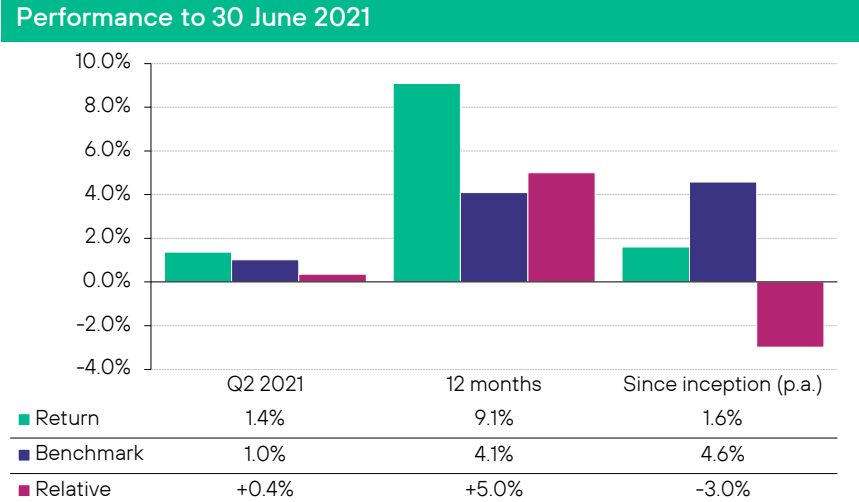
Current Weighting: 0.9%

Inception: 11 April 2019

Benchmark: Benchmark: 3m LIBOR +4%

Objective: Objective: 3m LIBOR +5%

M&G announced the resignation of four members within their Real Estate Debt business in April. As three of those resigning formed part of the investment committee ('IC'), M&G have proposed a newly elected IC which investors subsequently approved. We have downgraded the Funds to Partially Meets Criteria as a result of the loss of experience from the departing team members.



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commitments and Distributions to 30 June 2021

M&G – Real Estate Debt Fund	
Total Commitment (£m)	60.0
Commitment Drawn (£m)	38.5
Distributions (£m)	24.9
Outstanding Commitment (£m)	21.5
Market Value (£m)	40.2

- Commentary – 3 month lag
- The Funds continued to perform in line with target returns. Minor watchlist positions reduced from four to three with none of the positions expected to incur any losses.
 - Project Genesis was restructured over Q1 resulting in the senior lenders (M&G and an external party) holding an equal equity ownership of the asset. The restructuring allows short-term liquidity to be provided while the shopping centre recovers from lockdown restrictions, in addition to new capital made available for value-add initiatives.
 - Project Charlie, an office in Berlin, was added to the minor watchlist due to a major tenant vacating and COVID-19 restrictions limiting new viewings. The covenant has been breached but temporarily waived until Jan 2022 to provide flexibility.
 - Deployment was limited over Q1 but is set to continue following the approval of the new Investment Committee post-quarter end. M&G can now reinvest capital repayments across a strong pipeline until Dec 2022 to maintain market exposure.

M&G - Alpha Opportunities Fund

Mandate: Multi Asset Credit

Current Value: £289.7m

Current Weighting: 6.5%

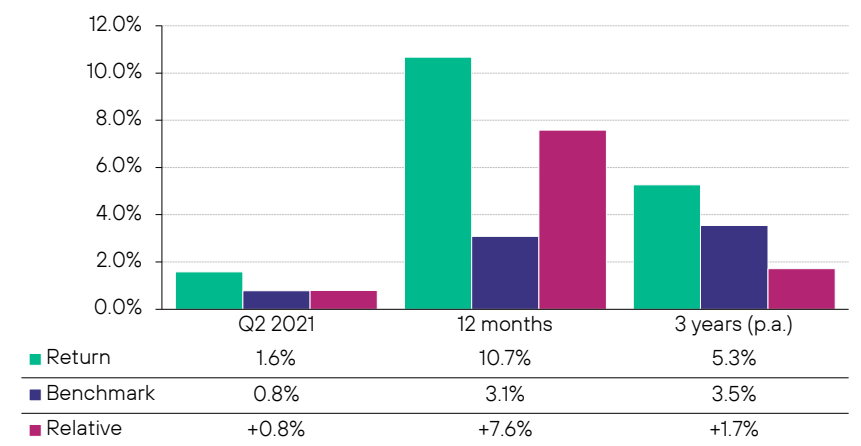
Inception: 30 November 2009

Benchmark: 3 Month Libor +3%

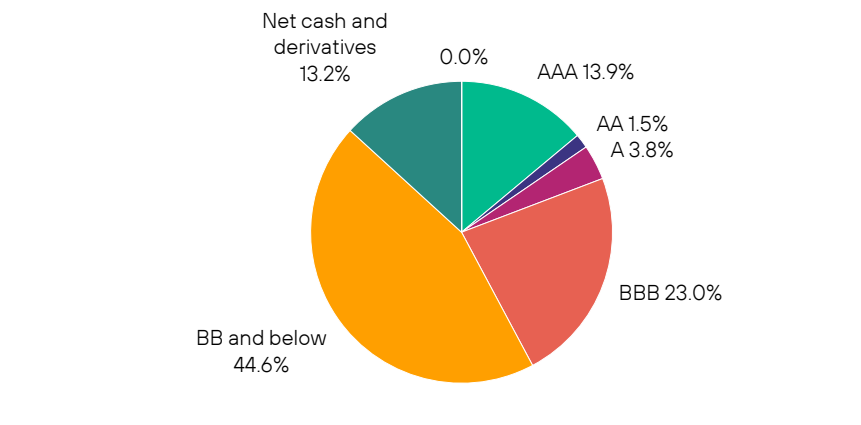
Objective: 3 Month Libor +5% (gross)

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Performance to 30 June 2021

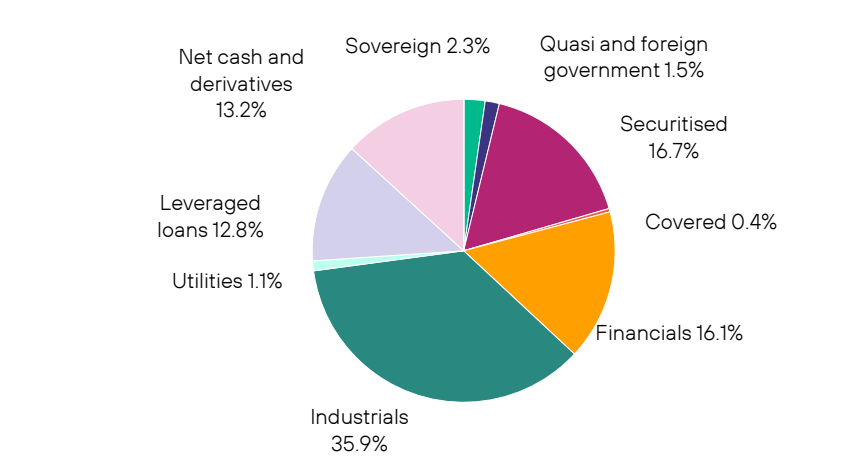


Credit Ratings as at 30 June 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Sector Allocation as at 30 June 2021



Commentary

- The Fund performed positively in what was a relatively strong quarter for investment grade corporate bonds following a fall in yields and a tightening of credit spreads.
- Industrials and Financials were the main contributors to performance as the sectors continued their recovery from the pandemic. Two of the largest contributors were Unibail and Hammerson, which reflected a strong quarter for Real Estate.
- The Fund maintained its relatively high allocation to cash (c.13%) which can be deployed should valuations become more attractive in the case of a risk-off environment. This position could result in a cash drag on performance relative to the wider market should volatility remain muted and credit continues to perform positively.
- M&G believe the macroeconomic backdrop remains uncertain and any contractionary policies by central banks will result in a sharp correction in credit markets, for which they are positioned to take advantage of.

M&G – Corporate Bonds

Mandate: Corporate Bonds

Current Value: £162.5m

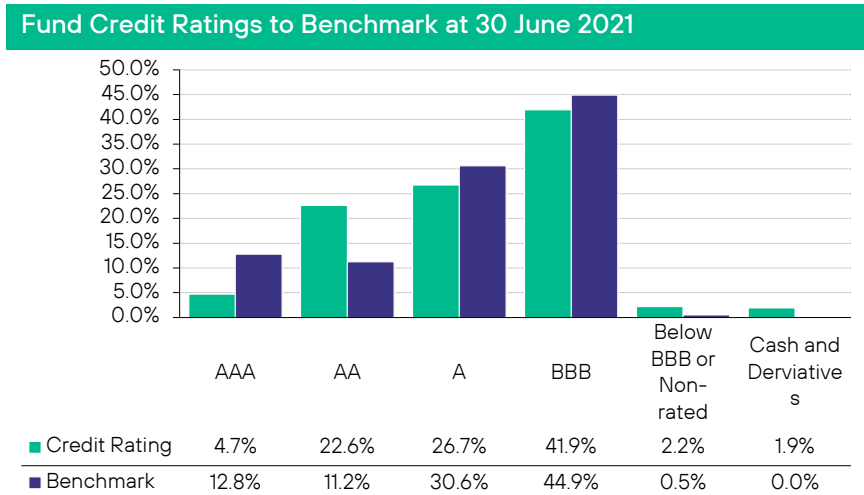
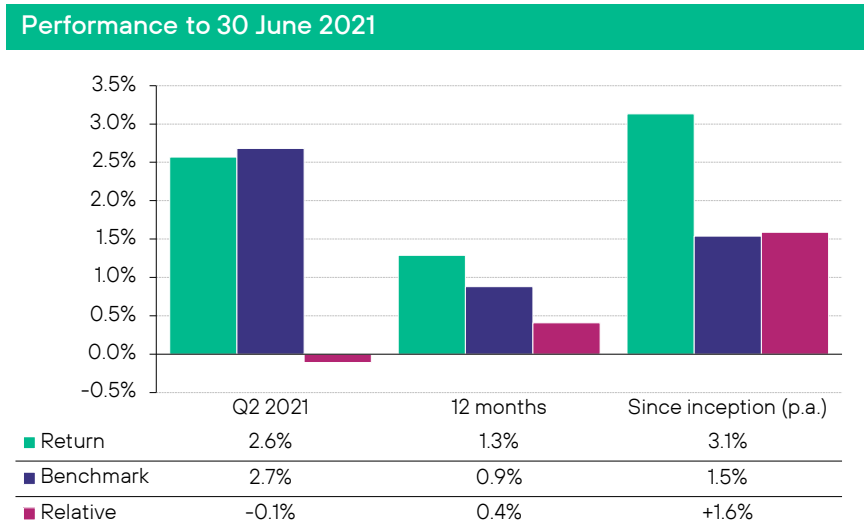
Current Weighting: 3.6%

Inception: 26 February 2020

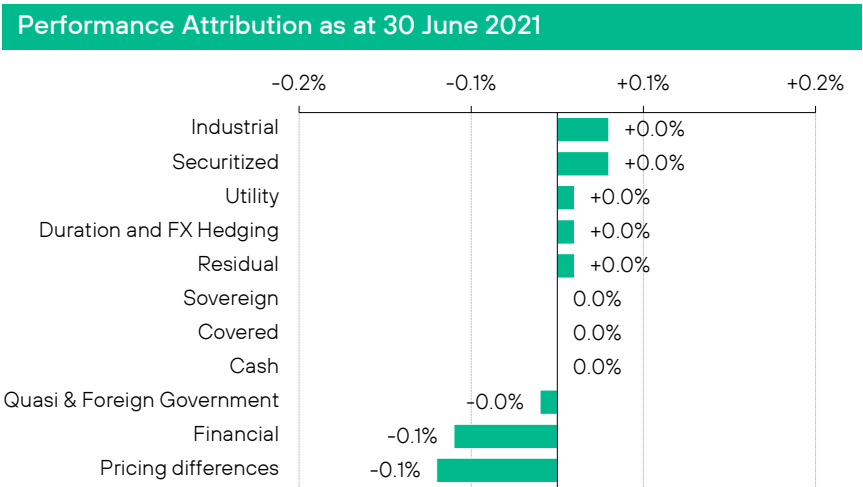
Benchmark: Benchmark: - 50% iBoxx Non-Gilts Over 15Y - 50% iBoxx Non-Gilts

Objective: Outperform benchmark 0.8% p.a. (gross)

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.



Commentary

- The Fund returned 2.6% over the quarter, performing broadly in line with its benchmark.
- Broad credit market performance was strong over the period benefitting from both the tightening of credit spreads and the fall in developed market government bond yields over the quarter.
- M&G continued to de-risk the fund through Q2, retaining an underweight position in credit spread duration and corporate risk relative to the benchmark. The team continued to reduce the fund's exposure to historically strong performing assets, taking profits on a number of investment grade holdings, with the proceeds largely re-invested into sovereign bonds or cash. These decisions were based on the view that valuations had become increasingly stretched over the quarter.
- Looking further ahead, M&G believe the market is increasingly 'priced for perfection', and therefore that fundamental credit analysis will become increasingly important in order to add value and achieve attractive future risk-adjusted returns.

UBS – Over 5 Year IL Gilt Fund

Mandate: Index Linked Gilts

Current Value: £133.7m

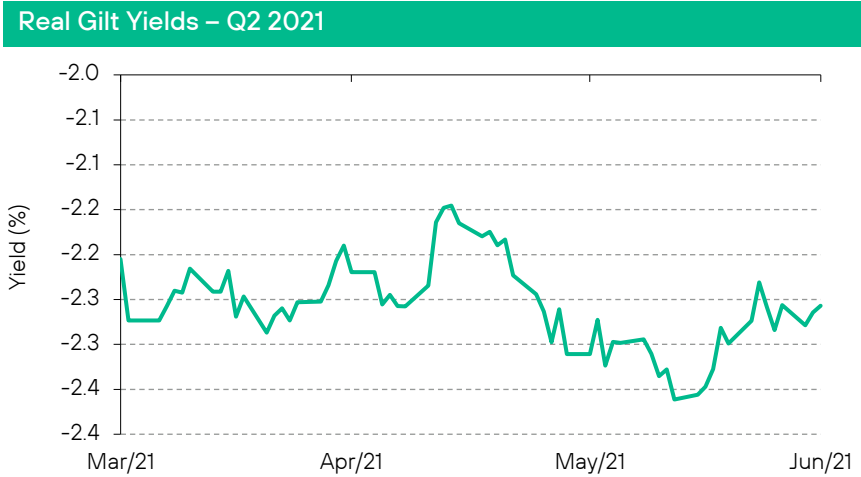
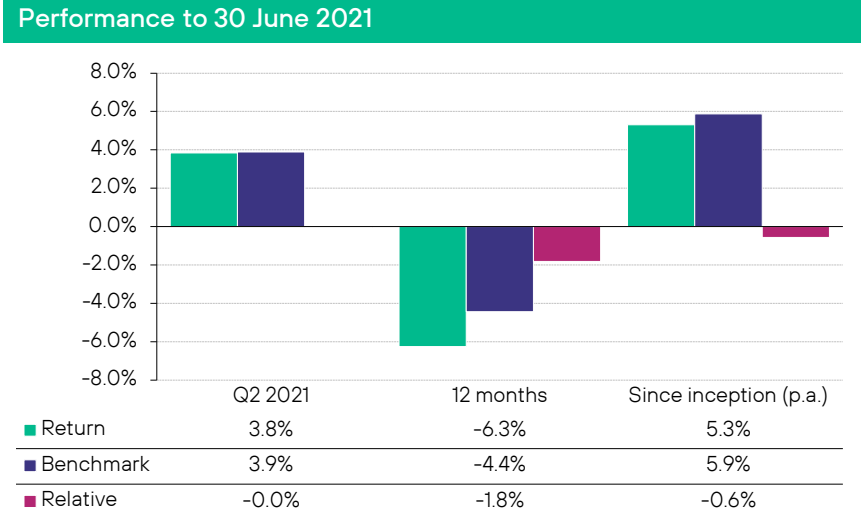
Current Weighting: 3.0%

Inception: 28 August 2017

Benchmark: FTSE Index- Linked Gilts Over 5 Years

Objective: Match benchmark

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Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund returned 3.8% over the quarter, in line with its benchmark , which is expected given the passive approach.
- Real gilt yields fell over the quarter, as a result of both increasing inflation expectations and falling nominal yields.
- This allocation has defensive characteristics, providing the Fund with protection against the impact of both interest rates and inflation expectations on the value placed on the liabilities.

Appendices

A1: Market Background: Global Equity, DGFs, Real Assets, Credit & Yields

A2: Explanation of Market Background

A3: Disclaimers

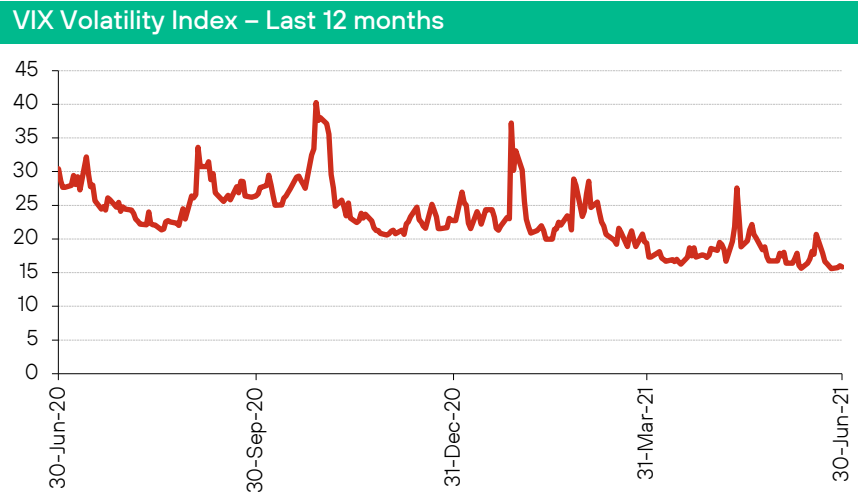
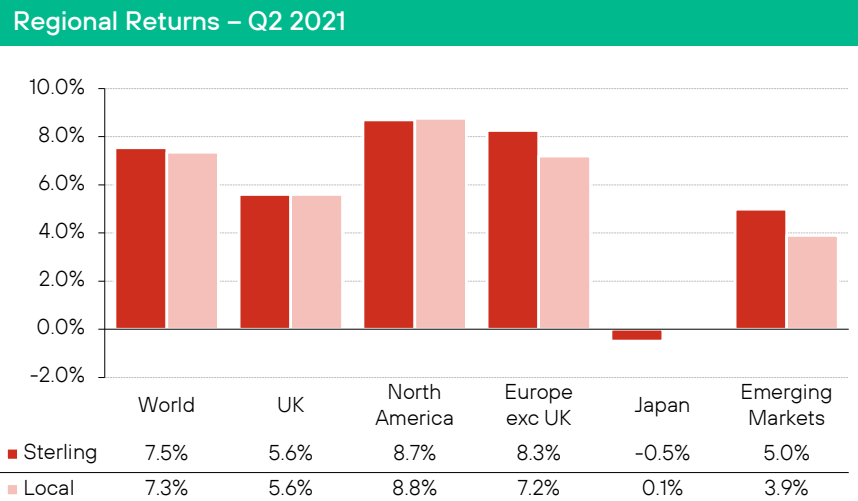
Market Background – Global Equity

Summary

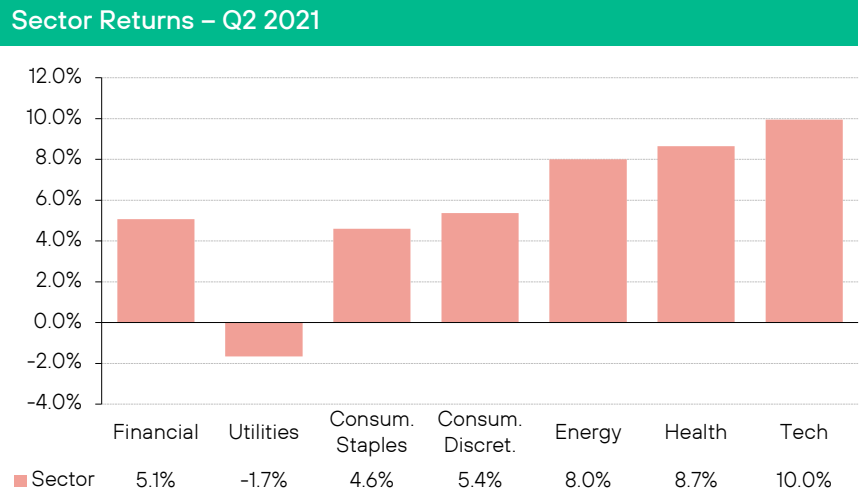
Global equities performed positively over Q2, which was aided by the ongoing COVID-19 vaccine rollout and continued stimulus measures.

US equities were the strongest performing region over the quarter with technology stocks being a key driver of returns.

Large cap stocks marginally outperformed small cap stocks over the quarter, which is a reversal of the trend seen over the past 12 months.



Note: Please see Appendix 3 for further information.
Source: Datastream, Isio calculations.



Commentary

- Over Q2, global equity markets delivered positive returns with performance supported by the accelerating rollout of COVID-19 vaccines which has triggered a rise in investor optimism.
- UK equities posted robust performance with the market being driven by cyclical stocks which continued to increase in value as lockdown restrictions eased. Coupled with this, the UK economic outlook improved as GDP forecasts were upgraded in response to the reopening. US equities were the strongest performers on the global stage over Q2, with the mega-cap technology stocks rebounding following relative underperformance since the announcement of the vaccine.
- Emerging markets also delivered positive returns, albeit slightly more muted than other regions. This was in part due to sell-off in May as above consensus inflation data reignited concerns in respect the speed of monetary policy tightening.
- Volatility in equity markets has reduced over the past 12 months as markets have begun to stabilise following the heightened volatility seen in previous quarters.

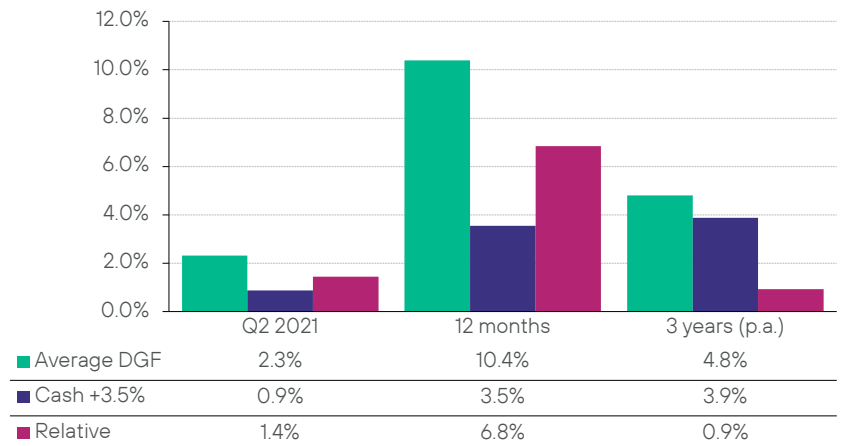
Market Background – Diversified Growth Funds (“DGFs”)

Summary

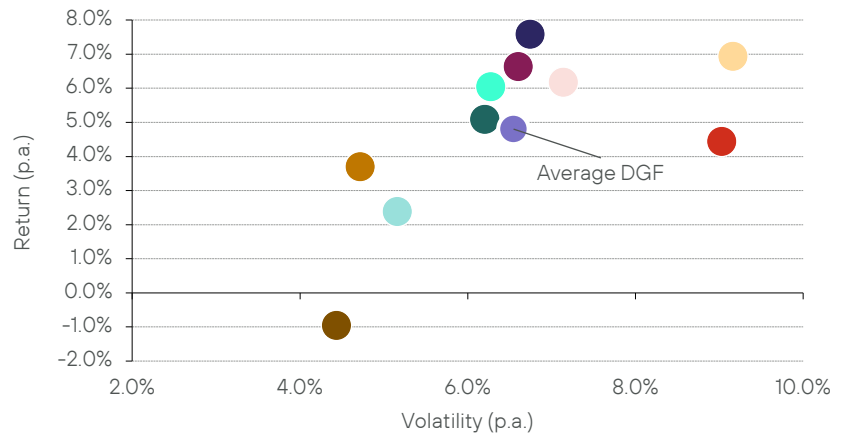
Within our sample of managers we have incorporated the performance of ten DGFs with various manager styles, aiming to give a balanced view of the market.

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Sample Manager Average Returns – Q2 2021

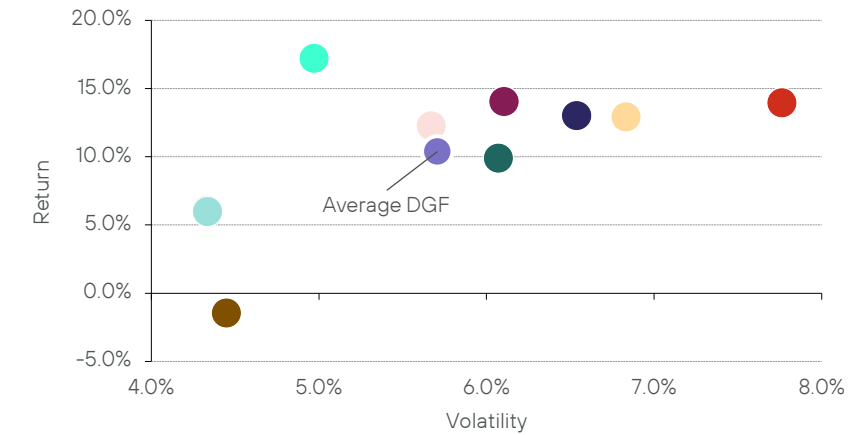


Sample Manager Returns and Volatility – 3 years (p.a.)



Note: Please see Appendix 3 for further information. All returns are quoted net of management fee.
Source: Investment Managers, Isio calculations.

Sample Manager Returns and Volatility – 12 months



Commentary

- The average DGF delivered positive performance over Q2 2021 as equities and energy commodities rose following the accelerating roll-out of COVID-19 vaccines in the developed world. Credit markets also contributed positively to performance due to a marginal fall in Gilt yields following a sharp rise in the previous quarter.
- Growth assets were the main driver of returns over the 12-month period. Typically the managers with greater allocations to equity relative to fixed income markets were the strongest performers over the 12-month period.
- The majority of DGF managers are maintaining a positive outlook, however there are increasing concerns over the prospect of monetary and fiscal policy tightening, in response to stronger growth and inflation. Other risks identified by managers include increasing debt and political instability.

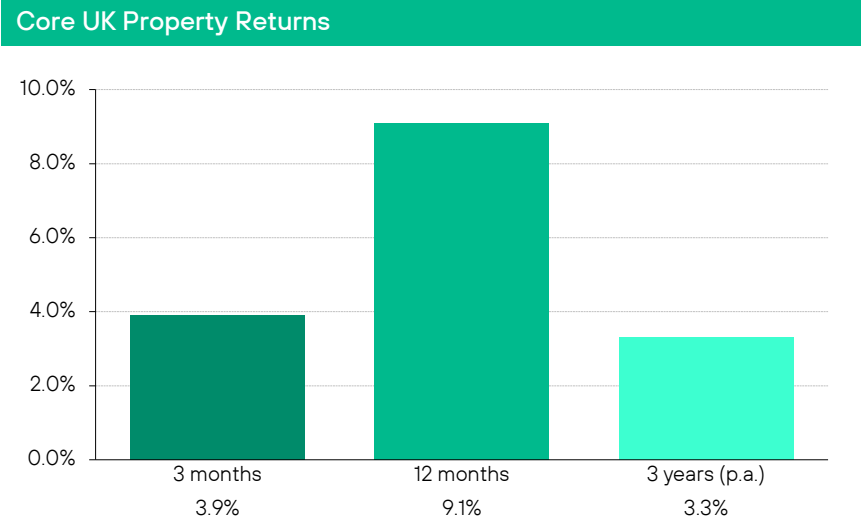
Market Background – Real Assets

Summary

Both Core and Long Lease Property returned positive performance over the quarter, due to a positive income return combined with improved capital values across some sectors.

Further relaxation of social restrictions, and subsequent re-opening of retail and leisure properties increased overall rental income. Offices also saw greater activity as employers look forward towards a balanced work approach.

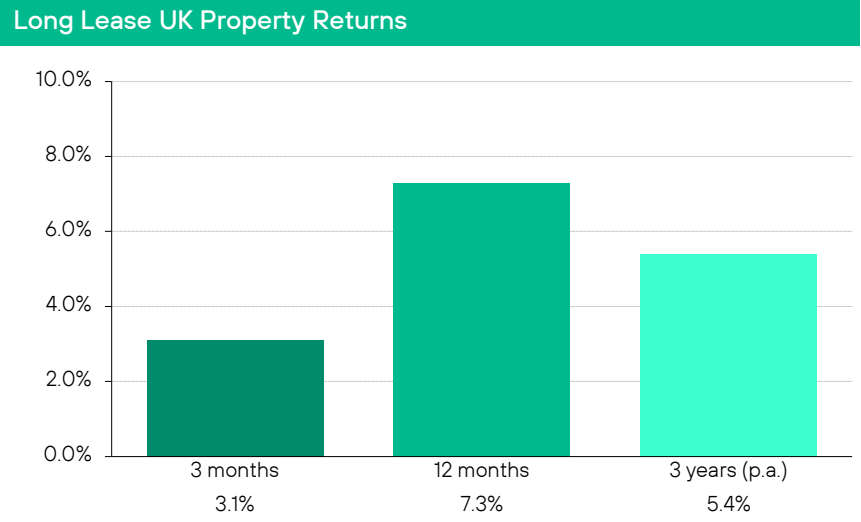
Despite a slight resurgence in retail, the sector is expected to continue to face challenges moving forward, as many businesses explore opportunities to use e-commerce.



Commentary – Core UK Property

- Core UK property delivered strong positive returns over the quarter as Covid related restrictions eased further, which saw the reopening of many leisure facilities, whilst the vaccination programme continued.
- Rental collections improved throughout the quarter, with managers ranging from 70–80% collection. Most managers continue to take a long-term view to rent collection. In particular, retail collection proves to be sensitive as a result of social restrictions and the rising demand for e-commerce.
- Whilst the easing of social restrictions has helped increase retail sales in the short term, volumes remain 40% below the 10-year average and the online share of retail sales are c.50% above pre-Covid levels. Industrials have continued to perform well over the quarter, as more businesses look to offer online services which is driving demand in the sector.
- A continuation of the UK’s vaccination success coupled with relaxation of restrictions helped boost the economic outlook with GDP increasing by 2.3%. This increased economic growth is helping to support UK property markets.

Note: Please see Appendix 3 for further information.
Source: AREF / IPD and Investment Managers.



Commentary – Long Lease UK Property

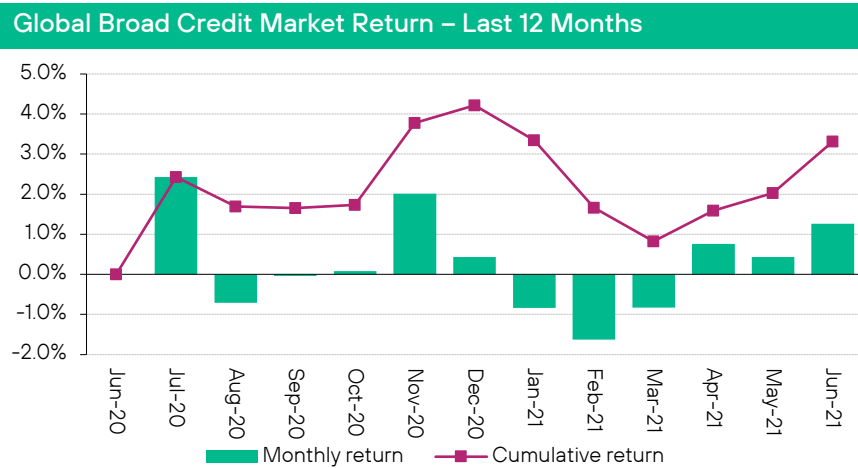
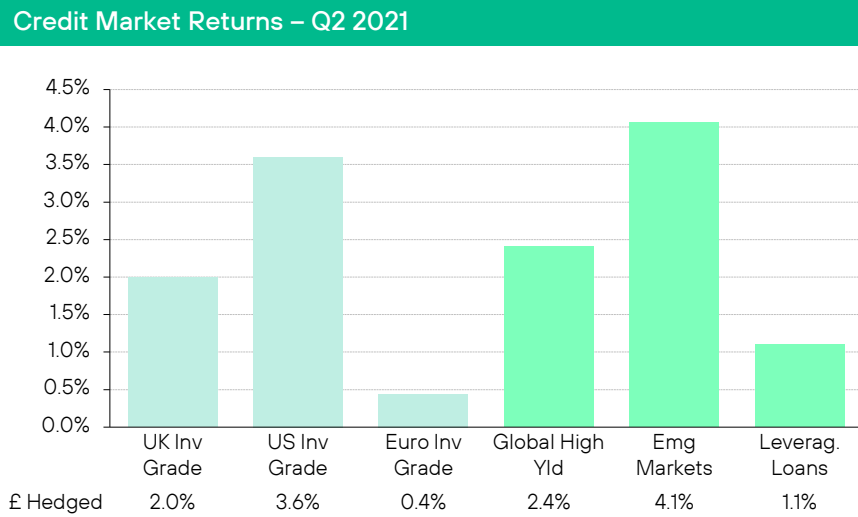
- Long Lease Property delivered strong positive returns over the period, largely driven by strong capital growth.
- Rent collection levels remained robust relative to core UK property and improved over the quarter with a collection of 90%+ across managers. This strong position reflects a bias towards less economically sensitive, high-quality tenants, who have been less impacted by lockdown restrictions in the UK.
- Strong investor demand for industrial assets including logistics and warehouses continued. Offices saw a recovery over the quarter as companies prepare for a hybrid working approach. Leisure and hospitality continued to struggle somewhat, however easing of restrictions should boost their future outlook.
- Transaction activity in the UK property market, as measured by the number of deals completed, remains steady. However, activity is still below pre-pandemic levels.
- Managers forecast positive capital growth over the next couple of years in part due to the lessening effects of the pandemic and Brexit withdrawal agreement, however they have also lowered their yield predictions slightly.

Market Background – Credit

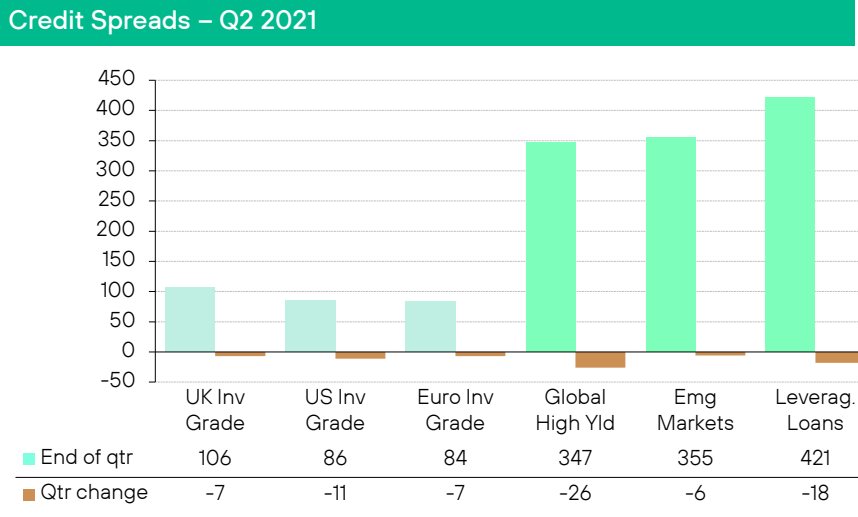
Summary

Global credit markets largely delivered positive returns over the quarter as appetite for credit risk continued. These returns were driven by a combination of government bond yields falling and the tightening of credit spreads.

Over the quarter, central bank messaging was broadly supportive, with the European Central Bank pushing back the timeframe on tapering/selling its bond holdings. The US Federal Reserve were also keen to stress the spike in inflation expectations is expected to be transitional. The net effect of this was interest rate expectations falling at longer maturities, supporting interest rate sensitive assets such as investment grade.



Note: Please see Appendix 3 for further information. Credit spreads are shown in basis points (100 bp = 1%).
Source: Investment Managers, Isio calculations, Eikon



Commentary

Global credit markets performed positively over Q2, with spread tightening driven by the improved macroeconomic outlook and the continued support of central banks.

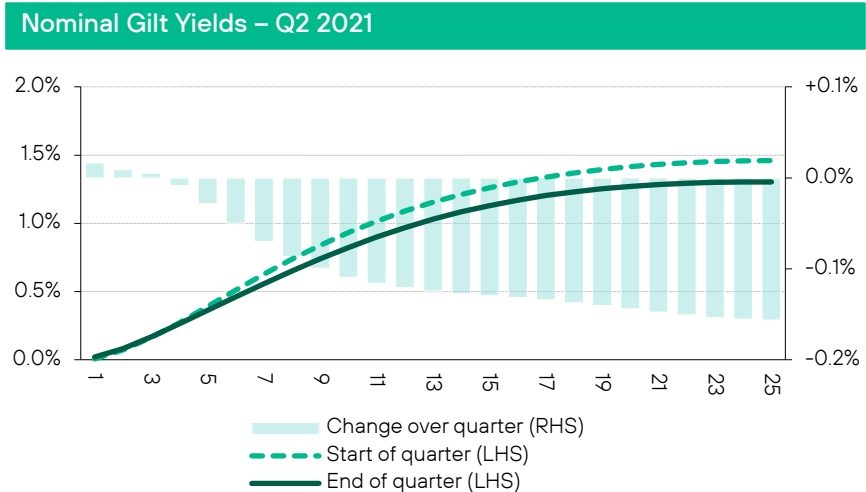
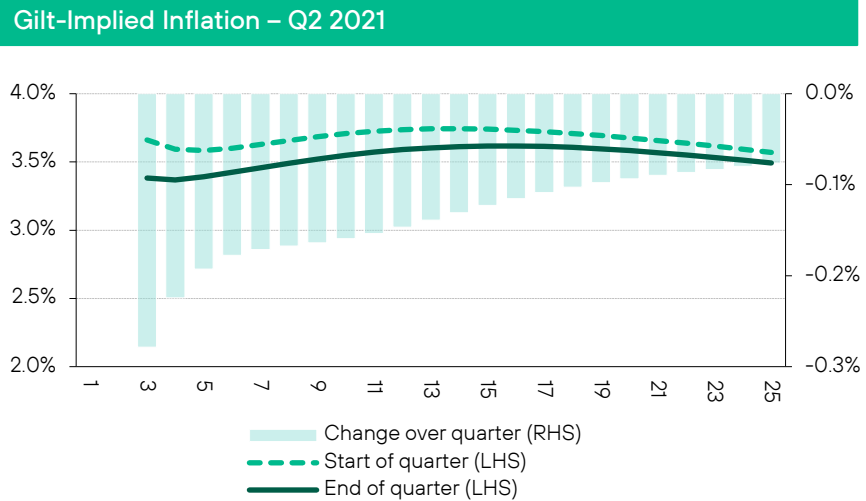
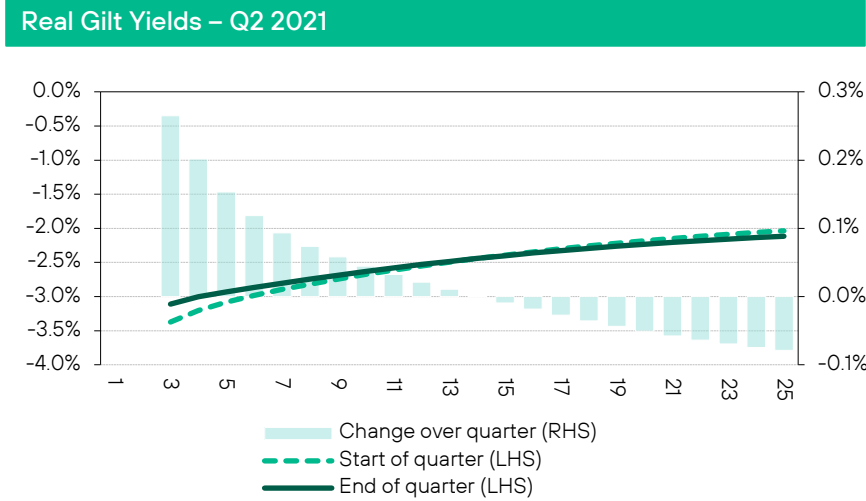
- Investment grade ('IG') bond performance was positive over Q2 as falling government bond yields provided support alongside further spread tightening. This was due to the improving macro outlook for economies as they continue to re-open.
- Higher risk credit assets such as high yield ('HY') bonds continued to deliver strong returns driven by spread movements over Q2. HY outperformed the more defensive leveraged loans, as fixed rate bonds outperformed floating rate loans during a period when government bond yields fell. HY markets saw strong new issuance over the quarter which was swept up by investors seeking higher yielding assets.
- Emerging market ('EM') debt performance rebounded strongly over the quarter, driven by falling US Treasury yields. A strong rally in commodity prices also supported export driven EM economies, positive EM currency performance relative to the US Dollar also helped USD denominated debt (making it cheaper to repay in local currency terms).

Market Background – Yields

Summary

These curves show gilt yields and inflation expectations at varying time horizons. The horizontal axis represents the number of years.

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Note: Please see Appendix 5 for further information.
Source: Bank of England, Isio Calculations

Commentary

- Long-dated (20-year) yields at the quarter-end were:
 - Real gilt yield: -2.2%
 - Nominal gilt yield: 1.3%
 - Gilt-implied inflation expectation: 3.6%

Explanation of Market Background

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where “hedged” returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

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Market Background – Overview

- Returns by Asset Class – The market indices underlying this chart are as follows:
 - UK Equity: FTSE All-Share
 - Global Equity: FTSE World (Unhedged and Hedged)
 - Emerging Market Equity: MSCI Emerging Markets
 - Diversified Growth Funds: mean of a sample of DGF managers
 - Property: IPD Monthly UK
 - Global High Yield: BoAML Global High Yield (GBP Hedged)
 - UK Inv. Grade Credit: BoAML Sterling Non-Gilt
 - Over 15 Years Gilts: FTSE Over 15 Year Gilt
 - Over 5 Years Index-Linked Gilts: FTSE Over 5 Year Index-Linked Gilt
 - Example Liabilities: a simplified calculation illustrating how a typical pension scheme’s past-service liabilities may have moved

Market Background – Global Equity

- Regional Returns – The market indices underlying this chart are as follows:
 - World: FTSE World
 - UK: FTSE All Share
 - North America: FTSE North America
 - Europe ex UK: FTSE Europe ex UK
 - Japan: FTSE Japan
 - Emg Mkts: MSCI Emerging Markets
- Sector Returns – The market indices underlying this chart are the relevant sectors from the MSCI All-Countries index.
- VIX Volatility Index – This is a forward-looking indicator. It represents the expected range of movement (in percentage terms) in the S&P 500 index (i.e. US equities in dollar terms) over the next year, at a 68% confidence level. It is calculated using options prices over a 30-day horizon.

Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where “hedged” returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

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Market Background - DGF

- **Diversified Growth Funds (“DGFs”)** – Due to the lack of a market index for DGFs, we illustrate the performance of this by showing the returns of 10 of the largest funds by assets under management. Specifically:
 - Aberdeen Standard Global Absolute Return Strategies
 - Aviva Multi-Strategy Target Return
 - Baillie Gifford Diversified Growth
 - BlackRock Dynamic Diversified Growth
 - Invesco Perpetual Global Targeted Returns
 - L&G Diversified
 - Newton Real Return
 - Nordea Stable Return
 - Ruffer Absolute Return
 - Schroder Diversified Growth
- The ‘Average DGF’ performance is an equally-weighted average of the sample of 10 managers’ performance figures.
- Returns are shown net of each manager’s standard fee. While every effort has been taken to select vehicles with institutional/clean fee structures, the impact may not necessarily reflect any particular client’s fee arrangements.
- Volatility is calculated by annualising the volatility of daily returns.
- As clients have specific selection criteria, the managers listed here may not meet any given client’s criteria.
- DGFs encompass a range of investment approaches, return targets, and risk profiles. Consequently, different managers’ returns are not necessarily a like-for-like comparison.

Market Background – Real Assets

- **Real Assets** – The market indices underlying these charts are:
 - Core UK Property: IPD Monthly UK Index
 - Long Lease UK Property: IPD Long Income Property Fund Index

Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where “hedged” returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

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Market Background – Credit

- Sector Returns and Credit Spreads – The market indices underlying this chart are as follows:
 - UK Inv Grade: BoAML Sterling Non-Gilt
 - US Inv Grade: BoAML US Corporate (GBP Hedged)
 - Euro Inv Grade: BoAML Euro Corporate (GBP Hedged)
 - Global High Yield: BoAML Global High Yield (GBP Hedged)
 - Emerging Markets: JP Morgan EMBI Global (GBP Hedged)
 - Leveraged Loans: S&P/LSTA US Leveraged Loan Equity (GBP Hedged)
- Global broad credit market return – The market index underlying this chart is the BoAML Global Broad Market Corporate Index (GBP Hedged):
 - The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including 'global' bonds.
 - Qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Bonds must be rated investment grade and be domiciled in a country having an investment grade foreign currency long-term debt rating (based on a composite of Moody's and S&P).

Market Background – Yields

- Yields – Yields shown are annual yields (i.e. they have been converted from the “continuously compounded” basis quoted by the Bank of England).
- Example Liabilities – This illustrates how a typical scheme's past-service liabilities may have moved.
 - It is based on a simplified calculation assuming a scheme with duration 20 years and liabilities split 70% inflation-linked and 30% fixed.
 - Liability movement is calculated using yield changes and unwinding (short-term interest rate with no premium) only, with no accrual, outgo, or inflation experience.
 - A rise in yields equates to a fall in the calculated value of the liabilities (due to the higher discount rate at which the future cashflows are valued); conversely, a fall in yields means a rise in liabilities.

Disclaimers

This report has been prepared for the sole benefit of East Sussex County Council as Administering Authority of the East Sussex Pension Fund

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Performance, Opinions, and Estimated Liabilities

- This report sets out the past performance of various asset classes and fund managers. It should be noted that past performance is not a guide to the future.
- Our opinions (and comparison vs criteria) of the investment managers stated in this report are based on Isio’s research and are not a guarantee of future performance. These are valid at the time of this report but may change over time.
- Our opinions of investment products are based on information provided by the investment management firms and other sources. This report does not imply any guarantee as to the accuracy of that information and Isio cannot be held responsible for any inaccuracies therein. The opinions contained in this report do not constitute any guarantees as to the future stability of investment managers which may have an effect on the performance of funds.
- Funds that make use of derivatives are exposed to additional forms of risk and can result in losses greater than the amount of invested capital.
- The estimated liabilities (where quoted) have been “rolled forward” from the last actuarial valuation and/or funding update, by taking current bond yields and inflation expectations into account. The methodology underlying the actuarial assumptions (e.g. discount-rate premium, mortality, real salary growth etc.) is assumed to remain constant for this estimate. Due to the approximate nature of the calculations, the Fund’s actual experience and changes in future valuation assumptions may mean that the liabilities and funding position calculated at the next actuarial valuation (or funding update) could be significantly different from the quoted estimate.

Addressee and Isio Relationships

- This report has been prepared for the sole benefit of the East Sussex County Council as Administering Authority of the East Sussex Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group/Isio Services Ltd’s Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group/Isio Services Ltd accepts no responsibility or liability to that party in connection with the Services.
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Contacts

David O'Hara

Partner

Investment Advisory

+44 (0) 141 739 9133

David.Ohara@isio.com

Andrew Singh

Principal Consultant

Investment Advisory

Tel: +44 131 202 3916

Andrew.Singh@isio.com

Charles Pringle

Consultant

Investment Advisory

+44 (0) 131 378 1726

Charles.Pringle@isio.com

Ric Atalla

Assistant Consultant

Investment Advisory

+44 (0) 131 202 3911

Ric.Atalla@isio.com

isio.



AGENDA

ACCESS JOINT COMMITTEE

Monday, 6th September, 2021, at 11.00 am

Ask for: **Joel Cook**

Westminster Room, Local Government Association, Telephone **03000 416892**
18 Smith Square, Westminster, London, SW1P 3HZ

Any members of the press or public wishing to attend are asked to contact the Clerk at least two days prior to the meeting to allow for relevant arrangements.

Membership

Chair: Cllr Mark Kemp-Gee (Hampshire CC), **Vice-Chair: Cllr Susan Barker** (Essex CC), **Cllr Gerard Fox** (East Sussex CC), **Cllr Jeremy Hunt** (West Sussex CC), **Cllr Chris Jarman** (Isle of Wight), **Cllr Malcolm Longley** (West Northamptonshire), **Cllr Judy Oliver** (Norfolk CC), **Cllr Charlie Simkins** (Kent CC), **Cllr Karen Soons** (Suffolk CC), **Cllr Alison Whelan** (Cambridgeshire CC) and **Cllr Andrew Williams** (Hertfordshire CC)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Election of Chairman
2. Election of Vice Chairman
3. Apologies and substitutes
4. Declaration of interests in items on the agenda
5. Chairman's remarks
6. Minutes of the meeting held on 8 March (Pages 1 - 6)
7. Business plan, forecast outturn and risk summary (Pages 7 - 14)
8. Communications and Spokespeople (Pages 15 - 20)
9. Motion to Exclude the Press and Public

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

EXEMPT ITEMS

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

- | | |
|---|-----------------|
| 10. Implementation Adviser procurement | (Pages 21 - 26) |
| 11. Scheduled BAU Evaluation | (Pages 27 - 46) |
| 12. Performance, Annual Report and MHCLG return - to follow | |
| 13. Review of Emerging Markets process | (Pages 47 - 66) |
| 14. Response to Emerging Markets Review | (Pages 67 - 70) |
| 15. Sub-fund implementation | (Pages 71 - 74) |
| 16. Contract and Supplier Relationship Management | (Pages 75 - 94) |
| 17. Risk Management | (Pages 95 - 98) |

Date of Next Meeting

Monday 6 December 2021

Joel Cook
Clerk to the Joint Committee
03000 416892

Thursday, 26 August 2021



Investment Strategy Statement

September 2021

Introduction and background

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

The ISS has been prepared by the Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Isio. The Committee acts on the delegated authority of the Administering Authority. The ISS, which was approved by the Committee on **28 September 2021**, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

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

The suitability of particular investments and types of investments

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

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

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

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

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

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

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

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

Investment of money in a wide variety of investments

Asset classes

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

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review, in line with the LGPS (Management and Investment of Funds) Regulations 2016. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification and training is provided, if relevant.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the 2016 Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset class	Previous target allocation % September 2020	Target allocation % July 2021	Maximum invested* %	Role within the Strategy
Global Equity	40	40	44	Growth Assets
Absolute Return	21	17	23**	Part Growth Assets, Part Protection
Private Equity	5.5	5.5	7.5	Growth Assets
Property		7	10	Income Assets
Inflation-Linked Property	10	4	5	Income Assets
Infrastructure	6	11	12	Income Assets
Private Credit	3	5	5	Income Assets
Diversified Credit	8	10.5	12	Income Assets

Index-Linked Gilts	3	-	4**	Protection Assets
Corporate Bonds	3.5	-	4**	Protection Assets
Cash	0	-	2	Protection Assets
Total	100	100		

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

** Additional allowance to rebalancing figures whilst allocations to infrastructure, private debt and inflation linked property take place.

Managers

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

Each investment manager has an agreed benchmarks to compare returns against, so that in aggregate, they are consistent with the overall asset allocation for the Fund. As the Fund does not invest in any segregated mandate these benchmarks are considered when assessing the appropriateness of a sub fund within the LGPS pool or on selection of a new pooled fund. The Fund's investment managers will hold a mix of underlying holdings which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

When the Committee approves it's new investment strategy, the Committee instruct officers and the Investment consultants to implement the strategic asset allocation investment decision. This can be by accessing a suitable sub fund from the ACCESS LGPS pool, where manager selection sits at pool level; or where there is no solution to implement the strategy through the LGPS pool, officers will carry out a manager selection process led by the Investment Consultant to short list the options available and assess these against the best strategic fit for the Fund. A recommendation is then laid out to the Committee as to the most suitable implementation solution to meet the approved investment strategy.

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

The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

The principal risks affecting the Fund are set out below.

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

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

The results from the 2019 valuation highlighted that the Fund - utilising its current stabilisation parameters for contributions – has a good chance of being fully funded in future without adopting an over prudent approach towards its investment strategy. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns quarterly. The Committee also assesses risk relative to liabilities by monitoring the funding position regularly.

The Committee reviews the demographic assumptions of the Fund every three years as part of its triennial valuation, to mitigate the risk that changes to longevity and other factors would have on the Fund. In addition the Fund meet regularly with the Fund Actuary to ensure any major swings in longevity assumptions due to environmental or medical changes can be identified early.

The Committee seeks to mitigate systemic risk through a diversified portfolio; across asset classes, sectors, geographical region, investment manager styles and considers correlation of risk and return across different asset classes in construction of the investment strategy. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

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

The Committee measure and manage asset risks as follows.

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

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assesses the Fund's currency risk during their risk analysis.

Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager for various asset classes. In addition the Fund has an allocation to passive mandates which have a lower tracking error to the market, the Fund accesses these through products that have an ESG tilt. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists or there are other concerns with the investment management or philosophy.

Other provider risk

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

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

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

The Fund is a participating scheme in the ACCESS Pool. The ACCESS pool was set up following the 2015 Investment reform criteria and pooling guidance published in 2015.

Assets to be invested in the Pool

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

The Fund holds investments with Longview, Ruffer, Newton and M&G through the ACCESS Authorised Contractual Scheme (ACS). In addition, the Fund has some remaining passive exposure to UBS which is also governed through the ACCESS pool.

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

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

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

Table 2 – Assets held outside the pool

Asset class	Manager	Target % of Fund assets	Benchmark	Reason for not investing via the ACCESS Pool
Active Sustainable Equity and ESG tilted passive equity	WHEB /Wellington / Storebrand	20.0%	MSCI All Countries World	Currently, there are no funds available through the ACCESS funds platform that satisfy the Funds Responsible Investment requirements for active sustainable equity and systematic ESG/Carbon tilted portfolio. These will be held outside the pool temporarily until the pool is able to launch RI investment options.
Private Equity	Harbourvest Partners / Adam Street Partners	5.5%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Infrastructure	M & G Infracapital / UBS Infrastructure / Pantheon	4.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Private Debt	M & G	3.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Operational cash	East Sussex County Council	0.0%	N/A	East Sussex Pension Fund needs to manage its cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool.

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

Structure and governance of the ACCESS Pool

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

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

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

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

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

ACCESS has taken advice on its sub-fund design and development of investment opportunities available. The pool appointed Link Fund Solutions to establish and operate the ACS carrying out all the FCA regulated aspects of the pool on liquid assets. Link are responsible for the overall management of the ACS including the creation of investment sub funds and the appointment of Investment managers on this platform. A thorough due diligence process is undertaken before the Investment Managers are appointed and robust monitoring and governance is applied to the managers on an ongoing basis. The ACS manages a significant portion of participating Authorities' liquid assets.

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

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

Voting rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and will ask Investment managers to vote in accordance with a voting alert from LAPFF or explain why they have voted differently. The Fund publish an annual report of voting activity as part of the Fund's annual report. In addition, the ACCESS pool operator has set a voting guidance policy to all managers within the ACS structure.

Stewardship

The Fund understands that stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council, the Fund will be producing the first submission under the 2020 Stewardship code in 2022. A copy of the Fund's statement of compliance under the 2012 Stewardship code can be found on the Fund's website <https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/>.

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories or comply with the Stewardship Code as published by the Financial Reporting Council. Under the 2012 code, Asset manager signatories were categorised in three tiers.

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

The 2020 Stewardship code is still in its infancy so the Fund, and Investment managers are only just submitting their first submissions at the time of publishing this document.

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

In addition to the Fund's views on the Stewardship Code, the Fund believes in collective engagement and is a member of the LAPFF, the UN Principles of Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC), through which it collectively exercises a voice across a number of ESG principles including climate change. The Fund expects as a minimum, all its liquid investment managers to also be signatories of IIGCC and PRI.

Investment Management Stewardship Code tier and collaborative engagement membership

Manager	PRI Signatory date	Stewardship Code 2012	IIGCC
Longview Global Equity	08/04/2010	Tier 1	Yes
M&G Absolute Return	11/01/2013	Tier 1	Yes
M&G Corporate Bonds	11/01/2013	Tier 1	Yes
UBS Europe Ex UK Equities	22/04/2009	Tier 1	Yes
UBS North America	22/04/2009	Tier 1	Yes
UBS Rest of the World	22/04/2009	Tier 1	Yes
UBS UK Equities	22/04/2009	Tier 1	Yes
Newton Absolute Return	13/02/2007	Tier 1	Yes
Ruffer Absolute Return	15/01/2016	Tier 1	Yes
Pantheon Infrastructure	05/10/2007	No	No
WHEB - Sustainability Fund	31/05/2012	Tier 1	Yes
ATLAS Global Infrastructure Equity Fund	18/03/2019	No	Yes
Wellington – Global Impact Fund	26/04/2012	Tier 1	Yes
Storebrand – Global ESG Plus Fund	27/04/2006	No	Yes
Harbourvest – Private Equity	25/11/2013	No	No
Adams Street – Private Equity	29/10/2010	No	No
Schroders – Property	29/10/2007	Tier 1	Yes
M&G Infrastructure	11/01/2013	Tier 1	Yes

Appendices

Appendix A – Rebalancing Policy

Appendix B – Statement of Responsible Investment Principles



Appendix A Rebalancing Policy

November 2020

Rebalancing Ranges

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

Asset class	Strategic target (%)	Range (%)
Listed Equities	40.0	35.0 – 45.0
Private Equity	5.5	3.5 – 7.5
Absolute Return	17	14.0 – 20.0
Total Growth	62.5	52.5-72.5
Property	11	8.0 – 14.0
Infrastructure	11	4.0 – 13.0
Private Credit	5	2.0 – 7.0
Total Income	27.0	14.0-34.0
Diversified Credit	10.5	7.0 - 12.0
Cash	0.0	0.0 – 2.0
Total Protection	10.5	7.0 – 11.0
Total	100.0	

Rebalancing for the Fund – General Rules

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

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

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

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

Due to the nature of illiquid assets with timeliness of access to the market and long commitment call down periods, the illiquid assets will often be adrift of the strategic asset allocation while money is awaiting to be called by the investment managers, so these allocations will often be held in a low volatility liquid asset classes in the interim.



Appendix B

Statement of Responsible Investment Principles

September 2020

1. Introduction

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

contributions. The Fund's investment policy cannot be influenced by outside parties or by personal, political or moral beliefs. The Fund must seek to find a balance between its statutory and fiduciary obligations, and the views and interests of all of its member stakeholders.

2. Annual review

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

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

The objectives of ESPF's RI policy are to:

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

4. Responsible Investment Beliefs

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

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

5. Responsible Investment Principles and ESPF Approach

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

Principle 1

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

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

How ESG factors are incorporated into investment analysis and decision-making processes varies according to the asset category and manager. All investments are externally managed; however, asset managers are required to have regard for the government's consultation on integrated risk management of climate change¹.

¹ The government consultation issued in March 2020, "Aligning Your Pension Scheme with TCFD Recommendations" which ended on 2 July 2020 includes recommendations within that consultation for asset managers to carry out climate scenario analysis in relation to portfolios which they administer on the Fund's behalf. Where the manager carries out scenario analysis, the Fund is recommended to ask for details of the scenarios as well as the output of the analysis in relation to the Fund's portfolio. Where portfolio-level analysis is not available, the Fund is recommended to ask for the results of any other analysis that the asset manager is using to identify and assess climate-related risks in relation to the portfolio, such as carbon footprint data. The

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

The ESPF have the following categories of asset managers:

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

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

Passive Index Funds without ESG tilts: the Fund can hold other forms of Passive investment to gain exposure to markets at lower cost such as Emerging Markets. These market cap indices are not adjusted to reflect ESG or responsible investment criteria. **Corporate Credit managers:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. It is our ambition to appoint managers who devote greater focus in providing finance to companies or projects that are more compatible with the aims of the Paris Agreement.

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

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

Principle 2

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

ESPF approach:

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

Fund is also recommended to ask what the asset managers are doing differently as a result of the analysis, to mitigate the risks. Where no scenario analysis is taking place, particularly for easier-to-analyse asset classes such as equities and corporate bonds, the Fund is recommended to ask about asset managers' plans for adopting scenario analysis and encourage faster action if this is not ambitious enough.

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

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

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

Government engagement: we engage with government through responding to government consultations and aim to influence policy makers through the Funds collaborative engagement groups initiatives.

Manager monitoring: we actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks. In addition, the Fund monitor its ESG impact assessment report annually and propose initiatives or actions for managers to consider as enhancements to their ESG practices.

Principle 3

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

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

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

Principle 4

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

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

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

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

Principle 5

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

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

Principle 6

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

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

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

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

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

6. Integrating RI into Strategy Implementation

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

7. Engagement with investee companies

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

8. Energy Transition

- The Fund recognises that a prolonged Energy Transition is under way. It also acknowledges that a number of energy incumbents through their size, capacity to mobilise capital and engineering expertise offer the potential to play a substantial role in that transition. It seeks to balance the economic reality that fossil fuels currently provide 80% of the world's primary energy and that energy demand will grow by up to 50% by 2050, with global commitments, as yet not fully backed by detailed policy, to decarbonise the energy system by the second half of the century. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets.

- The Fund is aware that there are a range of possible transition scenarios, evolving physical climate related risks and potential opportunities. There are also many uncertainties. This makes portfolio construction around such scenarios very challenging. Instead, ESPF seeks to broadly align its investment approach with the objectives of IIGCC and Climate Action 100+ initiatives.

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

ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change². The central aim of the agreement is to strengthen the response to the global threat of climate change by:

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

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

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

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

(i) Governance: The Pensions Committee monitors stewardship of the Fund's assets through its submission of the Stewardship Code. The first submission in line with the 2020 Stewardship Code is planned for April 2022 and thereafter annually. This includes reporting on RI issues and specific climate-related risks and opportunities. The Pensions Committee and Pension Board are committed to undertake a comprehensive CPD programme through physical, online training and/or personal reading on RI issues and climate change-related risks and opportunities. The Pensions Committee:

- affirms the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends into its decision-making;
- delegates scrutiny and engagement with investment managers to Fund officers with advice from the Investment Working Group to ensure that they take ESG issues, including climate change and carbon risk, into account in their investment decision-making;

² <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

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

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

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

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

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

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

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