



PENSION BOARD

TUESDAY, 30 MAY 2023

10.00 AM COUNTY HALL, LEWES

MEMBERSHIP - Ray Martin (Chair)
Neil Simpson, Lynda Walker, Tim Oliver, Vacancy (Employee Representative), Vacancy (Employer Representative) and Vacancy (Employer Representative)

AGENDA

1. Minutes: notes from Pension Board Discussion of 8 February 2023 (*Pages 3 - 6*)
2. Apologies for absence
3. Disclosure of interests
4. Urgent items
Notification of any items which the Chair considers urgent and proposes to take at the appropriate part of the agenda.
5. Pension Committee Agenda (*Pages 7 - 8*)
6. Governance Report (*Pages 9 - 78*)
7. Employer Engagement and Contributions Report (*Pages 79 - 82*)
8. Communications Report (*Pages 83 - 86*)
9. Pensions Administration Report (*Pages 87 - 100*)
10. Internal Audit (*Pages 101 - 142*)
11. Outturn Budget report (*Pages 143 - 146*)
12. External Audit Work Plan (*Pages 147 - 168*)
13. Pension Fund Risk Register (*Pages 169 - 180*)
14. Work Programme (*Pages 181 - 198*)
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. Risk Register Exempt (*Pages 199 - 202*)

18. Pension Fund Breaches Log (*Pages 203 - 208*)
19. Employer Admissions and Cessations Report (*Pages 209 - 216*)
20. Any other exempt items previously notified under agenda item 4

PHILIP BAKER
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19 May 2023

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Summary of Pension Board members' discussion

Wednesday 8 February 2023, 10.00am, County Hall, Lewes

Present:

Ray Martin, Chair of the Pension Board
Neil Simpson, Member of the Pension Board
Lynda Walker, Member of the Pension Board
Sian Kunert, Head of Pensions
Michael Burton, Pensions Manager: Governance and Compliance
Russell Wood, Pensions Manager: Investment and Accounting
Ian Gutsell, Chief Finance Officer
Danny Simpson, Principal Auditor
Tim Hillman, Pensions Manager: Employer Engagement
Paul Linfield, Pensions Communications Manager
Jennie Shuttleworth, Pensions Service Delivery Manager
Georgina Seligmann, Governance and Democracy Manager
Cllr Paul Redstone
Cllr Gerard Fox
Barry McKay, Partner and Actuary – Barnett Waddingham

1.1 The Chair of the Pension Board noted that, due to the fact that two members of the Board had given their apologies (Cllr Tom Druitt and Niki Palermo) and that Cllr Toby Illingsworth was not in attendance, the meeting of the Pension Board scheduled for 10am on 8 February was inquorate and could not go ahead.

1.2 The Chair agreed to consider the reports of the Board meeting informally with officers and those members of the Pension Board present.

1.3 A summary of the discussion between members of the Pension Board and officers is set out below.

PENSION COMMITTEE AGENDA

1.4 Sian Kunert (SK) advised the Committee pack would be the same as the Board pack other than investment papers and two additional polices under the valuation item.

VALUATION REPORT AND RESULTS AND FUNDING STRATEGY

1.5 Barry McKay (BM) gave an overview of the valuation position

1.6 Lynda Walker (LW) asked about the mechanism and impact if inflation rates do not fall as expected. BM confirmed that the key objective is to keep contribution rates stable and that there are funds set aside to keep contribution rates stable if inflation stays higher for longer than expected.

1.7 Attendees agreed that the accepted view is that inflation rates are a short-term issue and that that reducing it is a key objective of the Bank of England and other central banks.

1.8 BM confirmed that it remains under review and next valuation is only two years away. The actuary produce a quarterly update on the funding level outside of the valuation years which is an appropriate mechanism by which to keep track of the funding level.

1.9 There was a discussion on the Fund where employers cease while the services and employees continuing uninterrupted and NS asked if it is an issue for cessation values. SK advised that in the case of outsourced contracts where this situation would be the case, the

default approach is for no cessation value to take place as they are on passthrough agreements instead and confirmed that the policies which will be available at the next meeting allow for employers to manage cessations to be there as deferred or for employers to pay debt off slowly which will be more manageable.

1.10 There was a discussion on the need to raise awareness with employers, particularly Town and Parish Councils, about the costs associated with cessation and acknowledged the work undertaken by officers on this to highlight the risk and that other funds suffer from this issue.

1.11 RM suggested that the valuation results and covenant review are brought together to consider risk to the fund. SK confirmed that only two employers are below the 100% funding position (excluding pooled employers) and this would be highlighted to the Committee.

GOVERNANCE REPORT

McCloud

1.12 MB confirmed that a replacement employer representative is required for the McCloud working group following Stephen Osbourne's tenure ending. MB will raise this when employers are present at next quorate meeting.

Membership

1.13 There was discussion around future meeting attendance with the changes to membership during 2023. Officers are in the process of appointing a staff representative to the existing Board vacancy.

1.14 The Chair role is due for renewal and officers are accepting applications for this.

1.15 There was discussion on approaching employers for replacement Board members to consider nominating an officer to attend to reduce the impact of elections on Board membership which can affect quoracy.

Updated Pension Administration Strategy

1.16 NS asked whether costs are recharged or if charging is a last resort. MB confirmed that charging is dependent on the issue to determine which process is followed. SK confirmed that this arrangement existed in the previous strategy and that engagement is always preferred so that charging acts as a last resort.

1.17 NS requested that the wording is reconsidered to strengthen the position of the Fund and its intention to charge employers if necessary. SK confirmed that the fund is now in a position to do this.

1.18 RM acknowledged the engagement work undertaken by officers.

KPIs

1.19 RM thanked the team for collating the targets of other funds and would welcome any further data

EMPLOYER ENGAGEMENT AND CONTRIBUTIONS REPORT

1.20 LW highlighted how much progress had been made by the Fund and the number of positives and endorsed the view that the data is much improved. RM endorsed this view.

COMMUNICATIONS REPORT

1.21 LW highlighted that Communications to member's are much improved and this has been highlighted through the reports to her board. Members have welcomed all the revised information and attention given to accessibility. RM endorsed this view.

PENSIONS ADMINISTRATION REPORT

1.22 SK provided a brief overview of the report: the majority of the team vacancies have now been recruited with just two outstanding roles to recruit for. A new Project Manager will be onboarded soon which will add significant resource. SK highlighted that the KPI results may drop as the team work address the backlog of issues relating to transitioning BHCC members onto i-Connect and that this matter would be considered further at the Pension Committee meeting of 22 February.

INTERNAL AUDIT

1.23 NS noted the positive progress made on employers transitioning onto i-Connect but that it was not included in the business continuity plan and therefore asked about the potential impact if there were an issue.

1.24 Danny Simpson (DS) and Tim Hillman (TS) confirmed that i-Connect is included within the overall continuity plan and that as it is a data portal officers would have the ability to catch up if there is an interruption or have the option of a manual return as the data could be provided in a different way.

1.25 NS asked what assurance the Board can have on contributions received from employers. DS confirmed that officers do have access to payroll systems (other than BHCC) so the Fund is dependent on accurate signoff from employers – officers do stress this to Employers.

QUARTERLY BUDGET REPORT

1.26 Russell Wood (RW) highlighted the decrease in the last reported outturn is due to investment manager fees being less than forecast though these will be removed in future budgets. Further, there is reduced staff spend due to the current vacancies.

1.27 RW confirmed that there are some one-off IT projects planned for next year to improve systems and that there are some increased contract costs as these are linked to inflation and Actuary fees are lower as it is not a valuation year.

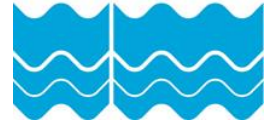
PENSION FUND RISK REGISTER

1.28 SK highlighted that risks G4 and I4 had increased; further information will be coming to the Pension Committee as part of exempt investment paper.

WORK PROGRAMME

1.29 The Board noted the lack of training being reported; officers will give a renewed focus on training when onboarding new members of the Board.

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PENSION COMMITTEE

FRIDAY, 16 JUNE 2023

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

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

AGENDA

1. Minutes
2. Apologies for absence
3. Disclosure of Interests
Disclosures by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
4. Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.
5. Pension Board Minutes
6. Governance Report
7. Pensions Administration report
8. Internal Audit reports
9. Quarterly budget report
10. External Audit Work Plan
11. Risk Register
12. Investment Report
13. Work programme
14. Any other non-exempt items previously notified under agenda item 4
15. Exclusion of the public and press
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16. Investment Report
17. Risk Register (Exempt)
18. East Sussex Pension Fund (ESPF) Breaches Log
19. Employer Admissions and Cessations
20. Any other exempt items previously notified under agenda item 4

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8 June 2023

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Report to: Pension Board

Date of meeting: 30 May 2023

By: Chief Finance Officer

Title: Governance Report

Purpose: To provide an update on governance workstreams and changes effecting Local Government Pension Schemes and the East Sussex Pension Fund

RECOMMENDATIONS

The Pension Board is recommended to comment and note this report

1 Background

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

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

2 Governance updates

2.1 In February 2023 the Department for Levelling Up, Housing and Communities issued a consultation covering a proposal to change the revaluation date for LGPS pensions from 1 April to 6 April. This was to align the dates with the tax year and prevent members incurring a tax charge due to the revaluation being linked to inflation at around 10%.

2.2 The Fund provided a response, raising concerns about the short amount of notice and the increased amount of manual work that would be required. The Local Government Association also provided a response. The responses can be seen in **Appendix 1** and **Appendix 2**

2.3 The Fund has received guidance from the Local Government Association (LGA) relating to Superannuation Contributions Adjusted for Past Experience (SCAPE) factors. The LGA recommended that transfer requests received on or after 30 March 2023 be suspended until the new factors are published. The Administration Team has acted on this request.

3 Privacy Statements

3.1 Officers have carried out the annual review of both the long and summary privacy statements published by the Fund. There has not been a change in the legislation since the privacy statements were last reviewed and the Local Government Association guidance also remains unchanged.

3.2 Upon review Officers do not believe a change is required to the existing documents and would recommend they be maintained in their existing form. For reference, the existing summary privacy statement and full privacy statement can be found on the Funds website (<https://www.eastsussexpensionfund.org/about-the-scheme/gdpr/>).

4 Breaches policy

4.1 Officers have reviewed the existing breaches policy. This is a policy covering the identification and reporting of breaches of the law.

4.2 The existing policy was written whilst the Fund's Administration team were outsourced through the Orbis partnership and prior to the Fund's structural changes, so amendments have been made to reflect the internal team structure.

4.3 The revised policy is included at **Appendix 3** of this report. The format of this document is significantly different to that of the previous policy to comply with accessibility requirements.

5 Additional Pension Contributions

5.1 Officers have reviewed the current process for members seeking to increase their benefit amount through the purchase of Additional Pension Contributions (APCs).

5.2 As part of this process, it was identified that the APC member forms state the Fund reserves the right to seek medical input where it has concerns about the member's health. This is because the Fund has the right to refuse an application on ill health grounds in order to mitigate the risk of incurring additional liabilities which may not be fully funded, however there is not a guide in place for members or steps officers should take in receipt of an applications. A simple new guide to APCs has been produced and will be made available to scheme members.

6 Pension Board report to Pension Committee

6.1 The annual report of the Pension Board to Pension Committee is due at the next meeting, which is on 15 June 2023. Officers have liaised with the Chair of the Pension Board to produce a draft report to be presented to the Pension Committee.

6.2 Board members are asked to provide any comment they wish to make to the proposed report which can be seen in **Appendix 4**.

7 Governance and Compliance Statement

7.1 Officers have reviewed the events of the previous 12 months and refreshed the annual Governance and Compliance Statement. This is included in **Appendix 5**.

8 Membership of the Pension Board

8.1 In April 2023 the Governance Committee approved the appointment of Tim Oliver to the Pension Board. Tim joins the Pension Board for a 4 year term as a scheme employer representative.

8.2 Nicoletta Palermo stood down from the Pension Board at the end of her term on 23 April 2023. Officers and the Chair of the Pension Board met with prospective candidates to fill this member representative vacancy on 10 and 12 May 2023. A recommendation will be made to the Governance Committee to make an appointment.

8.3 Cllrs Druitt and Illingworth are no longer members of the Pension Board after standing down at the May 2023 local elections. This leaves two employer representative vacancies on the Pension Board. The employer cohorts that had provided the representation, Brighton and Hove City Council and the Districts and Boroughs, have been asked to provide nominations by 31 May 2023. The Fund has recommended that senior Officers be nominated so they are not tied to an electoral cycle going forward, to reduce risk to the Fund.

9 Policy Consultations

9.1 The Fund have circulated three policies (Pension Administration Strategy (PAS), Deferred Debt and Debt spreading agreement Policies, Contributions Policy) and an amendment to the Funding Strategy Statement relating to the Cessation Methodology to scheme employers for consultation. This consultation period ran from 4 April 2023 to 5 May 2023.

9.2 The PAS was updated following feedback at the informal meeting of board members on 8 February 2023 and the Pension Committee meeting on 22 February 2023. The consultation received one comment from a scheme employer included in **Appendix 6** over concern on charging for late i-connect files.

9.3 The Deferred Debt and Debt spreading agreement Policies and Contributions Policy were not available for the Pension Board meeting on 8 February for comments but were emailed to Board members on 15 February for comments. The policies were considered at the Pension Committee meeting on 22 February 2023. There were no comments from scheme employers on these policies through the consultation process.

9.4 The Funding Strategy Statement, Cessation Methodology currently provides that where there is no other employer in the Fund to take on responsibility of liabilities, the risk of any deficit arising in the future falls to all other employers in the Fund as a result it is appropriate to reduce the risk of future deficit falling on our employers. This has previously been calculated linked to gilt yields. One difficulty in using gilt yields within the full cessation approach is that they are volatile, so stability of exit positions can be harder to achieve. This has implications for the security provided to the Fund and the affordability to ceasing employers. An indicative cessation valuation ahead of cessation when markets are volatile can result in an exit debt or exit credit that is wildly different to that payable on the actual cessation date. 2022 is a good example of the volatility of gilt yields. This volatility is not considered in the ongoing valuation approach where we look at the long-term horizon when setting contribution rates.

9.5 The Fund is proposing an alternative approach, to link the full cessation discount rate to that used for ongoing funding but incorporating a higher and constant level of prudence to reflect the higher risk associated with the employer not having an available guarantor. This would reduce the reliance on gilt yields which aligns with the actual investment strategy of the Fund, and assets and liabilities should move in similar directions leading to more stable full cessation positions. This will also retain a smoothed approach for stability - looking at a 6 month average rather than the yields and market values of assets at the cessation date. This will ensure that any short-term financial shocks do not unduly affect the valuation of assets or the assumptions used to value the liabilities.

9.6 To implement the proposed change the Fund plan to amend the wording in the Funding Strategy Statement.

Current wording in FSS

“In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer’s cessation scenario. However, in general the following approaches will apply.

If there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a “minimum risk” basis leading to a higher exit payment being required from (or lower

exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future. A minimum risk basis means the discount rate is linked to gilt yields.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence may be included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties.”

Revised wording for FSS

“In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer’s cessation scenario.

For example, if the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

Alternatively, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities may be assessed on a basis more prudent than the ongoing funding basis. The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The appropriate level of prudence on this basis was reviewed as part of the Fund’s 2022 valuation, when a stochastic analysis was used to assess the “success probabilities” of certain levels of prudence. The Fund’s approach is to target a 90% success probability that an exiting employer’s assets plus the calculated exit payment/exit credit will be sufficient to meet the residual liabilities. This corresponds to a 3.1% prudence level. This adjustment will be reviewed on a regular basis, and as a minimum as part of each actuarial valuation of the Fund.”

9.7 This proposed change was included in the consultation with employers. The Funds received two comments (included in **Appendix 6**) about the proposed change, both employers that are more likely to cease in the short term.

9.8 Following the consultation period the Fund do not propose any changes to the draft policies and will recommend these are approved at Pension Committee on 16 June 2023.

10 Administering Authority Discretions Policy

10.1 Following discussion of the revised Administering Authority Discretions Policy at the informal meeting of board members on 8 February 2023 and approval at the Pension Committee meeting on 22 February 2023, officers are proposing a change to one of the line items in the policy to make the policy clearer taking into consideration how other LGPS funds also approach this discretion.

10.2 The existing policy discretion has been defined as

| Regulation | Description | Existing policy |
|--|---|--|
| Schedule 1 LGPS Regs 2013 17(9) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 | Decide to treat a child as being in continuous education or vocational training despite a break | Death Payment Policy covers decision making process and allows Senior Officers to apply such discretion on a case-by-case basis. |

10.3 The proposed policy discretion has been updated to:

| Regulation | Description | Existing policy |
|--|---|--|
| Schedule 1 LGPS Regs 2013 17(9) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 | Decide to treat a child as being in continuous education or vocational training despite a break | If a child commences full time education or training from the age of 16 and remains continuously doing so, but for a break of up to 1 academic year as a result of a “gap year” and thereafter resumes the same education or training the then Fund will suspend the payment of the child’s pension throughout the break and treat the break as continuous resuming the payment of the child’s pension at the end of the break, whilst all other eligibility criteria are met. |

11 Conclusion

11.1 The Board is asked to comment and note this report.

IAN GUTSELL
Chief Finance Officer

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24 February 2023

Consultation: The Annual revaluation date change in the Local Government Pension Scheme (LGPS)

Thank you for your consultation seeking views on the consultation covering the Annual revaluation date change in the LGPS and the draft LGPS (Amendment) Regulations 2023 ('the Regulations').

I respond on behalf of the Local Government Association (LGA) and the Local Government Pension Committee (LGPC) in respect of the Local Government Pension Scheme (LGPS).

The LGA is a politically led, cross-party membership organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. 331 councils in England including district, county, metropolitan, unitary, London boroughs and the City of London are members of the LGA. There are 22 Welsh unitary authorities in membership via the Welsh Local Government Association (WLGA). The LGPC is a committee of councillors constituted by the LGA, the WLGA and the Convention of Scottish Local Authorities (COSLA). The LGPC considers policy and technical matters affecting the Local Government Pension Scheme (LGPS).

I hope the content is helpful. Please do not hesitate to contact me if you have any questions about this response.

Yours faithfully



Joanne Donnelly
Head of Pensions

Actuarial guidance

The regulations continue to repeatedly refer to annual revaluation being applied in accordance with actuarial guidance provided by the Secretary of State, even though there is no such guidance. As this wording has been retained, we assume the Department now intends to issue this much needed guidance. Revaluation is a complex area that requires more clarification than can be provided in the regulations.

General technical comments

Issue 1: when a member ceases active membership on 31 March the regulations do not provide for revaluation to be applied in the scheme year before leaving. This is because the member is leaving active membership in one scheme year but changing status in the next year.

Example 1: A member leaves active membership on 31 March 2024 and becomes deferred on 1 April 2024:

Regulation 24 provides that the active pension account must be closed and a deferred pension account opened. The deferred pension account must specify the opening balance in that account, which is the amount of pension the member has accrued. Regulation 24(4)(a) provides that the amount of pension accrued includes the opening balance for the member's last active Scheme year. However, the opening balance does not include revaluation which will now be applied on 6 April 2023. Therefore, there is no mechanism to apply a revaluation adjustment to the opening balance of 1 April 2023 when the deferred account is opened.

Regulation 24(4B) applies the revaluation adjustment due on 6 April 2024 - this applies to the balance of the pension account at the end of 31 March 2024.

This issue is replicated in regulations 25 and 27, when retirement and flexible retirement pension accounts are opened from active status.

Issue 2: A similar issue has now been created when a member leaves active membership on 5 April.

Example 2: A member leaves active membership on 5 April 2024 and becomes a deferred member on 6 April 2024.

It is not clear whether the member is covered by Regulation 24(4A) (because they became deferred on 6 April) or regulation 24(4B) (because their last day of active

membership was 5 April). There is a risk that the member in this example would miss out on the revaluation due on 6 April 2024.

This issue is replicated in regulations 25 and 27, when retirement and flexible retirement pension accounts are opened from active status.

Recommendation

We recommend that regulations 24(4A), 24(4B), 24(7), 25(4A), 25(6) and 27(5) make reference to the 'member's last day of active membership' (or 'the member's notional last day of active membership' for 27(5)) instead of, as the case may be, when the member:

- ceased to be an active member and became a deferred member
- became a deferred member
- became entitled to immediate payment
- became a pensioner member.

If this recommendation is taken forward, consequential amendments will need to be made to regulations:

- 43 (Death grants: deferred, pension credit and deferred pensioner members),
- 44 (Survivor benefits: partners of deferred and deferred pensioner members),
- 45 (Survivor benefits: children of deferred members),
- 46 (death grants: pensioner members),
- 47 (Survivor benefits: partners of pensioner members), and
- 48 (Survivor benefits: children of pensioner members).

There is a similar issue when applying regulations 41(5) (Survivor benefits: partners of active members) and 42(12) (Survivor benefits: children of active members) where the member died on 31 March. This is because the survivor pension account is opened on the day after death.

Regulations 26 (Retirement pension accounts) and 28 (Deferred member pensioner accounts)

Regulations 26 and 28 do not reference revaluation adjustment. We have an outstanding query concerning this existing issue with the regulations. Please see page 28 of the [LGA regulation queries](#) document. We have included the relevant extract below for your convenience. Resolution of this query will now need to take account of the change in the revaluation date from 1 April to 6 April.

Deferred, deferred pensioner and pension credit members, deferred pensioner member accounts

Regulations 44(5) and 45(12) provide that if a member ceases to be an active member, becomes a deferred member and dies all within the same Scheme year, the survivor accounts are credited with a proportion of the revaluation adjustment that the member would have received at the beginning of the Scheme year following cessation of active membership. Unfortunately, the regulations overlook the need to have the same provision in regulation 26 to deal with cases where a member ceases to be an active member, becomes a deferred member and starts to draw pension all within the same Scheme year. Thus, an additional paragraph is needed in regulation 26. Similarly, regulation 28 needs an additional paragraph to deal with cases where a member ceases to be an active member, becomes a Tier 3 pensioner member and has the Tier 3 pension stopped all within the same Scheme year.

Club transfers

If these proposals are taken forward, revaluation will apply on different dates in different public service pension schemes. Care will be needed to ensure that a member transferring career average benefits from one scheme to another does not miss out on revaluation, nor do they benefit from double indexation.

If a transfer value is calculated between 1 April and 5 April, the member could receive indexation twice if the sending scheme applies revaluation on 1 April and the receiving scheme on 6 April. They may miss out on revaluation for a year if the sending scheme applies revaluation on 6 April and the receiving scheme on 1 April.

We do not believe that this issue necessitates any changes to the LGPS regulations. Changes may be required to the public sector transfer club memorandum to ensure fair and consistent outcomes for transferring members.

Questions raised in the consultation

Question 1. Do you agree or disagree that the annual revaluation date should change from 1 April to 6 April? Please explain why.

We agree in principle with the change; however, we do not agree with the timing.

We agree that changing the date of annual revaluation from 1 to 6 April on the basis that inflation should not be taken into account when measuring pension growth for the annual allowance. The change will prevent many members exceeding the annual allowance due to the spike in CPI this year.

However, this issue has existed since the pension input period (PIP) was aligned with the tax year in 2016/17, so could have been rectified at a much earlier date.

Introducing the change at a time when administering authorities' resources are already over-stretched is particularly unwelcome. Administering authorities are currently dealing with many challenges including the McCloud remedy, the introduction of pensions dashboards and the new single code from the Pensions Regulator. Recruitment and retention remains an issue in the sector, with the average vacancy rate being around 10 per cent.

In addition, consulting on a policy change that will take effect seven weeks from the start of a two-week consultation is very challenging for administering authorities and software suppliers. Pension software suppliers have already confirmed it will not be possible to adapt their systems in time for 1 April 2023. This means administering authorities will need to undertake manual calculations, which are labour intensive and subject to human error.

Also, a two-week consultation does not give enough time for respondents to provide a considered response.

Question 2. Do you agree that the policy aim for regulation 21 is delivered through the draft regulations?

Yes, we agree the policy aim for regulation 21 is delivered through the draft regulations, but please see our answer to question eight.

Question 3. Do you agree that the policy aim for regulation 23 is delivered through the draft regulations?

Yes, we agree the policy aim for regulation 23 is delivered through the draft regulations.

Question 4. Do you agree that the policy aim for regulations 24 and 25 is delivered through the draft regulations?

We agree that the policy aim for regulations 24 and 25 is delivered through the draft regulations, other than where the member's last day of active membership is 31 March or 5 April. We have set out the issue and a recommendation for resolving it in the [general technical comments section](#) of this response.

We understand the intention is for 'the revaluation date' to be the next 6 April. We suggest this is made clearer to remove any doubt. We recommend changes to inserted regulations 24(4B) and 25(4A) to make it clear that 'the revaluation date' is the next 6 April following the end of active membership.

Question 5. Do you agree that the policy aim for regulation 27 is delivered through the draft regulations?

Not for the cases listed below:

- where the member's notional last day of active membership is 31 March or 5 April. We have set out the issue and a recommendation for resolving it in the [general technical comments section](#) of this response.
- amendment regulation 3(4)(a) amends regulation 27(5). The amendment uses the phrase 'a flexible retirement pensioner member'. This is not defined or used elsewhere in the regulations. We suggest changing this to 'entitled to that pension.'

Question 6. Do you agree that the policy aim for regulations 41, 42, 44, 45, 47 and 48 is delivered through the draft regulations?

- There is an existing issue where the date of death falls between 1 April and the next pensions increase date. The regulations appear to indicate that pensions increase will not be applied on the pension increase date immediately following the date of death. We suggest deleting the following wording in regulation 44(6)(b) 'opening' and 'for the following scheme year'. This suggestion applies equally to regulations 45(13)(b), 47(6)(b) and 48(13)(b).

Example: Member leaves active membership on 31 August 2022 and dies on 1 April 2023. Survivor benefits are payable from 2 April 2023. Amendment regulation 6(1)(a) inserts new regulation 44(4A). This applies a revaluation adjustment in the survivor account on 6 April 2023, deemed to apply from the date of death. However, regulation 44(6)(b) states that it is the opening balance in the member's survivor

account for the 'following' scheme year to which pensions increase is applied. The balance for the survivor's following scheme year is that on 1 April 2024 and not the balance on the date of death. This means that pensions increase due on 10 April 2023 is missed.

- amendment regulations 4(1)(a), 4(2)(a), 5(1)(a), 6(1)(a), 6(2)(a), 6(2)(b), 6(2)(c), 6(2)(d), 7(1), 7(2)(a), 7(3)(a), 7(3)(b), 7(3)(c) and 7(3)(d) insert the following wording into the regulations 'the pension is deemed to include the revaluation adjustment due at the next revaluation date'. As the member died before the next revaluation date, the revaluation adjustment will not be due on the member's notional pension / actual pension – it will be due to the survivor. We suggest changing the wording to 'the pension is deemed to include the revaluation adjustment that would have been due at the next revaluation date.'
- amendment regulation 6(2)(e)(ii) amends regulation 45(12). The amendment regulation says, 'the Scheme year in which the member became a pensioner member'. Regulation 45 covers children of deceased deferred members. We suggest the wording refers to the scheme year in which the survivor account was opened.
- amendment regulation 6(2)(g) inserts a new regulation paragraph (14) in regulation 45; this should be changed to either (13A) or (15) as a paragraph (14) already exists.
- amendment regulation 7(2)(f) refers to '(13(a))'. This should be changed to '(13)(a)'.

Question 7. Do you agree that the policy aim for regulation 43 and 46 is delivered through the draft regulations?

- amendment regulations 4(1)(a), 4(2)(a), 5(1)(a), 6(1)(a), 6(2)(a), 6(2)(b), 6(2)(c), 6(2)(d), 7(1), 7(2)(a), 7(3)(a), 7(3)(b), 7(3)(c) and 7(3)(d) insert the following wording into the regulations 'the pension is deemed to include the revaluation adjustment due at the next revaluation date'. As the member died before the next revaluation date, the revaluation adjustment will not be due on the member's notional pension / actual pension – it will be due to the survivor. We suggest changing the wording to 'the pension is deemed to include the revaluation adjustment that would have been due at the next revaluation date.'
- amendment regulation 5(1)(b) inserts 'and paragraph (3A) does not apply' at the end of regulation 43(5). To ensure the full stop is in the right place, the wording should be inserted before “.”
- amendment Regulation 7(1) inserts new regulation 46(6). The regulation says

'...payable in accordance with paragraph (3) (but not for the purposes of a death grant derived from a pension credit payable in accordance with paragraph (4)), if the member-'. For simplicity, we suggest changing this to 'For the purposes of paragraph (3), if the member-'. The revised wording also ensures that pension credit death grants are not covered by regulation 46(6), as these death grants are calculated under paragraph (4).

Question 8. Do you agree that amending the definition of “revaluation adjustment” and the new definition of “revaluation date” in Schedule 1 delivers the policy aim?

We agree the policy aim is delivered regarding the amendment to the definition of 'revaluation adjustment' in Schedule. However, there is an existing issue with the definition not reading clearly within the context of regulation 21(6) – assumed pensionable pay (APP). We recommend that a specific definition of 'revaluation adjustment' for the purpose of regulation 21(6) is added to regulation 21.

The definition in schedule 1 refers to an amount applied to a “pension account”, this does not happen when applying a revaluation adjustment to APP.

Our suggestion also makes clear that the percentage to be applied on the first day of the second scheme year in which the APP applies is the percentage that would apply to CARE balances on the next 6 April, rather than the percentage that applied to CARE balances on the previous 6 April.

Question 9. Are there any further considerations and evidence that you think DLUHC should take into account when assessing any equality issues or adverse impacts arising as a result of the proposed changes? Please explain and provide evidence where appropriate.

None that we are aware of.

Dear Sirs

In relation to the Department for Levelling Up, Housing and Communities consultation on changing the revaluation date from 1 April to 6 April we would like to respond as follows:

1. Do you agree or disagree that the annual revaluation date should change from 1 April to 6 April? Please explain why.

The intention to prevent people from incurring tax liabilities due to the revaluation of their pension is commendable and it is understandable how a change to the revaluation date would be used to implement this policy intent.

However, the short amount of notice of the proposed change means it will be difficult for software providers to modify existing systems to provide a solution and we understand our provider will not be ready in time. This will lead to a significant amount of manual work having to be undertaken at a busy time for LGPS Administration Teams.

Increasing the amount of manual input required, and reducing the options of using tested, automated systems increases the risk of human error impacting outcomes. To mitigate this risk further checks on work will need to be implemented, putting a further drain on available resources.

As the end of the financial year approaches, consideration has already been given to how existing resources should be utilised to cover the range of activities that need to be achieved. Adding to the work that needs to be undertaken at such short notice means the resources will need to be redistributed, putting tasks at risk of not being completed to the necessary standard by the relevant deadlines. We will also not be able to obtain additional staff to cover the extra work required.

It would have been preferred if either greater notice of this intent had been provided or alternatives measures considered to achieve the policy goal.

2. Do you agree that the policy aim for regulation 21 is delivered through the draft regulations?

Yes – due to the short period of the consultation there has been a limited opportunity to review the proposed regulations in detail or to obtain input from legal advisers

3. Do you agree that the policy aim for regulation 23 is delivered through the draft regulations?

Yes – due to the short period of the consultation there has been a limited opportunity to review the proposed regulations in detail or to obtain input from legal advisers

4. Do you agree that the policy aim for regulations 24 and 25 is delivered through the draft regulations?

Yes – due to the short period of the consultation there has been a limited opportunity to review the proposed regulations in detail or to obtain input from legal advisers

5. Do you agree that the policy aim for regulation 27 is delivered through the draft regulations?

Yes – due to the short period of the consultation there has been a limited opportunity to review the proposed regulations in detail or to obtain input from legal advisers

6. Do you agree that the policy aim for regulations 41, 42, 44, 45, 47 and 48 is delivered through the draft regulations?

Yes – due to the short period of the consultation there has been a limited opportunity to review the proposed regulations in detail or to obtain input from legal advisers

7. Do you agree that the policy aim for regulation 43 and 46 is delivered through the draft regulations?

Yes – due to the short period of the consultation there has been a limited opportunity to review the proposed regulations in detail or to obtain input from legal advisers

8. Do you agree that amending the definition of “revaluation adjustment” and the new definition of “revaluation date” in Schedule 1 delivers the policy aim?

Yes – due to the short period of the consultation there has been a limited opportunity to review the proposed regulations in detail or to obtain input from legal advisers

9. Are there any further considerations and evidence that you think DLUHC should take into account when assessing any equality issues or adverse impacts arising as a result of the proposed changes? Please explain and provide evidence where appropriate.

No - please see our answer to question 1, which covers our concerns about the timing of this consultation and the proposed changes.

Kind regards

Michael Burton
Pensions Manager – Governance and Compliance
East Sussex Pension Fund

Procedure for Recording and Reporting Breaches of the Law

June 2023



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Policy for Reporting Breaches of the Law

Background and Introduction

This policy sets out the procedure to be followed by certain persons involved with the East Sussex Pension Fund (the Fund) in relation to identifying, recording and where necessary reporting breaches of the law to the Pensions Regulator.

As Administering Authority, East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund of behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The Pension Committee has delegated authority to exercise the powers of the County Council in respect of all powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the East Sussex Pension Fund.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

This policy has been developed to assist those individuals who have a legal responsibility to report certain breaches to the Pensions Regulator in determining whether a breach they have identified should be reported. It has also been developed to assist East Sussex County Council, in its role as Administering Authority, in ensuring it is aware of all breaches of the law in relation to the East Sussex Pension Fund and that these are appropriately recorded and then dealt with.

The Head of Pensions has responsibility for the implementation, review, and monitoring of this policy and the procedures, and can seek such advice as they consider necessary including from the Council's legal team or external advisors.

The following persons are strongly encouraged to follow this procedure should they identify a breach:

- all members of the Pension Committee and the Pension Board
- all officers involved in the management or administration of the Pension Fund including staff members in the Pension Fund Team, the Monitoring Officer, and the Chief Finance Office (Section 151 Officer).
- any professional advisers including external auditors, consultants, actuaries, legal advisers, and fund managers.¹
- officers of scheme employers participating in the Pension Fund who are responsible for pension matters.
- any other person otherwise involved in advising or supporting the managers of the Fund, including staff members of the Internal Audit function.
- any other person who has responsibility to report breaches of the law in relation to the East Sussex Pension Fund

¹ However, these advisers should note that the application of this Procedure relates to the reporting of legal breaches relating to the administration of the Pension Fund, rather than any breaches relating to their role and responsibilities that do not affect the administration of the Fund. For example, if a fund manager has breached the investment association guidelines, then this would not be reportable under this East Sussex Pension Fund Procedure for Reporting Breaches (albeit the Administering Authority would still expect this information to be recorded separately and notified to East Sussex County Council).

Throughout this procedure, any person to whom this procedure applies, because of them identifying a breach or potential breach, will be referred to as the "individual".

The next section clarifies the full extent of the legal requirements and to whom they apply.

Requirements

Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement to report breaches of the law on the following persons:

- a trustee or manager of an occupational or personal pension scheme
- a member of the pension board of a public service pension scheme
- a person who is otherwise involved in the administration of an occupational or personal pension scheme
- the employer in relation to an occupational pension scheme
- a professional adviser in relation to such a scheme
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme,

The matter must be reported to the Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

- (a) a legal duty relating to the administration of the scheme has not been or is not being complied with; and
- (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The Pension Regulator's Code of Practice

Practical guidance in relation to this legal requirement is provided in the Pension Regulator's Code of Practice, Code 14: Governance and administration of public service pension schemes, section on Reporting breaches of the law, including in the following areas:

- implementing adequate procedures to consider and record breaches
- judging whether a breach must be reported
- submitting a report to the Pensions Regulator
- whistleblowing protection and confidentiality.

Application to the East Sussex Pension Fund

This document sets out how the Fund will strive to achieve best practice through use of a formal reporting breaches procedure. It reflects the guidance contained in the Pension Regulator's Code of Practice.

Other Administering Authority or Organisational Requirements

In addition to the requirements of this Procedure, there may be other policies and procedures which may be in place relating to areas such as fraud or whistleblowing that apply to the individuals covered by this Procedure for reporting and recording breaches in relation to East Sussex Pension Fund matters. For example, East Sussex County Council has in place the following:

- Anti-fraud and Corruption Policy – setting out the Council's strategy for preventing, deterring and investigating fraud, corruption and other wrong doing.
- Anti-Money Laundering Policy - procedures that must be followed to enable the County Council to comply with its legal obligation to prevent criminal activity through the use of Money Laundering, as well as providing contact details for the Money Laundering Reporting Officer
- Whistleblowing Policy – setting out how someone working with or within East Sussex County Council can raise an issue in confidence, as well as what sort of concerns should be reported.

This Procedure should be followed in addition to any existing procedures or policies that may be in place, such as those listed above. In particular, individuals are reminded that there is a legal requirement to report breaches of the law in relation to the East Sussex Pension Fund that could be considered significant to the Pensions Regulator. The Head of Pensions (contact details at the end of this procedure document) can assist if an individual is uncertain how to deal with the interaction between this Procedure and any other organisation's policy or procedure that may be in place.

East Sussex Pension Fund Breaches Procedure

Overview

The following procedure details how individuals responsible for reporting and whistleblowing can identify, access, record, and report (if appropriate) a breach of the law relating to the Fund.

It aims to ensure individuals responsible can meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk to the Fund.

There are four key steps to this procedure:

1. Understanding the law and what is a breach
2. Determining whether there is reasonable cause to believe a breach has occurred
3. Determining whether the breach is likely to be of material significance and so should be reported to the Pensions Regulator
4. Recording the breach, even if it is not reported

Steps

1. Understanding the law and what is a breach?

Individuals may need to refer to regulations and guidance when considering whether there has been a breach of the law. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996: www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013: www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
<http://www.lgpsregs.org/timelineregs/Default.html> (pre 2014 schemes)
<http://www.lgpsregs.org/index.php/regs-legislation> (2014 scheme)
- The Pensions Regulator's Code of Practice 14: <http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>. In particular, individuals should refer to the sections on 'Reporting breaches of the law', and 'Maintaining contributions'.

Further guidance and assistance can be provided by the Head of Pensions, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence). Some examples of potential breaches are also included in Appendix A.

2. Determining whether there is reasonable cause to believe a breach has occurred

Individuals then need to have reasonable cause to believe that a breach of the relevant legal provision has occurred. Having reasonable cause to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

Where a breach is suspected the individual should inform the Head of Pensions or Pensions Manager – Governance and Compliance as soon as practicable, and no later than 5 days from when they suspect there has been a breach. The Head of Pensions, or relevant Pensions Manager, will then carry out further checks, to establish whether a breach has in fact occurred, and keep the individual informed. This does not preclude the individual who first raised the issue undertaking further checks themselves should they consider it appropriate to do so.

However, there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases, The Pensions Regulator should be contacted without delay.

3. Determining whether the breach is likely to be of material significance

Should an individual have reasonable cause to believe that a breach of the law has occurred, they must decide whether that breach is likely to be of material significance to the Pensions Regulator, and therefore should be reported to the Pensions Regulator. To do this, an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach.

Further details on the above four considerations are provided later in this procedure”. The individual should use the traffic light framework to formally support and document their decision.

It should be noted that the Pensions Regulator's role is in relation to requirements under the Pensions Act 2004. As such, it is possible that some breaches of the law do not fall within the Regulator's remit. However, given the complex nature of the law, including the wide-ranging responsibilities covered by the Pensions Act 2004, the Fund encourages reporting of any breach that is considered to be materially significant regardless of the specific area of the law that has been breached. The Pensions Regulator can then determine whether it is a matter they have jurisdiction over or not.

The Head of Pensions can assist with determining whether the breach should be reported. In the first instance the Head of Pensions should be given opportunity to report the breach and will keep the individual raising the concern appraised of their decision as to whether or not to report the breach.

However, the individual is ultimately responsible for determining what should be included in the report and for submitting the report to the Pensions Regulator.

The requirement to report applies to all those subject to the reporting duty who become aware of a breach that is likely to be of material significance to the Pensions Regulator; it is not automatically discharged by another party reporting the breach.

This gives rise to the possibility of duplicate reporting by those involved in a scheme. Duplicate reports do not benefit the Pensions Regulator. Once aware of a particular breach, the Pensions Regulator does not regard that breach as being of material significance for the purpose of making further reports under the requirement to report breaches of the law. An exception is where another reporter has additional or different information about that breach or the circumstances relating to it.

4. Recording the breach, even if it is not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). The Pensions Manager – Governance and Compliance will maintain a record of all breaches identified.

Therefore, individuals should provide the following information to the Head of Pensions or Pensions Manager – Governance and Compliance so that all identified breaches can be recorded:

- copies of reports submitted to The Pensions Regulator
- copies of information relating to any other breach the individual has identified.

The information should be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made to report or not. The record of all breaches (reported or otherwise) will be included at each Pension Committee and Pension Board meeting.

Supplier and advisor responsibilities

Where a breach has been identified relating to the Fund by a supplier or advisor, the supplier or adviser must alert the Head of Pensions immediately. They must produce a preliminary report setting out an assessment of the breach. The preliminary assessment must contain:

- the circumstances leading to the breach;
- the impact and scale of the breach, both financial and with regard to the impact of service on members or other affected persons/organisations;
- the steps that have been taken to rectify the breach; and
- a preliminary assessment, based on the Regulator's traffic light flowchart, of the materiality of the breach.

For the avoidance of doubt all breaches of the law (regardless of whether they are deemed material) must be reported to the Head of Pensions in this way, except where this would result in a tip off of an incidence of fraud or money laundering.

Assistance for individuals in following this procedure

The following information is provided to assist individuals in following this procedure.

Referral to a level of seniority for assistance

The Fund has designated an officer (Head of Pensions) to assist any individual with following this procedure. The Head of Pensions is considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to the Pensions Regulator, where appropriate.

Individuals must bear in mind, however, that the involvement of the Head of Pensions is to help clarify the individual's thought process and to ensure this procedure is followed. The individual remains responsible for the final decision as to whether a matter should be reported to the Pensions Regulator and for completing the reporting procedure.

The matter should **not** be referred to the Head of Pensions if doing so would alert any person responsible for a possible serious offence to the investigation (as highlighted in step 2 above).

If that is the case, the individual may instead refer the matter to the Council's Monitoring Officer. Otherwise, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Pensions Regulator before the submission may be appropriate, particularly in the case of a more serious breach.

Dealing with complex cases

The Head of Pensions may be able to provide guidance on particularly complex cases. Guidance may also be obtained by reference to previous cases. Information may also be available from national resources such as the Scheme Advisory Board or the Local Government Association - <http://www.lgpsregs.org>. If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Pension Committee or Pension Board meeting.

Timescales for reporting

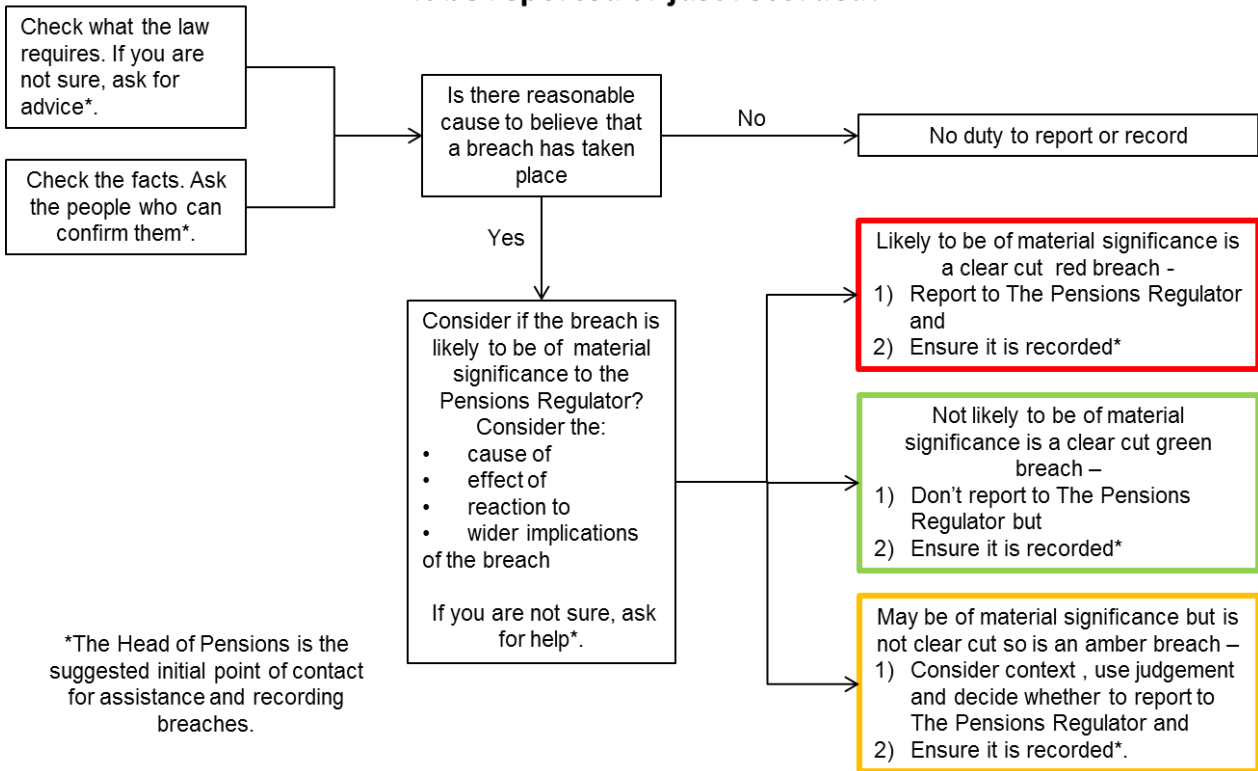
The Pensions Act and the Pension Regulator's Code require that, if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. A failure to do so is itself a breach of law.

Individuals should not wait for others to report and nor is it necessary for an individual to gather all the evidence which the Pensions Regulator may require before acting. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by “as soon as reasonably practicable”. In particular, the time taken should reflect the seriousness of the suspected breach.

Decision tree – Has a breach occurred and should it be reported?

A decision tree is provided below which summarises the process for deciding whether a breach has taken place, whether it is materially significant and if it needs to be reported to the Pension Regulator and then ensuring it is recorded.

Decision-tree: Has a breach occurred and should it be reported or just recorded?



Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach

The cause of the breach

Examples of causes which are likely to be of concern to the Pensions Regulator are provided below:

- Acting, or failing to act, in deliberate contravention of the law.
- Dishonesty.
- Incomplete or inaccurate advice.
- Poor administration, i.e. failure to implement adequate administration procedures.
- Poor governance.
- Slow or inappropriate decision-making practices.

Individuals may also request the most recent breaches report from the Head of Pensions, as there may be details on other breaches which may provide a useful precedent on the appropriate action to take.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood, or a genuine one-off mistake
- whether a significant number of members are affected, or whether it is just a small number
- whether there have been any other breaches (reported to the Pensions Regulator or not) which when taken together may become materially significant

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to the Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- Misappropriation of assets, resulting in scheme assets not being safeguarded
- Other breaches which result in the scheme being poorly governed, managed or administered

The reaction to the breach

A breach is likely to be of concern and material significance to the Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

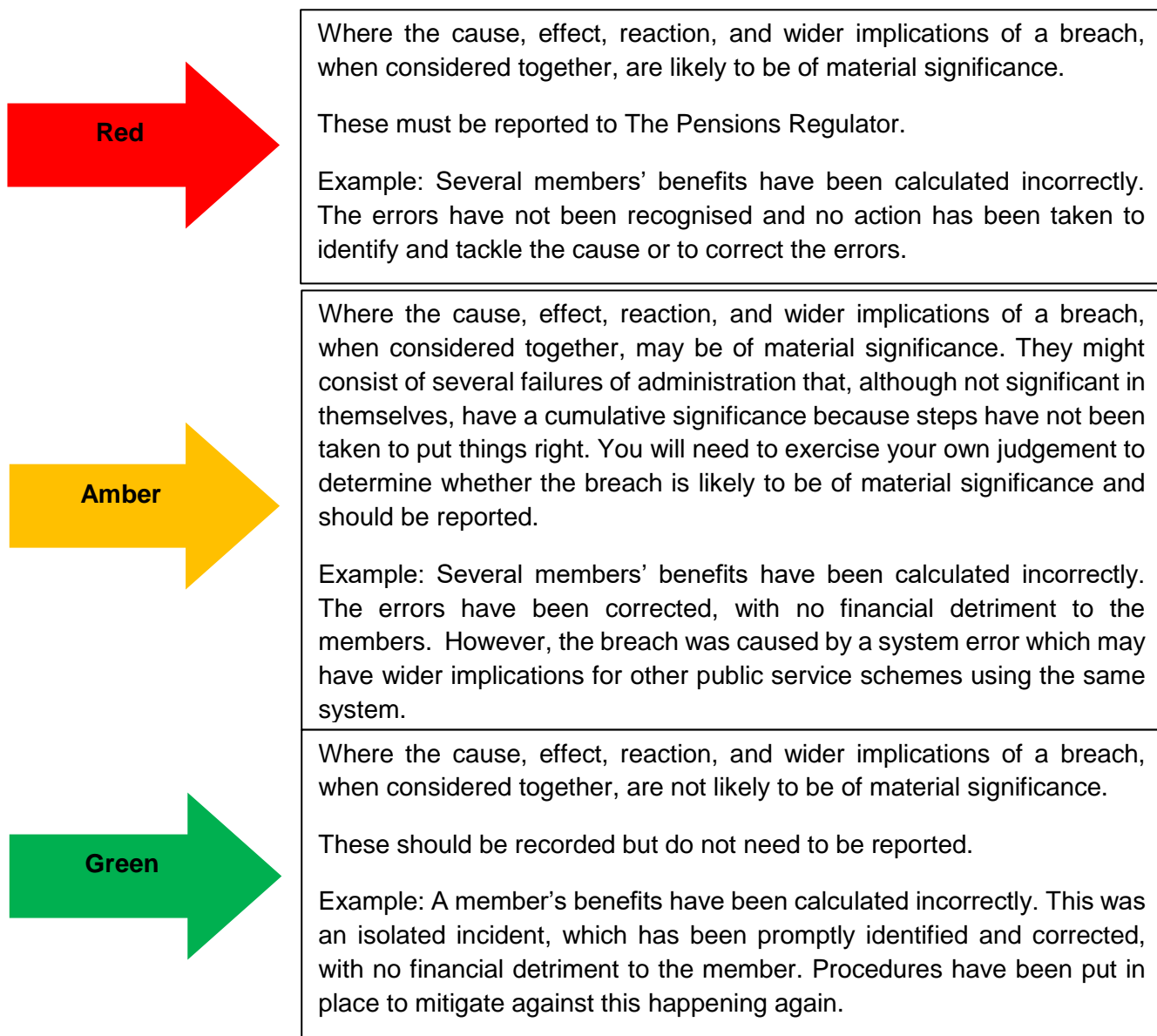
The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact

that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Traffic light framework for deciding whether to report to the Regulator

The Fund recommends those responsible for reporting to use the traffic light framework when deciding whether to report to the Pensions Regulator. This is illustrated below:



All breaches should be recorded even if the decision is not to report. When using the traffic light framework individuals should consider the content of the red, amber, and green sections for each of the cause, effect, reaction, and wider implications of the breach, before you consider the four together. Some useful examples of this framework are provided by the Pensions Regulator at the following link

[http:// www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx](http://www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx)

How to report a breach to the Pensions Regulator

Reports must be submitted in writing via The Pensions Regulator's online system at <https://login.thepensionsregulator.gov.uk/>, by post, or email and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call.

The individual should ensure they receive an acknowledgement for any report they send. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact the individual to request further information. The individual will not usually be informed of any actions taken by the Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (East Sussex Pension Fund)
- description of breach(es)
- any relevant dates
- name, position and contact details
- role in connection to the scheme
- employer name or name of scheme manager (the latter is East Sussex County Council).

If possible, individuals should also indicate:

- the reason why the breach is thought to be of material significance to the Pensions Regulator
- scheme address (provided at the end of this procedures document)
- scheme manager contact details (provided at the end of this procedures document)
- pension scheme registry number (PSR – 10079157)
- whether the breach has been reported before.

The individual should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

Confidentiality

If requested, the Pensions Regulator will do its best to protect the identity of an individual who has reported a breach and will not disclose information except where it is lawfully required to do so.

An employee may also have protection under the Employment Rights Act 1996 if they make a report in good faith in relation to their employer.

Reporting to those charged with governance

The Head of Pensions will present a report to the Pension Board and the Pension Committee on a quarterly basis setting out:

- all breaches, including those reported to the Pensions Regulator and those not reported, with the associated dates.

- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated
- new breaches which have arisen since the previous meeting.

This information will also be provided upon request by any other individual or organisation (unless decided otherwise by the Head of Pensions; for example, where the information is excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).

An example of the information to be included in the quarterly reports is provided in Appendix B to this procedure.

Training

The Head of Pensions will ensure that all relevant officers, elected members, and members of the Local Pension Board receive appropriate training on this policy at the commencement of their employment or appointment to the Pensions Committee or Pension Board as appropriate and on an ongoing basis.

Suppliers and advisers must ensure that all staff with responsibilities in relation to the Fund receive appropriate training about this policy and their obligations under it. They must advise the Head of Pensions if they do not feel they are able to carry out that training, and training will be arranged for them by the Head of Pensions.

Approval, and Review

This Reporting Breaches Procedure was approved on 16 June 2023 by the Pension Committee. It will be formally reviewed and updated by the Committee at least every three years or sooner if breaches 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 considered.

Further Information

If you require further information about reporting breaches or this procedure or wish to discuss reporting a breach, please contact:

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Ian Gutsell
Chief Finance officer and s151 Officer, East Sussex County Council
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Appendix A – Example breaches of the law

In this appendix we provide some examples of breaches of the law. This is not an exhaustive list given there are many sets of legislation that must be followed and some of these are extremely lengthy and complex. It should, however, provide a useful indication of the range of potential breaches that may arise.

Funding strategy not having regard to CIPFA guidance

Regulation 58 of the Local Government Pension Scheme Regulations 2013, as amended, requires the Administering Authority to prepare, maintain and publish a statement setting out its funding strategy and, in doing so, to consult with such persons as it considers appropriate. In doing this, the Administering Authority must also have regard to CIPFA guidance on preparing and maintaining a Funding Strategy Statement which clearly states employers should be consulted. The Funding Strategy impacts on the employers of the Fund and therefore a breach of the law by the Administering Authority is likely to have arisen if a statement was prepared which impacts on employers without first consulting with those employers.

Late notification of benefits

Various regulations dictate timescales for notifying scheme benefits, some of which are summarised below. Most of these requirements are included in more general pensions legislation, i.e. not the Local Government Pension Scheme Regulations. A breach would arise every time one of these timescales was not met. All of the breaches would relate to the Administering Authority apart from the last one which would be a breach by an employer in the Fund. However, the first five listed could have been a result of delayed or incorrect information from an employer, which could be a separate and additional breach of the law by that employer.

| Process | Legal Requirement |
|---|---|
| To provide new starters with information about the scheme | 2 months from date of joining (provide information about the scheme in this timeframe, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled) |
| To inform members who leave the scheme of their leaver rights and options | As soon as is practicable, and no more than 2 months from date of initial notification (from employer or scheme member) |
| To notify the amount of retirement benefits | 1 month from date of retirement if on or after Normal Pension Age 2 months from date of retirement if before Normal Pension Age |
| To notify dependant(s) the amount of death benefits | As soon as possible but in any event no more than 2 months from date of becoming aware of the death, or from date of request |
| Provide annual benefit statements to active members | 31st August in the same calendar year |
| Receipt of employee contributions from employers | 19th of the month following their deduction or 22 nd if paid electronically. |

Errors in benefit calculations

The Local Government Pension Scheme Regulations 2013, as amended, and previous LGPS legislation relating to historical service or leaves, dictate how benefits should be calculated. This includes elements such as what fraction of pay is used to calculate a pension and what counts as pay for LGPS purposes. A breach of the law by the Administering Authority would arise in the situation that any calculation was carried out that was not in accordance with those provisions.

Errors in deducting contributions

Regulation 20 of the Local Government Pension Scheme Regulations 2013, as amended, states which elements of pay should be treated as pensionable and therefore should have pension contributions deducted from them and should be used for calculating benefits from 1 April 2014. Regulation 4 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, is the equivalent provision for pre-1 April 2014 scheme membership and therefore it details how pensionable pay should be calculated by an employer for benefits accruing prior to 1 April 2014. Under these provisions, non-contractual overtime is pensionable from 1 April 2014 but not classed as pensionable for benefits accruing before 1 April 2014. A breach of the law by an employer would arise if any of the following happened:

- an employer **did not** deduct pension contributions from non-contractual overtime since 1 April 2014
- an employer **did not** include non-contractual overtime in the amount of any pensionable pay notified to the Administering Authority for membership from 1 April 2014
- an employer **did** include non-contractual overtime in the amount of final pay notified to the Administering Authority to be used to calculate benefits accrued prior to 1 April 2014.

Late notifications from year-end information by an employer

Regulation 80 of the Local Government Pension Scheme Regulations 2013 require each employer to provide to the Administering Authority a list of specific information for each scheme member, such as pensionable pay, by 30 June each year. A breach of the law by an employer would arise if they failed to provide this year end list to the administering authority by 30 June or if the information was incomplete or inaccurate.

Inadequate knowledge of a Pension Board member

Section 248A of the Pensions Act 2004 requires every Pension Board member to be conversant with the LGPS rules and Pension Fund policies as well having knowledge and understanding of pension matters at a degree appropriate for the purpose of them exercising their Pension Board functions. Where a Pension Board member has failed to attend training or demonstrate that they already have the required level of knowledge, it is possible that the Pension Board member will have breached the law.

Appendix B – Example Record of Breaches for Pension Committee Reporting

| Date | Breach | What happened? | Owner | 3 rd Party | Implications | Member class affected | Reaction | Assessment of breach | Rationale | Reported to TPR? | Reporter | Outcome of report | Further action | O/s actions |
|------|--------|----------------|-------|-----------------------|--------------|-----------------------|----------|----------------------|-----------|------------------|----------|-------------------|----------------|-------------|
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Report to: Pension Committee

Date of meeting: 15 June 2023

By: Local Pension Board

Title: Report of Pension Board to Pension Committee

Purpose: Inform Pension Committee of the focus and work completed by the Pension Board in the last 12 months

RECOMMENDATIONS: The Pension Committee is recommended to:

1) Note the report covering the work completed in year by the Pension Board.

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 over the past year has been

Scheme Employer Representatives

- Stephen Osborn - Deputy Director of Finance, University of Brighton (until January 2023)
- Cllr. Tom Druitt - Brighton & Hove City Council
- Cllr. Toby Illingworth- East Sussex District and Borough Councils

Scheme Member Representatives

- Lynda Walker – UNISON
- Niki Palermo – GMB
- Neil Simpson – Pensioners' representative

Independent Chair

- Ray Martin

2.2 Stephen Osborn stepped down from his role at the University of Brighton in January 2023 and, as such, also stepped down from his role on the Pension Board. Since then, Officers, with the oversight of the Pension Board, have sought to obtain nominations from Scheme Employers to fill the vacant position. Only one employer, University of Brighton, put forward a nomination to fill the vacancy. The Independent Chair of the Board and the Pension Manger for Governance and Compliance met with the nominated officer and following consideration of their knowledge and skills made a recommendation to the Governance Committee to appoint to he vacancy, which was approved on 18 April 2023 for a four year term.

2.4 Attendance at meetings has deteriorated since the last report to the Committee. One meeting, in February 2023, was not quorate and was not attended by either of the in-post employer representatives. A second meeting, in September 2022, was cancelled as it coincided with the death of HM Queen Elizabeth II and an alternative date could not be found before the Pension Committee meeting.

| | 27 May 2022 | 9 September 2022 (meeting cancelled¹) | 15 November 2022 | 8 February 2022 (not quorate) |
|------------------------|--------------------|---|-------------------------|--|
| Stephen Osborn | Y | | Y | |
| Cllr. Tom Druitt | Y | | Y | N |
| Cllr. Toby Illingworth | Y | | N | N |
| Lynda Walker | N | | N | Y |
| Niki Palermo | N | | N | N |
| Neil Simpson | Y | | Y | Y |
| Ray Martin | Y | | Y | Y |

3. Work of the Pensions Board

3.1 Meetings are scheduled to be held shortly (no less than 2 weeks) 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 participate in, the Communications Working Group, the Administration Working Group and the McCloud Working Group. By participating in the working groups members of the Pension Board are able to use their knowledge and experience to support officers of the Fund during the development of new policies and procedures. This year the Pension Board members have assisted with the preparation of Annual Benefit Statements to make them more useful for members whilst still including all the information legally required, assisted with the drafting of surveys designed to help the Fund improve the service it offers and the creation of the Employer Toolkit, which is used to provide training to Employers that participate in the Fund.

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 Pension Committee meetings and are able to request areas of focus to be added to the Board work plan.

4. Actions

4.1 Since the last Pension Board report in June 2022, members of the Pension Board have supported Officers and the Pension Committee by engaging with an employer which has been causing ongoing, significant challenges for the smooth operation of the Fund.

4.2 Pension Board members have attended as observers, a meeting of the ACCESS Investment Pool, the vehicle used by the Fund to meet its obligations regarding the manner in which it places its assets for investment purposes. Whilst not involved with investment matters, the Pension Board members were able to provide insight into the governance around ACCESS and suggest ways it could be improved.

4.3 Members of the Pension Board have supported Officers with the defining of Administering Authority Discretions to ensure that a clear list is published and both Employers and Fund Members know what to expect. In addition, the Board members have made suggestions to the revision of numerous policies of the Fund including the revised Pension Administration Strategy to ensure the documents are clear on responsibilities of officers and other stakeholders.

4.4 Outside of the formal Board meetings, Pension Board members have provided input to Officers. For example, they commented on initial drafts of the debt spreading policy to help ensure it was in a position for the Pension Committee to approve ahead of it going out for consultation.

¹ This meeting was cancelled following the death of HM Queen Elizabeth II the previous day

5. Training

5.1 In the past year the Pension Board, along with members of the Pension Committee, have been offered a range of training opportunities. Additionally details of reading material and relevant podcasts have been provided on a monthly basis.

5.2 Since the last report, Pension Board members have attended training events covering:

- 5.2.1 LGPS Pooling
- 5.2.2 An industry update on issues facing Pension Boards
- 5.2.3 TPR's new Code of Practice
- 5.2.4 Pension Fund accounts
- 5.2.5 The wider pensions landscape
- 5.2.6 The LGA's LGPS Fundamentals event

6. Membership of the Pension Board

6.1 The Pension Board is expecting to see a number of changes to its membership over the next quarter, this will bring with it an increased emphasis on training to ensure all Pension Board members have the knowledge and understanding they need to fulfil their duties. There will also be an increased emphasis on the need to attend meetings following the Board only meeting twice in quorate meetings during the past year.

Ray Martin Chair of ESPF Local Pension Board

Contact Officer: Sian Kunert, Head of Pensions

Email: Sian.Kunert@EastSussex.gov.uk

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Governance and Compliance Statement

Approved 16 June 2023



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Governance Policy Statement

Introduction

This is the Governance Policy Statement of the East Sussex Pension Fund (the Fund), which is managed by East Sussex County Council (ESCC), the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish and keep under review a Governance Compliance Statement.

The Public Services Pensions Act 2013 (The Act) introduced a new framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.

As a result of the Act, the Pensions Regulator introduced codes of practice covering specific areas relating to public sector pension schemes. It is noted that the Pensions Regulator intends to make changes to its Codes of Practice and the potential impact on the Fund is being monitored. It is expected that the new Code of Practice will come into force in 2023.

As Administering Authority, ESCC is the designated statutory body responsible for administering the Fund on behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The LGPS Regulations specify that, in investing the Fund's money, regard must be given to the need for diversification and for proper advice.

Governance of East Sussex Pension Fund

ESCC operates a Cabinet style decision-making structure. Under the Constitution, the Pension Committee has delegated authority to exercise the powers of the County Council in respect of all powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the Fund, including the approval of the Fund admission agreements.

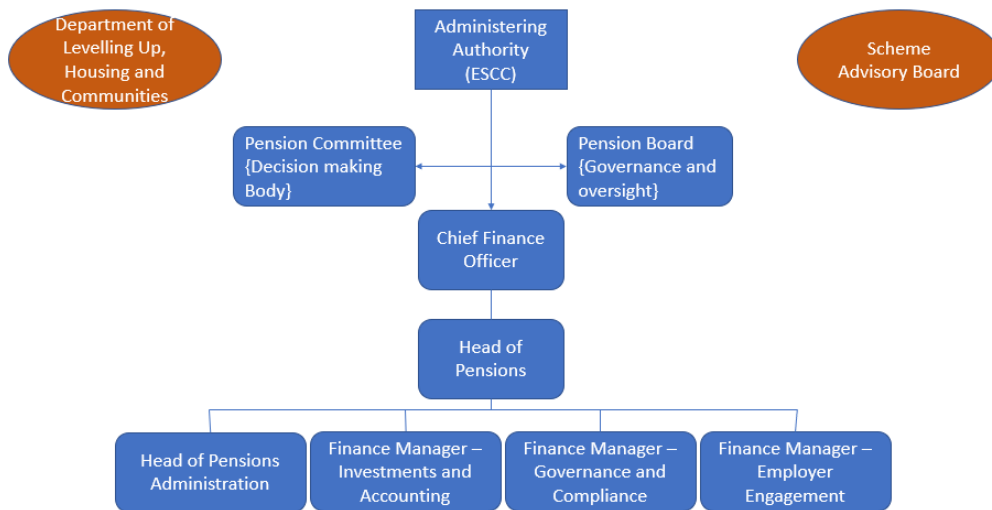
Delegations by the administering authority are published in the Council's constitution which can be accessed [here](#)

The Fund governance focuses on:

- The effectiveness of the Pension Committee, the Local Pension Board (Pension Board) and Officers to which delegated function has been passed, including areas such as decision-making processes, knowledge and competencies.
- The establishment of policies and their implementation.
- Clarity of areas of responsibility between Officers and Pension Committee/Board members.
- The ability of the Pension Committee/Board and Officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension Committee/Board and Officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

The Overall responsibility for the governance of the LGPS and for the approval of this document resides with the Pension Committee.

East Sussex Pension Fund Governance & Compliance Statement 2023



Responsibilities of the East Sussex Pension Committee

The Pension Committee is established as the Fund’s delegated scheme manager and is responsible for arrangements for the investment, administration, funding, communication, risk management and the overall governance process surrounding the Fund. It acts with the delegated authority of ESCC, which is the formal scheme manager.

The Pension Committee is responsible for setting all Fund policies including the setting of the appropriate funding target.

The Pensions Committee will exercise its functions in accordance with fiduciary duties, safeguarding the interests of the beneficiaries of the Fund.

Committee Members must take decisions in accordance with their public law obligations, including the obligations of reasonableness, rationality and impartiality.

Committee Members are required to be rigorous about conflicts of interest and potential conflicts of interest, actual or perceived, as laid out in the Conflict of Interest Policy.

The Committee is subject to the statutory obligation of political balance in the membership of the Committee. Whilst all Committee Members bring with them their own knowledge and experience, political views should form no part of the consideration of issues or of the decision-making process.

Detailed terms of reference for the Committee are included as **Appendix A**.

Responsibilities of the East Sussex Pension Board

The Pension Board help to ensure that the Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator (tPR).

The Board provide assistance to ESCC as the Administering Authority and the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS.
- requirements imposed in relation to the LGPS by tPR.
- ensure effective and efficient governance and administration of the LGPS; and
- any other matters as the LGPS regulations may specify.

The role of the Pension Board is to provide oversight of these matters and it is not a decision-making body. The Board seeks assurance that due process is followed by the Fund.

Detailed terms of reference for the Board are included as **Appendix B**.



Operational Procedures of the Pension Committee & Pension Board

The Pension Board and Pension Committee consider reports on administration of the Fund, the Risk Register and any breaches of the law at all core meetings as a minimum. Standard reports also include Governance, Employer engagement, Communications, Investments, Budget and Accounts.

Agendas and reports for both the Board and Committee are published on the ESCC website at least 5 working days in advance of the meeting.

All meetings are open to the public except where the Board and Committee resolve to exclude the press and public due to the consideration of information that is exempt under section 12A of the Local Government Act 1972. Meetings are held in person with some capacity for attendance online. The meetings of both the Pension Board and Pension Committee are made available to the public through a webcast.

The work plan of both Board and Committee is set out in a work program agreed at each meeting. This helps the stakeholders understand what will be discussed at future meetings.

The Committee and Board receive full reports on all necessary matters as decided by the Chief Finance Officer, along with matters as requested by the Committee or Board for detailed reports and discussion. Provision exists for the calling of special meetings if circumstances demand.

The Pension Board meets around two weeks in advance of the Pension Committee to enable the Board to consider and comment on the reports due to be considered by the Committee. This ensures the Committee takes into account the comments of scheme member and employer representatives ahead of the Committee making decisions. The Board consider all reports that are taken to the Pension Committee, other than Investment papers. The Board also consider further papers on communications and engagement activities on a quarterly basis that are only reported to the Pension Committee on an exception basis. The Board's minutes are included as part of the Committee agenda pack and the independent chair of the Board attends the Committee meetings commenting on discussion points raised by the Board on each item.

Both the Pension Board and Pension Committee have access to professional advice via specialist advisers, where appropriate to work being carried out.

The Pension Committee is supported by an Investment Consultant, Isio and Independent Advisor, Linchpin Advisory Ltd for all investment matters. In addition, the Pension Committee is supported by the Fund Actuary, Barnet Waddingham, for all actuarial matters. The Pension Committee receives and reviews quarterly performance reports and an annual Environmental, Social and Governance (ESG) impact assessment report in relation to all its Investment Fund Managers through its Investment Consultant, Isio. The Investment Consultant also carries out Strategic Asset Allocations reviews in full every three years and a lighter touch annually, as well as investment manager selection reviews or research papers as requested. The Independent Advisor, Linchpin Advisory Ltd, to help balance the advice providing additional challenge and debate to decision making.

In addition, the Pension Committee and Pension Board is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated section 151 Officer) and designated LGPG officer the Head of Pensions.

Frequency of meetings of the East Sussex Pension Committee

The Pension Committee is scheduled to meet at least 4 times a year with an additional meeting scheduled to discuss the investment strategy.

Frequency of meetings of the East Sussex Pension Board

The Pension Board is scheduled to meet at least 4 times a year.

Membership of the Pension Committee

The County Council appoints five members to the Pension Committee in accordance with political balance provisions contained in s.15 Local Government and Housing Act 1989. These provisions require that the make-up of the Committee is in line with the political balance of the Local Authority – ESCC.

The Pension Committee is currently made up of 3 Conservative, 1 Liberal Democrat and 1 Green Councillor. All members of the Committee have voting rights.

Whilst ESCC is also a scheme employer, the appointment of the Pension Committee is under the capacity of ESCC as Administering Authority and, as such, the Committee members are not appointed as scheme employer representatives but representatives of the Administering Authority to act on behalf of all Scheme members and employers. This is made expressly clear in the Pension Committee Terms of Reference where it states “No matters relating to East Sussex County Council’s responsibilities as an employer participating within the East Sussex Pension Fund are delegated to the Pension Committee”. The members of the Pension Committee are required to consider “views expressed by employing organisations and staff representatives in relation to the operation of the East Sussex Pension Fund” but are not permitted to take decisions to benefit any particular employer ahead of the overall interests of the Fund.

The Local Government Association (LGA) obtained legal opinion from James Goudie QC in January 2015 where it was confirmed that a Pension Committee with investment decision making powers is a Finance Committee and is, therefore, restricted in its membership, excluding non-elected members onto the Committee unless there is a separate subcommittee for investment decisions, which consists solely of elected members of the Administering Authority. For the Fund, investment decisions are taken by the Pension Committee.

The current roles and responsibilities set out in the Terms of Reference of the Pension Committee, indicate that this Committee is appointed to regulate and control the finance of the Fund. As such non-ESCC Councillors would not be permitted to be allowed to be members of the Pension Committee via section 102(3) of the Local Government Act 1972.

The Pension Committee is required under the 2016 LGPS Investment Regulations to take ‘proper advice’ – meaning the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters in formulating its investment strategy. Whilst all Committee Members bring with them their own knowledge and experience, political views should form no part of the consideration of issues or of the decision-making process. Committee Members must act as fiduciaries, safeguarding the interests of those to whom they owe their duties. Committee Members must take decisions in accordance with their public law obligations, including the obligations of reasonableness, rationality and impartiality.

Membership of the Pension Board

In accordance with Regulation 107 of the LGPS Regulations 2014, a Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In considering the size of the East Sussex Pension Board, the Council has taken into consideration number of factors including:

- The size of the Council’s existing Pension Fund governing arrangement and decision-making process.
- The number of scheme members, number and size of employers within the Fund and any collective arrangements in place for them to make decisions or provide input in relation to Fund matters.

East Sussex Pension Fund Governance & Compliance Statement 2023

- The direct and indirect cost of establishing and operating the Board.

The Pension Board consists of 7 members as follows:

- Scheme Employer representative x 3 (to represent all employers within the scheme)
- Scheme member representative x 3 (to represent all members of the scheme; active, deferred and pensioners)
- Independent Chair x 1

Scheme Employer representatives and Scheme Member representatives have voting rights. The Independent Chair does not have voting rights.

Where possible, the employer representatives will be appointed to represent each of Brighton and Hove City Council, as the second largest scheme employer after ESCC; the five district and borough councils; and all other employers. However, in practice, all will actively represent the full range of employers in the scheme and the employer representative may be appointed from the wider employer base to ensure the appropriate level of knowledge and skills are retained within the Board.

An independent chair is appointed to enhance the experience, continuity, knowledge, impartiality and performance of the Board. The chair of the Board is invited to attend Pension Committee meetings where they are able to report back on discussions and recommendations from the Board, to represent the views of the employer and member representatives into Fund decision making.

The term of office for Board members is 4 years. This can be extended following reselection by 2 years.

Pension Board Representatives nomination/appointment

The methodology for appointing employer and member representatives is not prescribed by the Regulations. It is therefore up to the Administering Authority to establish an appropriate process, which has been included within the East Sussex Pension Board terms of reference. For details see Appendix B to this statement.

Pension Board representatives are normally appointed for a term of 4 years. Appointments are made by the Governance Committee. The Governance Committee can also agree a temporary extension of up to 2 years. In the case of multiple appointments and re-appointments the Governance Committee may choose to appoint members on a mixture of full and 2-year terms to minimise the number of vacancies needing simultaneous appointments in the future.

Where a Pension Board Representative has their term extended this can only happen once before a full appointment process will be run.

In the past year it has been necessary to appoint people to vacant positions for both member and employer representatives. The term for the Independent Chair also came to an end in April 2023.

The approach followed in year has been to request expressions of interest for member representatives and nominations for employer representatives. People with an interest in joining the Pension Board were invited to meet with the Pensions Manager Governance and Compliance and the Pension Board Independent chair. Following meetings with shortlisted candidates, a recommendation was made to the Governance Committee regarding making an appointment.

East Sussex Pension Fund Governance & Compliance Statement 2023

In relation to the Independent Chair, this role was advertised in the professional press with a selection of the candidates being interviewed by senior Officers within the Fund together with the Lead Member for Resources and Climate Change. A final appointment was then made by the Governance Committee in line with the Constitutional requirements.

Vice Chair appointment

Meetings of the Pension Board cannot go ahead without the Chair or Vice Chair present, so there is a risk that a meeting of the Board would not be able to proceed if the Chair is unable to attend for any reason.

In order to maintain the balance between scheme members and employer representation, a scheme member vice chair and an employer vice chair are nominated from the Pension Board members, and the role of vice chair alternates between scheme member and employer at each meeting.

Consultation with Employing Authorities

All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by quarterly newsletter. They are encouraged to get in touch if they have questions.

In addition to these electronic briefings, the Fund holds an annual Employers' Forum to which all scheduled and admitted bodies of the Fund are invited. This meeting is held in person. It covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. In 2022 Employers received information about the triennial valuation process, including what it meant for them. There were also presentations on the wider work being done by the Fund on administration and communication.

An annual survey is carried out with employers to get input into the administration of the Fund.

Where there are proposed changes to key strategies such as the Pensions Administration Strategy and Funding Strategy Statement, employers are consulted prior to formal approval of the strategies.

The Fund has an Employer Engagement team to specifically focus on improving information sharing and support to scheme employers. This team works in consultation with other Officers to ensure an effective, joined up service is provided.



Consultation with Scheme Members

Active members receive electronic newsletters twice a year and Deferred and Pensioner members receive these once a year. The newsletters update on pension issues, especially on any changes affecting benefits.

The Fund carries out an annual survey with active and pensioner members to seek their views on the administration of the Fund. In 2022/23 the surveys looked at communication to help the Fund understand how members prefer to be communicated with and what information they would like to receive as well as service provided to members. For the first time a booklet providing a summary of the previous year's accounts and key topics has been sent by post to all members in April 2023.

More detail on the approach to communication is available in the Communication Strategy, which is available on the website.

Working Groups

The Fund has set up a number of working groups to help progress specific projects or areas of focus. The Pension Board are able to initiate working groups to focus on areas that would benefit from focus of the employer or member representatives.

An update is provided at each Pension Board and Pension Committee meeting to report back on the activities of each working group as appropriate.

In 2022/23 the Fund had four working groups. A communications working group, McCloud working group, an investment implementation working group and an administration working group.

Each working group has its own terms of reference and membership which is firstly discussed at Pension Board and approved by Pension Committee.

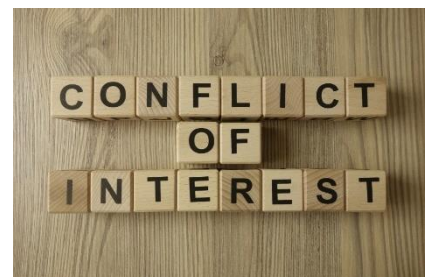
The Chair of the Pension Committee is invited to join the Investment Implementation Working Group, while membership of the group is Officers and Advisers. The Pension Board Chair is invited on occasion and where it is appropriate based on the meeting agenda. All other working groups consist of a mix of Officers, Pension Board members and Pension Committee members.

Conflicts of interest

A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of their duties as a member of the Pension Board or Pension Committee. It is not permitted for a Pension Board member to have an actual conflict of interest.

To prevent conflicts of interest members of the Pension Board, Committee and Officers are required to disclose interests. Potential conflicts are also disclosable as a standing item on the agenda for Board and Committee meetings. Interests which may lead to a potential conflict are additionally reviewed annually.

Where a potential conflict of interests is identified the person with the potential, or perceived, conflict is not able to take part in discussions on the topic; is excluded from voting; or otherwise has the conflict managed at the discretion of the Chair or Vice Chair as appropriate.



Knowledge and understanding

The Public Service Pensions Act 2013 requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board. Where a new member joins the Pension Board, they are to develop this level of knowledge as soon as possible. Whilst the law does not stipulate a timeframe it does for a new trustee of a private occupational scheme and an inference can be drawn that the same six-month time period should apply.

The Scheme Advisory Board's (SAB) Good Governance Report says that Officers and Committee members should also have sufficient knowledge and understanding to carry out their functions. The Fund's Training Strategy is in line with this recommendation, is linked to the CIFPA skills matrix and applies to Pension Board and Committee members as well as officers.

The Fund has a Pensions Training Co-Ordinator. This Officer engages with the Chairs of both the Pension Board and Pension Committee to establish the individual needs of members, as well as liaising with Officers, to develop a detailed training plan. This plan will be in line with the published Training Strategy. The amount of time spent training will also be recorded.

New members of the Pension Board and Committee, along with those already in role and relevant Officers, are invited to induction training. Some of this training is provided by the Fund's legal, actuarial and investment advisors.

The Fund carried out a training needs analysis in September 2022 with Committee and Board members through a self-assessment questionnaire. The results of these training needs lead to the creation of the annual training plan for Board and Committee members and is being used to develop the content of training events which will be offered to Pension Board and Pension Committee members over the forthcoming year.

The Fund invite members of both the Board and Committee to a range of in-house and external training sessions and conferences to help develop their knowledge and skills relevant to their roles. In addition, officers attend training sessions and conferences in compliance with the training strategy and their professional CPD requirements to stay current. Notification of forthcoming training opportunities is provided at least once per month. The Fund have a budget assigned for training to ensure this is a priority of the Fund and sufficient resources available.

Interaction with Officers

Fund Officers carry out the day-to-day work involved with running the Fund. They are divided into an Accounting and Investment team, Administration team, Employer Engagement team, Governance and Compliance team and a Projects team. All Officer Teams are overseen by the Head of Pensions who reports to the Chief Finance Officer.

The Chief Finance Officer has two roles as the s.151 Officer for the Pension Fund and, separately, the s.151 Officer for the Council acting in its capacity as a Local Authority.

Officers provide papers for both the Pension Board and Pension Committee in advance of meetings. The content consists of information to bring to the attention of the Pension Board and Pension Committee, together with information requested by the Pension Board and Pension Committee through the quarterly agreed workplan.

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Where the Pension Board has concerns that the Pension Committee is not acting in line with the principles of good governance it can raise the matter with the Chief Monitoring Officer and, by extension, the Governance Committee.

Good Governance report

In February 2021 the SAB published an updated version of its report following its review of good governance across the LGPS. This report covers representation, conflicts of interest and knowledge and understanding. The findings of these areas are referred to in the relevant sections above. Additionally, the SAB made several recommendations in the areas of service delivery along with compliance and improvement.

The SAB recommends that all funds in the LGPS should have a Pension Administration Strategy. The Fund updated and enhanced their policy in early 2023 to ensure this is fit for purpose and more accessible. This strategy was shared with employers in the Fund as part of a consultation process prior to implementation. The Pension Administration Strategy is a publicly available on the Fund's website. This policy is reviewed at least every three years.

The SAB has also recommended that funds in the LGPS document decision making levels. The Fund has created an internal decision matrix following a review of the constitution, delegations and job descriptions to ensure it is clear where decisions are reached, and which levels of the management team and committee structure need to be communicated on changes to documents and processes. This review will also allow the Fund to consider where improvements to the constitution can be made and will make recommendations to Governance Committee in 2023/24.

Audit review of service provision

The ESCC Audit team carries out independent appraisals of the County Council's systems under the direction of the Chief Operating Officer. The Pension Fund has commissioned 100 days of audit to review various aspects of its service provision, this will reduce to 75 days for 2023/24 due to the improvement in internal audit findings in the last two years. An annual audit plan is reviewed and approved at the start of the year with all audit findings reports being considered and discussed at quarterly Board and Committee meetings once the reports are finalised.

The 2022/23 internal audit work plan covered audits on Governance, Investments and Accounting, Cash Management, the administration of benefit payments i-Connect applications and Pension Fund cyber security arrangements.

LGPS Asset Pooling Governance - ACCESS Pool

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities, who are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision-making process.

ACCESS Pool Governance

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

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

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the S151 Officers, Officer Working Group and the ACCESS Support Unit. The Officer Working Group are Officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for program management, contract management, administration and technical support services.

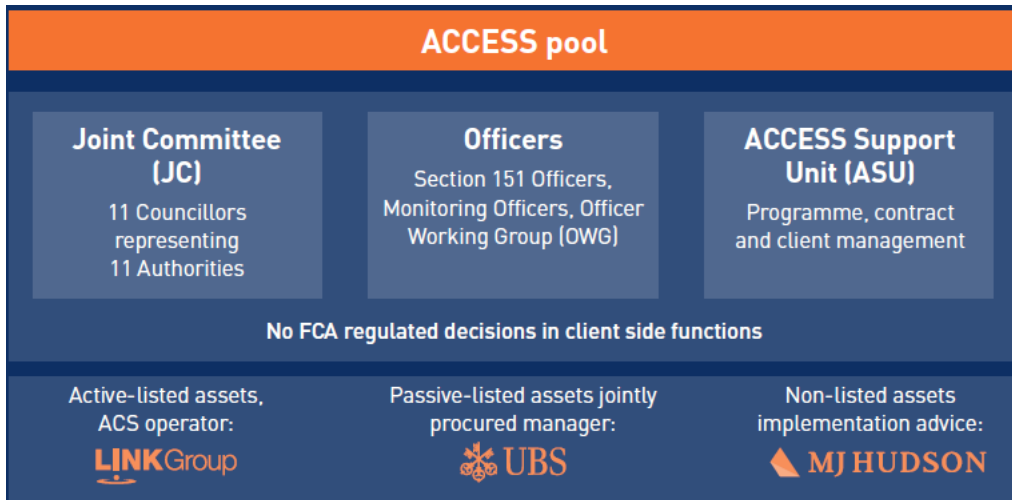
The Section 151 Officer of each Pension Fund provide advice to the Joint Committee and in response to decisions made by the Joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

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

At its meeting on Monday 7 March 2022, the ACCESS Joint Committee agreed proposals enabling each ACCESS Authority's Local Pension Board to send two observers, on a rotational basis, to Joint Committee meetings. In practice, observers from three ACCESS Authority Local Pension Boards at a time will attend JC meetings in person, allowing each Pension Board to be represented at least once a year.

The observers can be drawn from scheme member representatives, employer representatives or independent members. This arrangement will be reviewed after its first full year.

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The diagram above sets out the overarching ACCESS structure.

Link Fund Solutions Ltd was appointed to provide a pooled operator service. Link is responsible for establishing and operating an authorised contractual scheme (ACS) along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies and the appointment of the investment managers to those sub-funds. The operator role is FCA regulated.

ACCESS Implementation Adviser for illiquid assets

In January 2022, the ACCESS Pool appointed MJ Hudson, the specialist service provider to the asset management industry, as implementation advisor for the pooling of illiquid assets where work has been carried out to appoint a UK direct property manager and Global indirect property manager on behalf of the ACCESS pool.

Review of Governance Policy Statement

Responsibility for this document resides with the Chief Finance Officer and will be reviewed by no less frequently than annually.

This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

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Delegation of Functions

Under the Constitution, the Pension Committee has delegated authority to exercise the powers of East Sussex County Council in respect of all powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the Fund, including the approval of the Fund admission agreements.

Delegations by the administering authority are published in the Council's constitution which can be accessed [here](#). Full terms of reference for the Pension Committee are shown in Appendix I.

The Chief Finance Officer has been designated as the Officer with responsibility for the proper administration of the Council's financial affairs under section 151 of the Local Government Act 1972. The Chief Finance Officer has statutory duties in relation to the financial administration and stewardship of the Council; Pension statutory duties arise from Local Government Pension Scheme Regulations 2013

Delegations to the Chief Finance Officer -

- To carry out the statutory duties referred to in Section 151 of the Local Government Act 1972 in relation to the Pension Fund and to provide advice to the County Council, Pension Committee and Pension Board in carrying out their responsibilities, in consultation with Head of Pensions.
- To Implement strategies and policies approved by the Administering Authority (including those delegated to the Pension Committee).
- To manage, in accordance with the policies and strategies approved by the Administering Authority (including the Pension Committee), and in accordance with legislative requirements, the East Sussex Pension Fund including ensuring arrangement for investment of assets and administration of contributions and benefits, in consultation with Head of Pensions
- To implement policies decided by the Administering Authority (including the Pension Committee).
- To take action or decide any other Pension Fund related matter on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.
- To approve the terms of admission or cessation agreement and, where appropriate, any related bond or indemnity, with a body wishing to participate in or leave the East Sussex Pension Scheme/Fund.
- To undertake any necessary actions relating to employers joining and leaving the Fund, or monitoring of such employers, based on decisions made by the Pension Committee.
- To agree Administering Authority responses to consultations on LGPS matters and other matters where they have minimal impact on the Fund or its stakeholders including relating to minor technical operational matters impacting the Administering Authority only.
- To implement the Fund's agreed strategic allocation including use of both rebalancing and conditional ranges in accordance with the Investment Strategy.

Compliance Statement

The Fund fully complies with the best practice guidelines on governance, issued by Department for Levelling Up, Housing and Communities (DLUHC), for details see the table below.

A - Structure

| Task | Compliance status |
|---|-------------------|
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | Fully Compliant |
| That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | Fully Compliant |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | Fully Compliant |
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | Fully Compliant |

B – Committee membership and representation

| Task | Compliance status |
|---|-------------------|
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - i) employing authorities (including non-scheme employers, eg, admitted bodies). ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis). | Fully Compliant |
| That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights. | Fully Compliant |

C – Selection and role of lay members

| Task | Compliance status |
|---|-------------------|
| That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Fully Compliant |

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| | |
|---|-----------------|
| That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | Fully Compliant |
|---|-----------------|

D – Voting

| Task | Compliance status |
|--|-------------------|
| The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Fully Compliant |

E – Training/Facility time/expenses

| Task | Compliance status |
|--|-------------------|
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Fully Compliant |
| That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | Fully Compliant |
| That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. | Fully Compliant |

F – Meetings (frequency/quorum)

| Task | Compliance status |
|---|-------------------|
| That an administering authority's main committee or committees meet at least quarterly. | Fully Compliant |
| That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. | Fully Compliant |
| That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Fully Compliant |

G – Access

| Task | Compliance status |
|--|-------------------|
| That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, | Fully Compliant |

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| | |
|---|--|
| documents and advice that falls to be considered at meetings of the main committee. | |
|---|--|

H – Scope

| Task | Compliance status |
|---|-------------------|
| That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Fully Compliant |

I – Publicity

| Task | Compliance status |
|--|-------------------|
| That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Fully Compliant |

Appendix A - Pension Committee terms of reference

Membership

The East Sussex Pension Committee will be composed of five members of East Sussex County Council, determined by the Council at the Council's Annual Meeting. (N.B. When making nominations Members should have regard to the need to ensure a balance of experience and continuity).

Named substitutes are permitted for East Sussex County Council members.

Terms of Reference

The Pension Committee's will exercise on behalf of East Sussex County Council all of the powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the East Sussex Pension Fund except where they have been specifically delegated to another Committee. The Pensions Committee will exercise its functions in accordance with the fiduciary duties of the Council as the administering authority of the East Sussex Pension Fund.



The Pension Committee will have the following specific roles and functions, taking account of advice from officers and the Fund's professional advisers:

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- Ensuring the Fund is administered, managed and pension payments are made in compliance with the regulations and having regard to statutory guidance that govern the operation of the Local Government Pension Scheme from time to time, and other legislation.
- Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including but not limited to funding, investment, administration, communication and governance.
- Determining how the various administering authority discretions are operated for the Fund.
- Monitoring the implementation of all Fund policies and strategies on an ongoing basis.

In relation to the LGPS ACCESS Pension Fund Pool:

- Considering pooling matters including recommendations made by the ACCESS Joint Committee.
- Determining the transition of the assets held by East Sussex Pension Fund in relation to the Pool and the funds or sub-funds operated by the Operator.
- Recommending to the Governance Committee a member of the East Sussex County Council Pension Committee to the Joint Committee as and when required, having regard to the advice of the Head of Pensions.
- Appointing an East Sussex County Council officer to working groups such as the Officer Working Group and Onboarding Sub-Group as and when required.
- Advising the representative on the Joint Committee and Officer Working Group on such matters as may be required.
- Monitoring the performance of the LGPS ACCESS Pool and its Operator and recommending actions to the ACCESS Joint Committee, Officer Working Group or ACCESS Support Unit, as appropriate.
- Receiving and considering reports from the LGPS ACCESS Joint Committee, Officer Working Group and the Operator.
- Undertaking any other decisions or matters relating to the operation or management of the LGPS ACCESS Pool as may be required, including but not limited to appointment, termination or replacement of the Operator and approval of the strategic business plan.
- Making arrangements for actuarial valuations, ongoing monitoring of liabilities and undertaking any asset/liability and other relevant studies.
- Making decisions relating to employers joining and leaving the Fund. This includes approving which employers are entitled to join the Fund, and any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- Agreeing the policy for exit credits and terms on which employers may leave the Fund. Approving decisions on cessations, post cessation arrangements, guarantees and bonds.
- Agreeing the terms and payment of bulk transfers into and out of the Fund.

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- Ensuring robust risk management arrangements are in place, considering and making recommendations in relation to the internal audit strategy and internal audit report pertaining to the management of the fund and reviewing its findings.
- Agreeing the Fund's annual business plan and annual and medium-term budgets, and monitoring progress against them.
- Selection, appointment and dismissal of the Fund's advisers and suppliers, including actuary, benefit consultants, investment consultants, global custodian, fund managers, lawyers, pension fund administrator, Additional Voluntary Contribution providers and independent professional advisors. This includes determining the services to be provided and monitoring those services, including where this relates to shared services arrangements.
- Agreeing the Fund's Knowledge and Skills Policy and monitoring compliance with the policy.
- Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- Considering views expressed by employing organisations and staff representatives in relation to the operation of the East Sussex Pension Fund.
- Considering the Fund's financial statements and approving an Annual Report on the activities of the Fund in line with legislation and guidance.
- Considering the Breaches Register at every quarterly Pension Fund meeting and reviewing recommendations from the Pensions Board.

Notes: 1. No matters relating to East Sussex County Council's responsibilities as an employer participating within the East Sussex Pension Fund are delegated to the Pension Committee.

Notes: 2 As a Non-Executive Committee, no matters relating to the Pension Fund's non-executive responsibilities as Scheme Manager are delegated to an Executive of East Sussex County Council.

Notes: 3 The Committee's primary contacts will be the Head of Pensions, Chief Finance Officer and its retained advisors

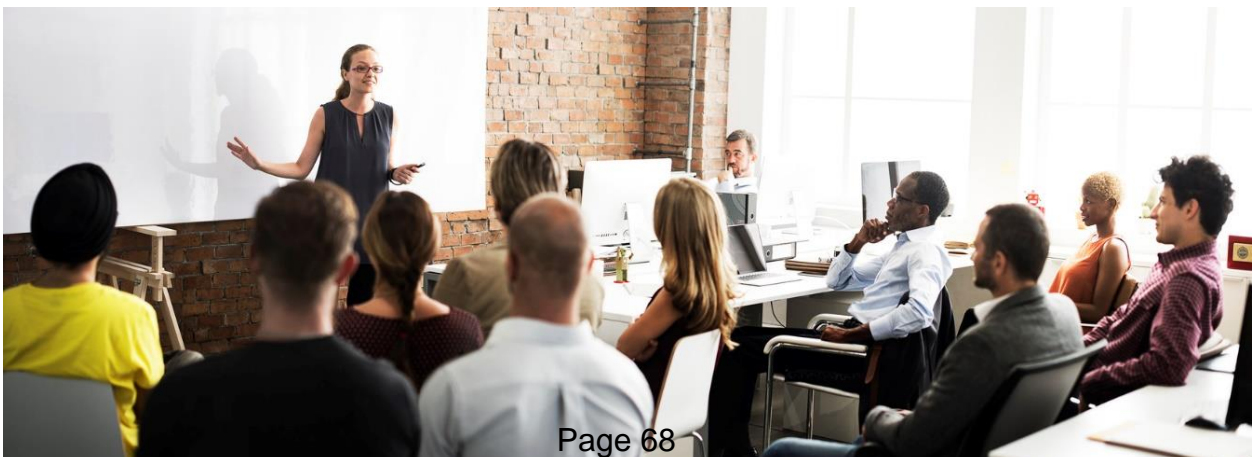
Training

The East Sussex Pension Fund has a dedicated Knowledge and Skills Policy which applies to all members of the Committee, and which includes the expectation to attend regular training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

Appendix B - Pension Board Terms of reference

Introduction

- (i) The Pension Board is established by East Sussex County Council (ESCC) under the powers of Section 5 of the Public Services Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Regulations 2013 ("the LGPS regulations" which includes such regulations as govern the Local Government Pension Scheme from time to time). ESCC is the scheme manager (and administering authority) to the East Sussex Pension Fund (ESPF).
- (ii) The East Sussex Pension Fund Board was appointed by East Sussex County Council (the Scheme Manager and Administering Authority to East Sussex Pension Fund) as its Local Pensions Board in accordance with section 5 of the Public Service Pensions Act 2013 and Part 3 of the Local Government Pension Scheme Regulations 2013. As such, Parts 4 Rules of Procedure (Council's procedural Standing Orders) sub-parts 1, 2, 3, 4, 5 and 6 of the Constitution of East Sussex County Council do not apply to this Pension Fund Board unless expressly referred to within and permitted by these Terms of Reference and Rules of Procedure. The Board will exercise all its powers and duties in accordance with legislation and these Terms of Reference and Rules of Procedure. The Board shall have the power to do anything which is considered to facilitate, or is conducive or incidental to, the discharge of its functions. Powers of the Pension Board.
- (iii) The Pension Board will exercise all its powers and duties in accordance with the law and this Terms of Reference.
- (iv) ESCC considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision-making body in relation to the management of the Fund but instead can make recommendations to assist in such management. The Fund's management powers and responsibilities which have been, and may be, delegated by ESCC to committees, sub-committees and officers of ESCC, remain solely the powers and responsibilities of those committees, subcommittees and officers including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the ESPF Pension Committee.
- (v) The Pension Board will ensure that in performing their role it:
 - a. is done effectively and efficiently and
 - b. complies with relevant legislation and
 - c. is done by having due regard and in the spirit of The Pensions Regulator's Code of Practice and any other relevant statutory or non-statutory guidance.



Objectives and role of the Pension Board

The role of the Pension Board is defined by the LGPS Regulations as being to assist the Scheme Manager (ESCC as Administering Authority) to:

- Secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS, and requirements imposed in relation to the LGPS by the Pensions Regulator.
- Ensure the effective and efficient governance and administration of the LGPS. This should be interpreted as covering all aspects of governance and administration of the LGPS including funding and investments.

In doing this the Pension Board:

- Shall assist the Scheme Manager with such matters as the LGPS Regulations and guidance may specify.
- Shall seek assurance that due process is followed with regard to Pension Committee and may review any decisions made by or on behalf of the Scheme Manager or action taken by the Scheme Manager.
- Shall seek assurance that any identified issues raised by Pension Board members are considered.
- Shall comment on and assist in identifying and managing breaches of the law in relation to ESPF matters.
- Shall make representations and recommendations to the Pension Committee as appropriate and shall consider and as required, respond to any Government / Responsible Authority or Scheme Advisory Board requests for information or data concerning the Fund

May also undertake other tasks, including (but not limited to):

- Assisting the Pension Committee by reviewing aspects of the performance of the ESPF – for example by reviewing the risk management arrangements within ESPF (although the Pension Committee will remain accountable for risk management).
- Reviewing administration standards or performance or review efficacy of ESPF member and employer communications; or reviewing published policies to ensure they remain fit for purpose and are complete.
- Reviewing ESPF annual reports; or being part of any consultation process with the purpose of adding value to that process based on, for example, their representation of employers and ESPF members.
- Discussing strategic matters such as communications where requested by the Pension Committee.
- Will produce an annual report which is shared with the Scheme Manager. It will outline the work of the Pension Board throughout the scheme year, which will help to:
 - Inform all interested parties about the work undertaken by the Pension Board
 - Assist the Pension Board in reviewing its effectiveness and identifying improvements in its

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- future operations.
- Shall carry out an annual self-assessment of the effectiveness of the Pension Board and produce a report on this which will be shared with the Pension Committee.
- Must provide a record of each meeting to the following Pension Committee meeting and may make reports and recommendations to the Pension Committee insofar as they relate to the role of the Pension Board.
- Shall assist in considering whether the East Sussex Pension Fund is being managed in accordance with the LGPS and other relevant legislation, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman, recommending changes to processes, training and/or guidance where necessary.
- Shall monitor administrative processes and support continuous improvements
- Will ensure the scheme administrator supports employers to communicate the benefits of the LGPS to scheme members and potential new members.

Membership

The Pension Board shall consist of:

- 3 employer representatives - employer representatives that can offer the breadth of employer representation for the ESPF.
- 3 scheme member representatives – member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners). Two will be nominated by the trade unions, and the rest will be drawn from the total ESPF active, deferred and pensioner membership.
- Independent Chair - The Pension Board shall be chaired by an Independent Chair.

Substitutes for Board members are not permitted.

The Quorum of the Board will be 3 Members, excluding the Independent Chair. To be quorate the meeting must include at least one employer representative and one scheme member representative.

The Board has the power to set up working groups

Appointment of members of the Pension Board

The appointment process has been approved by the Governance Committee.

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

The Vice Chair will alternate between scheme member representatives and employer representatives at each meeting. The Vice Chairs will be nominated from the existing Board members whenever one of the existing Vice Chairs is replaced.

Appointments to the Pension Board shall be managed, wherever possible, so that appointment and termination dates are staggered such that there remains continuity for one meeting to the next.

Term of office

Employer representative appointments will expire after a 4-year period from their date of appointment by the Governance Committee or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to this period by up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted. Appointment will automatically cease if the individual is no longer in the employment of that employer, no longer holds office in relation to that employer or is no longer an elected member of that employer, as appropriate.

Scheme member representative appointments will expire after a 4-year period from their date of appointment by the Governance Committee or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted. Appointment will automatically cease if the individual is no longer a trade union representative or representative of ESPF members (in accordance with the criteria set by the Governance Committee).

The Independent Chair appointment will expire after a period of 4 years from their date of appointment by the Governance Committee. The Governance Committee may agree an extension to terms of office by up to a further 2 years after which there shall be a further appointment process. Reappointment of the Independent Chair is permitted.

Term dates may not be exact due to the period of the appointment process. The term of office may therefore be extended for this purpose or other exceptional circumstances by up to three months with the agreement of the Governance Committee.

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

The role of the Pension Board members requires the highest standards of conduct and the ESCC Code of Conduct for Members will apply to the Pension Board's members. ESCC Standards Committee will monitor and act in relation to the application of the Code.

Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Pension Board member by the Governance Committee.

Removal of the Independent Chair will be by the Governance Committee.

Chairing

It will be the role of the Chair to:

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

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- Uphold and promote the purpose of the Pension Board, and to ensure that meetings are properly conducted and professional advice is followed.
- To use their expertise and experience and liaise with the Head of Pensions to arrange such advice as required subject to agreement by the Head of Pensions on such conditions as that officer determines.
- Sign the minutes of each Pension Board meeting following approval by the Board.
- Prepare with the Head of Pensions an appropriate budget for the Pension Board's consideration before being formally considered by the Scheme Manager along with the ESPF Annual Budget.
- Liaise with officers and advisors on the requirements of the Pension Board, including advanced notice for Scheme Manager officers to attend and arranging dates and times of Board meetings.
- Provide guidance on all points of procedure and order at meetings having regard to advice from officers.

Other tasks which may be deemed appropriate by the Scheme Manager for the Independent Chair of the Pension Board.

- Liaise with the Chair of the Pension Committee as deemed appropriate.

Other tasks that may be requested by the Board, within the remit of these Terms of Reference and subject to agreement with the Head of Pensions.

- Annually review and report on the activities of the Pension Board.
- Commission a triennial review of LGPS & public pension fund non-statutory best practice guidance (referencing the SAB & other relevant bodies deemed relevant by the Board) which then brings recommendations to the Committee (when appropriate) for amendments to the operation of the Fund. Support arrangements and administration.

ESCC officers will provide governance, administrative and professional support to the Pension Board, and ESCC Member Services will provide secretariat support to the Pension Board, and as such will ensure that:

- Meetings are timetabled for at least four times per year.
- Adequate facilities are available to hold meetings.
- An annual schedule of meetings is produced.
- Suitable arrangements are in place to hold additional meetings if required.
- Papers are distributed 5 clear working days before each meeting except in exceptional circumstances.
- Draft minutes of each meeting are normally circulated 7 working days following each meeting including all actions, decisions and matters where the Pension Board was unable to reach a decision will be recorded.

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- Final reports, minutes and agendas relating to the Pension Committee are shared appropriately with the Board.

The records of the meetings may, at the discretion of the Board, be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A (2) of that Act.

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

The Pension Board must comply with the General Data Protection Regulation and the Scheme Manager's data protection policy. It must also adhere to the Scheme Manager's requirements, controls and policies for Freedom of Information Act compliance.

Expert advice and access to information, including the Pension Committee

The Pension Board will have access to professional advice and support provided by officers of ESCC and, via them and where appropriate, advisers to the ESPF. In addition, Pension Board members will receive the final reports, minutes and agendas relating to the Pension Committee, save where the Committee expressly decides otherwise such as where an item is exempt, although this is anticipated to be in exceptional cases.

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

- Request information and reports from the Pension Committee or any other body or office responsible for the management of the Fund.
- Examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
- Access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major matters being considered, i.e., investment strategy, triennial valuation, etc.
- Access to professional advice regarding non-major decisions will require the approval of the Pension Committee for additional resources.
- Attend all or any part of a Pensions Committee meeting unless they are asked to leave by the Committee or as a result of a conflict of interest.

ESCC officers will provide such information as is requested that is available without incurring unreasonable work or costs.

Knowledge and Skills

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

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

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A program of updates and training events will be organised by ESPF officers.

It is for individual Pension Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

In line with this requirement, Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to:

- Participate in training events (a written record of relevant training and development will be maintained).
- Undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.
- Comply with the Fund's Knowledge and Skills Policy insofar as it relates to Pension Board members.

Standards and Conflicts of Interest

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).”

The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator’s code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member’s tenure.

The Pension Board shall adopt a policy for identifying and managing potential conflicts of interest.

Members of the Pension Board must 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.

Part 5(1) of ESCC Code of Conduct shall apply in relation to the standards of conduct of Pension Board members, insofar as they can be reasonably considered to apply to the role of members of the Board, including the non-disclosure of confidential information.

Members of the Pension Board must adhere to the requirements of the ESPF Procedure for Monitoring and Reporting Breaches of the Law and should be mindful of the individual legal requirements in Section 70 of the Pensions Act 2004 relation to reporting breaches of the law in relation to ESPF matters.

Access to the Public and Publication of Pension Board information

Members of the public may attend the Pension Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in ESCC's Constitution.

East Sussex Pension Fund Governance & Compliance Statement 2023

In accordance with the Public Service Pensions Act 2013, ESCC is required to publish information about the Pension Board and up-to-date information will be posted on the ESPF website showing:

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

In accordance with good practice, ESPF may publish other information relating to the Pension Board as considered appropriate from time to time, and which may include:

- a. the agendas and meeting records
- b. training and attendance logs
- c. an annual report on the work of the Pension Board.

All or some of this information may be published using the following means or other means as considered appropriate from time to time:

- a. on the ESPF website – <https://www.eastsussex.gov.uk/yourcouncil/pensions/members/>
- b. on the ESCC website – <http://www.eastsussex.gov.uk>,
- c. within the ESPF Annual Report and Accounts,
- d. within the ESPF's Governance Policy and Compliance Statement.

Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

Expense reimbursement, remuneration and allowances

All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the ESCC's Constitution. In addition, scheme member representatives may be paid an allowance equivalent to the co-optees' allowance in the ESCC Scheme of Members' Allowances in relation to time spent at meetings and training events relating to their role as a ESPF Pension Board member, unless they are attending they are attending during their normal working day without a reduction in pay or leave (in which case no allowance will be paid for that time). The Independent Chair's remuneration will be approved by the Governance Committee following consultation with the Chair of the Pension Committee. All costs will be recharged to the Fund.

Accountability

The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the Local Government Pension Scheme Advisory Board. The Local Government Pension Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the MHCLG) and the Scheme Manager. The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues.

Decision Making Process

Employer representatives and scheme member representatives have voting rights, albeit the Pension Board is expected to operate on a consensus basis. The Independent Chair does not have voting rights.

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

Reporting and escalation

The Pension Board must provide minutes of each meeting to the following Pension Committee meetings and may make reports and recommendations to the Pension Committee insofar as they relate to the role of the Pension Board. Any such reports or recommendations must be provided in advance of the next Pension Committee meeting to the S151 Officer.

An annual report of the Pension Board must be provided to the S151 Officer, the Monitoring Officer, the Pension Committee, and the Audit Committee and be published in the Fund's Annual Report and Accounts.

Where the Pension Board considers that a matter brought to the attention of the Pension Committee has not been acted upon or resolved to their satisfaction, the Pension Board will provide a report to the Monitoring Officer.

The Breaches Register will be presented at each meeting and considered by the Pension Board who may make recommendations to the Pension Committee.

Review, Interpretation and Publication of Terms of Reference and Rules of Procedure

These Terms of Reference have been agreed by ESCC. The Council will monitor and evaluate the operation of the Pension Board and may review these Terms of Reference and Rules of Procedure from time to time.

These Terms of Reference are incorporated into the Council's Constitution and published on the Council's website and may be amended by the same means as permitted for the Constitution. It will also form part of the ESPF's Governance Policy and Compliance Statement which will be made available in accordance with the requirements of the LGPS Regulations.

Consultation responses

Pensions Administration Strategy

“The suggestion of bringing in penalties for late or incorrect submission of i-Connect data is unreasonable given that the i-Connect system increases the burden of work on the employer and does not negate the completion of an LGPS form – It would seem reasonable that if this policy were introduced that the employer could expect penalties paid to them where the fund has failed to update information previously supplied to them.”

Funding Strategy Statement - Change to cessation methodology

“Please could you provide some more information on 4 (the cessation methodology), as the proposed changes do not really make sense. Although I understand the current wording (and how the basis of any cessation credit/debit without a guarantor will be calculated on a minimum risk basis - i.e. using gilt yields at time of cessation), the proposed wording is not clear to me what will happen. Although I agree with the principle of trying to make the cessation valuation more stable, it is not clear to me what the "prudence level" is. Although the wording says that it is currently "3.1%", it does not say what this is applied to (e.g. is this some discount rate adjustment, a liability adjustment, a success probability adjustment for the stochastic model etc).”

“I think my only initial comment is that although I understand the intention of the prudence level it seems inappropriate that it is only reviewed every three years, as markets move materially in those periods and if my understanding is correct, the fact that now on cessation you would use a discount rate significantly different to the current one obtainable in the market seems unfair. I am sure if interest rates were to drop suddenly suggesting your discount rate was too high, you would (quite rightly) revise the prudence level.”

“In response to the consultation I have some comments about the proposed calculation of the liabilities on cessation of an employer, without a guarantor being available to take on the liabilities. My concern always has been the significant mismatch between the investment strategy and the movement in the liabilities (on a cessation basis). I understand that it is not acceptable to operate a separate investment strategy for an individual employer.

Hence I support a proposal that seeks to reduce this mismatch and I agree that the proposal below does reduce the volatility of the liabilities and allocated assets (to a lesser extent), although significant volatility will remain.

I do have views about the actual exit payment calculation

I accept that it is entirely reasonable to expect and aim for the assets attributable to the exiting employer supplemented by the exit payment to be sufficient to meet the liabilities of that employer. It feels that this aim would be best met by reducing the asset/liability mismatch. I do not know whether it is possible to have a separate investment strategy for orphan liabilities. If it is, on an actual or hypothecated basis, it could then be appropriate to apply the stochastic analysis to a more appropriate bond based portfolio, which may lead to a lower of a margin for prudence (taking

into account the lower expected return). This could have the dual benefit of reducing the exit payment and the likelihood of remaining employers having to support the orphan liabilities.”

Report to: Pension Board

Date: 30 May 2023

By: Chief Finance Officer

Title: Employer Engagement Report

Purpose: This report updates the Pension Board on Employer Engagement activities and the collection of Employer contributions up to March 2023 which were due on 19 April 2023.

RECOMMENDATION

The Pension Board is recommended to note the report.

1. Background

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

1.2 Scheme Employers (scheduled and admitted bodies) are required to pay both employee and employer contributions to the Fund monthly, no later than 19 days of the following month in which the contributions were deducted from payroll. The contribution rates for members are set annually by the LGPS and are based on salary bandings. The Employer contribution rate is set at the triennial valuation and recorded in the rates and adjustment certificate issued by the Funds actuary or set on admission to the Fund agreed by the Fund's actuary.

2. Supporting Information

i-Connect

2.1. The i-Connect project is continuing, with good progress to onboard all employers for the end of year. Employers that are not yet on i-Connect have been sent a manual end of year template to complete to allow the Technical/Projects team to produce Annual Benefit Statements.

2.2. The onboarding focus has been on the employers who have been fully engaged to aim for onboarding for end of year purposes. Each employer requires a large amount of time and resource to introduce to the system, build monthly file and train them on using the

system. The onboarding process has driven good engagement with employers with the chance to meet and answer questions they may have on other topics.

2.3. The current numbers for the i-connect project:

| Still to onboard/engage with | Initial enquiries ongoing | In Progress to onboard | Onboarded |
|------------------------------|---------------------------|------------------------|-----------|
| 1 | 11 | 7 | 119 |

2.4. Fund Officers are working with the remaining larger employers to help build upload files and educate them on the i-Connect processes. Large employer files are complex and it is challenging making sure the monthly file contains the correct data and is formatted correctly. This can take a significant number of calls and time with the employer and their payroll provider to get the file ready to run through the i-Connect software.

2.5. The i-Connect team are now fully established and embedded and have helped both with the onboarding of new employers and the monthly data file processing. Officers are now working to build a robust monthly process to start streamlining output from i-Connect files so that monthly data can flow to the administration team while addressing any issues or errors in the data loaded. Once all employers have been onboarded the monthly process will start to look at using i-Connect to help with the monthly contribution reconciliation. Officers have added some Fund and employer responsibilities to the Pension Administration Strategy around i-Connect to ensure roles and responsibilities are clear and will continue to build on this once i-connect is fully implemented and is the standard process for data from employers.

2.6. The Engagement team have found that some employers find the transition to i-Connect problematic with limits on time and technology, in these cases the team have offered time and support to allow for a smooth transition alongside appropriate training. Officers continue to support these employers on a monthly basis.

2.7. Now the Fund has onboarded over 85% of scheme employers, many process issues have been identified that were not expected, due to the way that i-Connect functions. The Fund is progressing how it responds to issues that arise and monitor and update the specific Fund specifications. In addition, employer staff turnover, and payroll provider changes can be problematic for the i-Connect team and transfer of this monthly data. Officers emphasise at the onboarding stage that any changes to staff or payroll systems need to be communicated to the Pension Fund at the earliest possible stage to manage the transition accordingly. This has also been added into the Pension Administration Strategy. Officers will make sure that any changes get picked up on our annual reviews carried out with each employer.

Employer Contribution Rates and Accounting Reports

2.8. Following the sign off of the 2022 triennial valuation report the employer engagement team have been communicating with all employers on the new employer contribution rates starting in April 2023 and issued new LGPS31 forms with the new rates for the next 12 month period. Employers have also been notified of the new employee rates.

2.9. The annual accounting reports for many of the employers are due around April/May. Officers have communicated to all relevant employers to ascertain the type of report they

require and worked alongside the Fund actuary to arrange completion of the reports. Some employers' auditors are requesting more vigorous information and checks around their annual accounting reports which causes more work for the team to manage. Officers have worked with the actuary to make the process more robust and clearer on the timeline and detail being provided. Universities, colleges and schools' reports will be provided later in the year.

Employer Contributions

3.1 The below table sets out the number of late payments, received after 19 days have elapsed following contributions deducted from payroll. Up to March 2023.

| All payment methods | Apr | May | Jun | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar |
|-------------------------------|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|-----|-----|
| Total Payments Due | 136 | 136 | 137 | 137 | 137 | 136 | 138 | 138 | 138 | 139 | 140 | 140 |
| Payments Received Late | 6 | 5 | 4 | 2 | 1 | 3 | 1 | 0 | 0 | 1 | 1 | 1 |

3.2 In the last 12-month period, there have been 25 late payments of contributions out of 1,652 expected payments (2%) and 3 late payments in the last quarter. The late payments in the last quarter were due to issues around cheques arriving on time or being lost in the post. Officers are working with employers that continue to pay by cheque to see if electronic payments can be utilised in the future, however due to how some smaller parish councils work, it is difficult to move onto electronic payments. Employer payment numbers are slightly higher than employers for i-Connect due to multi academy trust payments can be for single employers while the trust complete a single submission on i-Connect.

3.3 The Fund has not identified trends in the late payments or repeating late payments from the same employers. Reminders are sent to all employers throughout the month to try to reduce the number of late payments and late forms. Any late payment results in a warning e-mail alongside the offer of a phone call or Teams meeting to ascertain the reason for late payment to correct this for the following month. If an employer is late again in a 12-month period then an administration charge is levied in line with the Pension administration strategy.

3.4 As part of an improvement to increase the governance of the monthly contribution process following a recommendation by Internal Audit, the Fund has been checking that all LGPS31 contribution forms are signed and reviewed by the relevant section 151 Officer or approved delegated person. Any discrepancies are returned to the employer to rectify before being accepted by the Fund. The Fund carry out an annual check to ensure we hold relevant authorised signatories for each employer, or if an employer has changed staff or payroll provider.

4. Conclusion and reasons for recommendation

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

IAN GUTSELL
Chief Finance Officer

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

Report to: Pension Board

Date: 30 May 2023

By: Chief Finance Officer

Title: Communications Report

Purpose: To inform the Board of communication activity delivered since the previous meeting

RECOMMENDATION

The Pension Board is recommended to note the report.

1. Background

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

1.2 The Fund has a Communications Strategy which defines the main means of communication we provide for our key stakeholders. This includes making the best use of technology where appropriate, to provide quicker and more efficient communications for the Fund's stakeholders. The Fund will ensure that communication methods are accessible to all.

2. Newsletters

2.1 All newsletters now sit on the respective pages of the website and are promoted through page banners. They are also available through the Forms and Publications menu of the website.

2.2 An employer newsletter was issued in February 2023 with all relevant employers emailed. [Employer newsletter - February 2023 | East Sussex Pension Fund](#).

A separate newsletter communication was issued by email in early May containing some important updates on pension transfers and divorce, HR and Payroll guides, reminder of deadline for consultation on changing policies, employer training and backdated pay awards guidance.

2.3 The active and pensioner newsletters due to be issued in Q1 2023 were replaced by a posted Member update booklet.

3. Member update booklet 2023 – issued to all members by post

3.1 Every member of the Fund (active, deferred, pensioner, dependants) received a 16 page A5 booklet with key information about the LGPS in April or May by post, following a request by the Pension Board for the production of a summary of accounts. The content of the booklet was discussed by the Communications Working Group to ensure key messages were included to support members in understanding their LGPS pensions and update them on key activity of the Fund.

Overriding objectives of the member update were to

- Make members aware of the benefits of being in the LGPS.
- Understanding the difference between CARE and Final Salary

- Promote member self-service.
- Summarise the annual reports and accounts.
- Provide commonly asked for information – pensioner pay dates, tax queries, cost of contributions.
- Remind members to update their expression of wish nomination form.
- Promote members to update personal information.

A link to the booklet can be found - [espfp-16pp-a5-booklet web.pdf \(eastsussexpensionfund.org\)](https://eastsussexpensionfund.org/espfp-16pp-a5-booklet-web.pdf)

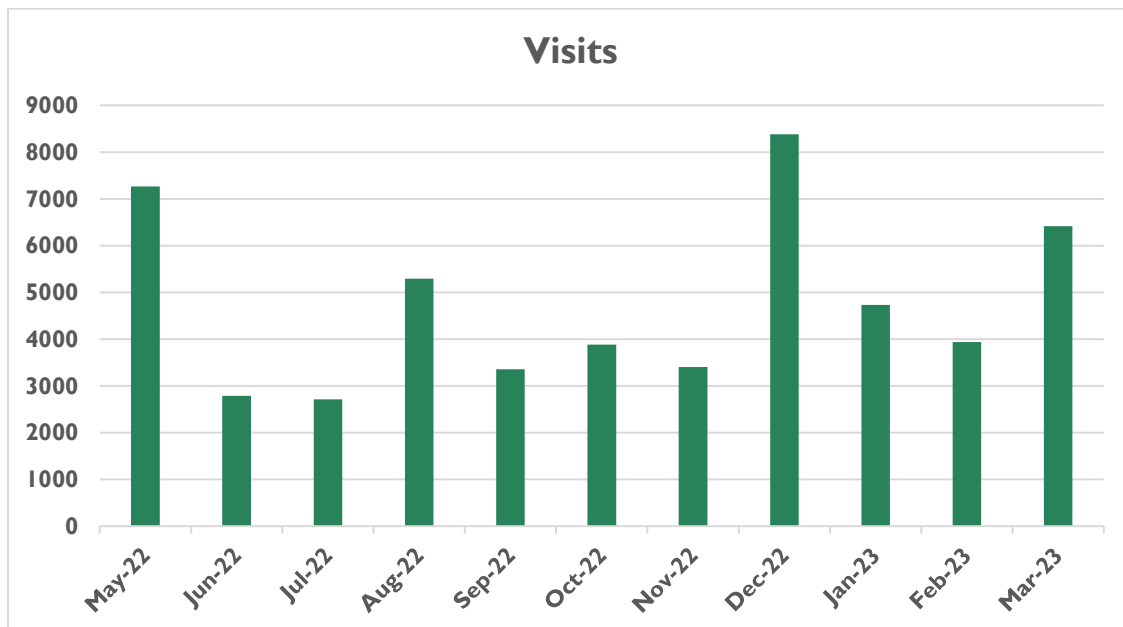
4. Website

4.1 Work continues to ensure the Funds website is relevant and engaging. Recent changes include:

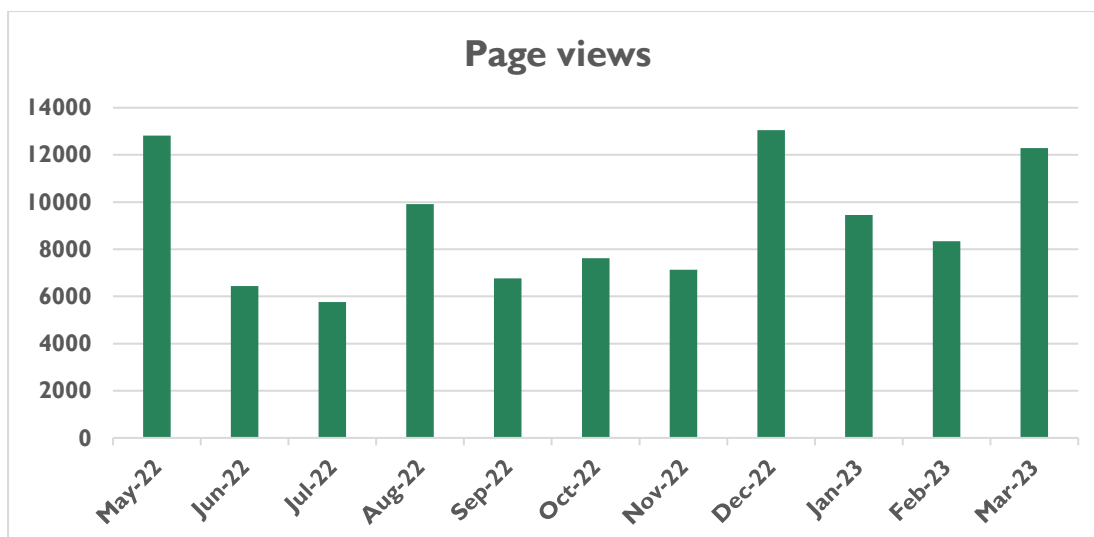
- Homepage – recent additions to the homepage include Important information about pension transfers & divorce as there is a requirement to suspend the calculation of certain transfer calculations due to changes being made by the Government.
- Promotion of the East Sussex Pension Fund becoming signatory to the UK Stewardship Code 2020.

4.2 The Fund continues to work with the software provider to make better use of website analytics which provides collection, reporting, and analysis of website usage. Better data will allow the Fund to determine the success or failure of activity and to drive strategy while improving the user's experience.

Visitor numbers to the Funds website continue to be healthy and includes a number of new visitors, with peaks tending to be where the Fund issue communications driving people to the site.



Page views are also strong.



5. Pensioner survey

5.1 The 2023 Pensioner survey ran from 28 March 2023 to 14 April 2023 with a 20.6% response rate. The Fund have published a report detailing results and future actions to show the pensioner members that the surveys are influencing action. Key highlights are:

- Some fantastic results on the service front. Around 60% of pensioners marked service as very positive with a further 22% citing somewhat positive.
- Over 91% of those who had called, either strongly agreed or agreed that the helpdesk team were supporting and friendly.
- Around 57% of pensioners were aware of member self-service (MSS), up 20% on last year's figures. There were some negative comments on MSS primarily linked to registration and lost passwords. The Fund are looking to implement an updated version of the portal in liaison with the software company later this year.
- Although pensions is a complicated subject, 40% of pensioners find the Funds correspondence 'extremely easy'. 96% if you include somewhat easy as well.
- Nearly 75% of pensioners believe we get the frequency of communication about right.
- A noted concern is that around half of pensioners have no awareness of the Fund website, however awareness has increased 26% on last year.
- Only 43% of pensioners have an interest in how the Fund invest, with 57% having no interest.

6 Supporting other Fund communications work

6.1 Ongoing work across the Fund continues in implementing the Funds brand ensuring consistency in messaging from the Fund, simplifying content available to members and employers and ensuring accessibility guidelines are adhered to. Accessibility scoring for the Fund website is now 90 (excellent) for content following the focus on this area.

6.2 A Standard Financial Reporting Guide has been produced for Fund officers on standardised reporting and branding. This document is for all pension team members who are required to prepare or contribute to reports and briefings to senior officers and elected members.

6.3 There has been a refinement of the LGPS 31 process, which provides the information to the Fund on contributions paid from scheme employers, through a set of

standard templates to be issued to employers who do not correctly complete their returns. This will coincide with the ongoing implementation of Internal audit findings to ensure employers are submitting their contribution information by an authorised officer.

7. Conclusion

7.1 Pension Board are recommended to note this report.

IAN GUTSELL
Chief Finance Officer

Contact Officer:
Email:

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

Report to: Pension Board

Date of meeting: 30 May 2023

By: Chief Finance Officer

Title: Pension Administration – updates

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

RECOMMENDATION

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

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 April 2022 to March 2023 can be found at **Appendix 1**. The PAT saw performance numbers during quarter one 2023, average at 96.3% (volume completed 3,768) which were improved from the previous quarter (95.43% with a volume of 2,550).

2.2 The Pensions Helpdesk service level agreement targets a gold standard service provision; the performance results are included in **Appendix 2**. ESPF is currently happy with the helpdesk performance, but will review the option to bring the service in-house by April 2024.

3. Pension Administration Staffing Update

3.1 In January 23 we interviewed for the Projects Manager role and a conditional offer made, which was accepted, and the individual will start on 26 June 2023. Following an advertisement in February 2023 for a Project Officer an appointment was made on 20 March 2023. The second Project Officer post was readvertised, with interviews are taking place in May 2023.

4. Projects update

4.1 Annual Benefits Statements – 2023

The final list of employers using i-Connect and those completing end of year returns has been finalised and data requested where appropriate. The projects team is already validating some of the i-Connect March 2023 data files before creating ABS.

4.2 Annual Allowance (AA) historical review project

The project to correct the AA for the period 2014/15 to 2020/21 is now completed from a member's

perspective. PAT is now coordinating the tax position (and interest) with HMRC.

The AA exercise for 2021/22 is also complete where the Fund can produce statements.

4.3 Process Reviews

The PAT have now completed some process reviews and each includes:

- Creating a flowchart of the existing “as is” process
- Creating a flowchart of the new “to be” process
- Updating the suite of letter connected to the tasks relating to the process
- Revising checklists to account for changes made
- Training sessions on the new process rolled-out where required

| Completed areas | Current position |
|---------------------------------------|---|
| Transfer out – quotations & payments | |
| Leavers – frozen & actual refunds | Submitted to robotics for automation review |
| Leavers – deferred | Submitted to robotics for automation review |
| Bulk new starters | |
| Deaths – multiple tasks | Training session done |
| Ongoing areas | |
| Transfers-in – quotations & payments | “As is” & “to be” maps produced |
| Aggregation within ESCC - combining | “As is” & “to be” maps produced |
| Aggregation with LGPS – interfund in | “As is” & “to be” maps produced |
| Aggregation with LGPS – interfund out | 25/1/23 “as is” meeting arranged |
| General process – nomination form | Process mapped |
| General process – change of address | Process mapped |
| General process – change bank details | Shadow date agreed in May 23 |
| Next areas | |
| Retirements | Expected to start early May 23 |
| Divorce | Not planned yet |

The overall project has a programme board and is closely linked to, and interacts with the Finance Areas of Focus and Robotics projects. There are currently seven PAT proposals for automation with the robotics team.

The first robot is complete and being used by PAT, as the doer role to coordinate the deferred to normal retirement quotations and associated letters ready for checking.

4.4 Address Tracing Projects

The overall project goal is not only to maximise the number of members we have correct addresses for, but also that the quality of the address data on Altair is 100% accurate. This will also boost tPR data validator scores and help the Fund prepare for the Pensions Dashboard as well as increase the numbers of ABS that can be issued.

To complete this piece of work the Fund procured a third party (ITM) to compare some of our records to multiple external databases to check their accuracy. The following groupings and priority order have been set:

| Priority | Status | Category | Est. no. of records | Progress |
|----------|--------|--|---------------------|---------------------------------|
| 1 | 4 | All deferred members | 25,000 | 24,851 records to ITM in Oct 22 |
| 2 | 5/6 | All gone away pensioners (suspended cases) | 200 | Data to ITM in March 23 |
| 3 | 2 | Undecided leavers (pre 1/1/22) | 1,000 | Data to ITM in May 23 |
| 4 | 9 | Frozen refunds (pre 1/1/22) | 5,000 | None |

Phase 1 – Electronic Trace Results for 24,501 with last known address (350 removed – 18 with no address & 332 living overseas)

- 16,433 Traced to same address (& verified <3mths)
- 3,986 Traced to new address (& verified <3mths)
- 64 Traced to new address (address validation required)
- 4,018 Not match – propose full trace

Phase 2 – Full Trace Results for 4,018 plus 350 removed from phase 1. This was received in five batches and included a verification of addresses by writing or speaking to the individual members.

| Result | Batch 1 16/01/2023 | Batch 2 27/02/2023 | Batch 3 03/03/2023 | Batch 4 05/04/2023 | Batch 5 11/05/2023 |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Traced to same address | 76 | 64 | 324 | 746 | 679 |
| Traced to new address | 49 | 103 | 213 | 663 | 320 |
| Negative (untraced) | 33 | 279 | 98 | 403 | 319 |
| Total | 158 | 446 | 635 | 1,812 | 1,318 |

As part of this exercise PAT discovered a few hundred change of surname queries which are potentially due to marriages and divorces which the team are following up.

4.5 Pensions Dashboards

Pension Dashboards are digital services (websites, apps or other tools) which individuals will be able to use to see all their pension information in one place, including their State Pension.

The Money and Pensions Service (MaPS) will host its own dashboard on the MoneyHelper website and other organisations will host their own dashboards, subject to approval and regulation by the Financial Conduct Authority (FCA).

The Pensions Dashboard Programme (PDP) has been set up by MaPS who are responsible for developing the dashboards ecosystem which enables individuals to view their pension data online.

Pension Funds will need to connect with and supply pensions information to dashboards from their scheme-specific staging deadline. Schemes will connect over time according to their type and size. The date dashboards will be launched to the public (known as the “Dashboards Available Point”) will be advised by DWP.

Some Pensions Dashboard background information is available in **Appendix 3**.

5 Pensioner Payroll

5.1 The April 2023 pension increase project has been completed and most pensioners will receive a 10.1% CPI increase in their April payment. Pensioner payroll in March 2023 included payments to 25,254 pensioners totaling £9,233m. In addition to the pensioner payroll there were £1,723m of immediate payments made in the month.

6 Conclusion and reasons for recommendation

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

IAN GUTSELL
Chief Finance Officer

Contact Officer:
Email:

Paul Punter, Head of Pensions Administration
paul.punter@eastsussex.gov.uk

APPENDIX 1

East Sussex Pensions Administration - Key Performance Indicators

| Activity | Impact | Target | Target [since Oct 21] | Mar-23 | Feb-23 | Jan-23 | Dec-22 | Nov-22 | Oct-22 | Sep-22 | Aug-22 | Jul-22 | Jun-22 | May-22 | Apr-22 | | | | | | | | | | | | | |
|-------------------------------|---|--------|-----------------------|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|
| Scheme members | Pensioners, Active & Deferred | | | 84,074 | 84,394 | 84,232 | 84,067 | 83,333 | 83,208 | 82,472 | 82,526 | 82,476 | 82,505 | 81,483 | 81,450 | | | | | | | | | | | | | |
| New starters set up | Bulk, i-Connect & New Starter Task | | | 402 | 530 | 373 | 1,045 | 519 | 382 | 297 | 215 | 430 | 391 | 316 | 287 | | | | | | | | | | | | | |
| | | | | Volume | Score | Volume | Score | Volume | Score | Volume | Score | Volume | Score | Volume | Score | | | | | | | | | | | | | |
| 1a | Death notification acknowledged, recorded and documentation sent | M | 95% | within 2 days | 28 | 100% | 35 | 100% | 48 | 100% | 35 | 100% | 47 | 100% | 39 | 100% | 25 | 100% | 31 | 100% | 26 | 100% | 39 | 100% | 35 | 100% | 23 | 100% |
| 1b | Award dependent benefits (Death Grants) | H | 95% | within 5 days | 25 | 100% | 32 | 100% | 29 | 100% | 9 | 100% | 22 | 100% | 23 | 100% | 11 | 100% | 13 | 100% | 14 | 100% | 15 | 100% | 12 | 100% | 11 | 100% |
| 2a | Retirement notification acknowledged, recorded and documentation sent | M | 95% | within 7 days | 190 | 98% | 203 | 99% | 155 | 99% | 78 | 100% | 91 | 100% | 92 | 84% | 100 | 92% | 140 | 98% | 148 | 95% | 78 | 99% | 124 | 97% | 96 | 96% |
| 2b | Payment of lump sum made | H | 95% | within 5 days | 141 | 100% | 115 | 100% | 105 | 100% | 73 | 100% | 106 | 100% | 128 | 100% | 137 | 100% | 150 | 100% | 142 | 99% | 134 | 100% | 125 | 98% | 142 | 100% |
| 3 | Calculation of spouses benefits | M | 90% | within 5 days | 12 | 100% | 26 | 100% | 26 | 100% | 14 | 100% | 20 | 100% | 18 | 100% | 16 | 100% | 25 | 100% | 21 | 100% | 17 | 100% | 18 | 100% | 17 | 100% |
| 4a | Transfers In - Quote (Values) | L | 90% | within 10 dys, aggregation 15 | 63 | 96% | 48 | 98% | 70 | 99% | 45 | 94% | 45 | 89% | 41 | 93% | 25 | 92% | 42 | 88% | 22 | 91% | 24 | 80% | 32 | 97% | 33 | 85% |
| 4b | Transfers In - Payments | L | 90% | within 5 dys, aggregation 25 | 28 | 100% | 19 | 100% | 22 | 100% | 23 | 100% | 20 | 100% | 18 | 100% | 19 | 95% | 22 | 100% | 22 | 100% | 26 | 100% | 38 | 100% | 20 | 95% |
| 5a | Transfers Out - Quote | L | 90% | within 10 dys, aggregation 15 | 65 | 97% | 72 | 99% | 76 | 100% | 44 | 82% | 61 | 90% | 48 | 94% | 54 | 86% | 82 | 97% | 36 | 97% | 49 | 90% | 50 | 96% | 51 | 91% |
| 5b | Transfers Out - Payments | L | 90% | within 10 dys, aggregation 25 | 40 | 98% | 22 | 100% | 30 | 100% | 17 | 100% | 26 | 85% | 21 | 90% | 18 | 50% | 10 | 90% | 21 | 91% | 18 | 78% | 26 | 77% | 19 | 95% |
| 6a | Employer estimates provided | M | 95% | within 15 days | 17 | 100% | 33 | 100% | 13 | 100% | 8 | 100% | 9 | 100% | 10 | 100% | 5 | 100% | 4 | 100% | 12 | 100% | 22 | 100% | 23 | 100% | 10 | 100% |
| 6b | Employee projections provided | L | 95% | within 15 days | 17 | 100% | 17 | 100% | 15 | 100% | 7 | 100% | 18 | 100% | 21 | 100% | 23 | 100% | 16 | 94% | 16 | 100% | 14 | 100% | 13 | 100% | 27 | 100% |
| 7 | Refunds (inc frozen refunds wef Aug 22) | L | 95% | Quotes 10 days, settle 5 days | 182 | 96% | 125 | 86% | 245 | 87% | 110 | 98% | 173 | 98% | 165 | 89% | 141 | 82% | 160 | 89% | 57 | 97% | 31 | 100% | 43 | 100% | 39 | 100% |
| 8 | Deferred benefit notifications | L | 95% | within 15 days | 229 | 98% | 203 | 99% | 431 | 99% | 235 | 99% | 251 | 85% | 339 | 98% | 188 | 89% | 213 | 93% | 257 | 100% | 202 | 100% | 267 | 100% | 294 | 100% |
| 9a | Aggregation Quote | M | 95% | within 15 days | 93 | 76% | | | | | | | | | | | | | | | | | | | | | | |
| 9b | Aggregation Actual | M | 95% | within 10 days | 423 | 93% | | | | | | | | | | | | | | | | | | | | | | |
| TOTAL TASKS COMPLETED | | | | 1,553 | 98.39% | 950 | 97.47% | 1,265 | 96.76% | 698 | 97.56% | 889 | 93.81% | 963 | 94.91% | 762 | 90.16% | 908 | 94.93% | 794 | 97.98% | 669 | 97.76% | 806 | 98.01% | 782 | 97.95% | |
| Figures for the previous year | | | | 844 | 96.68% | 792 | 97.85% | 722 | 98.34% | 606 | 95.21% | 883 | 97.62% | 699 | 98.28% | 847 | 97.17% | 789 | 98.61% | 734 | 99.32% | 664 | 94.73% | 643 | 96.89% | 481 | 94.59% | |
| Figures for two years ago | | | | 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% | 394 | 96.70% | 359 | 98.61% | 454 | 98.02% | |
| Figures for three years ago | | | | 598 | 99.00% | 642 | 99.53% | | | | | | | | | | | | | | | | | | | | | |
| Missed target cases | | | | 76 | | 24 | | 41 | | 17 | | 55 | | 49 | | 75 | | 46 | | 16 | | 15 | | 16 | | 16 | | |
| 10 | Complaints received | | | 7 | | 2 | | 6 | | 2 | | 2 | | 2 | | 3 | | 3 | | 5 | | 2 | | 6 | | 5 | | |
| 11 | Compliments received | | | 1 | | 1 | | 0 | | 1 | | 0 | | 0 | | 0 | | 0 | | 0 | | 1 | | 1 | | 0 | | |

| Performance for the year Apr 22 to Mar 23 inclusive | | |
|---|-------|--------|
| Total | Fails | % pass |
| 411 | 0 | 100.0 |
| 216 | 0 | 100.0 |
| 1,495 | 51 | 96.6 |
| 1,498 | 4 | 99.7 |
| 230 | 0 | 100.0 |
| 490 | 46 | 90.6 |
| 277 | 2 | 99.3 |
| 688 | 43 | 93.8 |
| 268 | 31 | 88.4 |
| 166 | 0 | 100.0 |
| 204 | 1 | 99.5 |
| 1,471 | 128 | 91.3 |
| 3,109 | 95 | 96.9 |
| 93 | 22 | 76.3 |
| 423 | 29 | 93.1 |
| 11,039 | 452 | 95.9 |

Summary for failed cases

| Activity | Mar-23 | Feb-23 | Jan-23 | Dec-22 | Nov-22 | Oct-22 | Sep-22 | Aug-22 | Jul-22 | Jun-22 | May-22 | Apr-22 |
|----------|-----------------------------|---------------------------|--------|--------------------------|----------------------------|--------------------------|------------------------------|-----------------------------|-----------------------------|--------------------------|----------------------------|---------------------------|
| 1b | | | | | | | | | | | | |
| 2a | | | | | | | 15 over by average 2.87 days | 8 over by average 6.9 days | | | | |
| 2b | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | |
| 4a | | | | | | 5 over by average 3 days | | 5 over by average 19 days | | 5 over by average 6 days | | 5 over by average 13 days |
| 4b | | | | | | | | | | | | |
| 5a | | | | 8 over by average 5 days | | | 8 over by average 5.3 days | | | | | |
| 5b | | | | | 4 over by average 21 days | | 9 over by average 4 days | | | 4 over by average 6 days | 6 over by average 1.6 days | |
| 6a | | | | | | | | | | | | |
| 6b | | | | | | | | 1 over by 10 days | | | | |
| 7 | 18 over by average 1.2 days | 34 over by average 2 days | | | | | 18 over by average 9.11 days | 26 over by average 6 days | 17 over by average 5.4 days | | | |
| 8 | | | | | 37 over by average 29 days | | 21 over by average 4 days | 15 over by average 8.3 days | | | | |

New KPI/SLA MI from Altair Insights not completed yet. Interviewing for Project Manager role in Jan 23. Process reviews continue .

New KPI/SLA MI from Altair Insights not completed yet. Lots of interviewing throughout the quarter. Process reviews continue. October new starters begin some intensive training.

New KPI/SLA MI from Altair Insights not completed yet. **Key resources retained to work on ABS & i-Connect Employers. Plus Julie full time on Annual Allowance in Sept.** Lots of time consuming interviewing undertaken in August. In Sept two staff begin working on i-Connect without BAU backfill. A lot of team time being allocated to process reviews (the outstanding 2021/22 internal audit action). Sept included additional training for promoted staff. BAU time allocated to mortality exercises.

New KPI/SLA reporting MI from Altair Insights not completed yet. **Key resources moved to work on ABS & onboarding BHCC i-Connect**

1 job advertised plus 1 new pensions administrator & 1 project officer started

1 new pension administrator & 1 i-Connect administrator started

1 job offer made & 1 casual project officer removed

3 job offers made

5 roles advertised

3 new pension administrators + 1 apprentice started

3 existing pension administrators promoted and 1 changed roles - need to backfill.

8 vacancies advertised

Mike Keogh left 14/4/22. Jennie went p/t 3 days a week

Three vacancies

Five vacancies

Seven vacancies

Six vacancies

Six vacancies

Six vacancies

Ten vacancies

Ten vacancies

Ten vacancies

Ten vacancies

Ten vacancies

Ten vacancies

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Appendix 2

Helpdesk performance

| 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 |

Quarterly performance assessed against the scoring mechanism with rectification plan for underperformance including penalty clauses for sustained underperformance.

Main Helpline for ESPF

| Period | First time fix | Call answer time | Abandoned call rate | Email response time |
|---------------------|----------------|------------------|---------------------|---------------------|
| GOLD TARGETS | 85% | 75% | 5% | 100% |
| April 21 | 96% | 53% | 5% | 100% |
| May 21 | 95% | 44% | 7% | 100% |
| June 21 | 95% | 56% | 5% | 100% |
| July 21 | 91% | 43% | 9% | 100% |
| August 21 | 88% | 31% | 9% | 100% |
| September 21 | 86% | 23% | 6% | 100% |
| October 21 | 80% | 37% | 2% | 100% |
| November 21 | 87% | 36% | 1% | 100% |
| December 21 | 81% | 36% | 0% | 100% |
| January 22 | 83% | 39% | 0% | 100% |
| February 22 | 80% | 39% | 0% | 100% |
| March 22 | 86% | 37% | 1% | 100% |
| April 22 | 84% | 28% | 2% | 100% |
| May 22 | 84% | 21% | 4% | 100% |
| June 22 | 86% | 19% | 2% | 100% |
| July 22 | 87% | 74% | 3% | 100% |
| August 22 | 91% | 61% | 4% | 100% |
| September 22 | 92% | 67% | 4% | 100% |
| October 22 | 85% | 47% | 8% | 68% |
| November 22 | 82% | 73% | 1% | 60% |
| December 22 | 85% | 92% | 0% | 66% |
| January 23 | 87% | 86% | 1% | 97% |
| February 23 | 84% | 88% | 1% | 96% |
| March 23 | 86% | 86% | 1% | 100% |

The "call answer time" SLA on the mainline was investigated with BT and results between Sept 21 & June 22 were not reported correctly. The SLA% could not be recreated for that period.

Website Helpline (all six Pension Funds until October 21 then ESPF only)

| Period | First time fix | Call answer time | Abandoned call rate | Email response time |
|---------------------|----------------|------------------|---------------------|---------------------|
| GOLD TARGETS | 85% | 75% | 5% | 100% |
| April 21 | N/A | 30% | 18% | N/A |
| May 21 | N/A | 31% | 15% | N/A |
| June 21 | N/A | 48% | 10% | N/A |
| July 21 | 100% | 39% | 10% | 100% |
| August 21 | 100% | 49% | 21% | 100% |
| September 21 | 100% | 67% | 6% | 100% |
| October 21 | 91% | 64% | 9% | 100% |
| November 21 | 100% | 63% | 6% | 100% |
| December 21 | 100% | 76% | 2% | 100% |
| January 22 | 100% | 84% | 2% | 100% |
| February 22 | 100% | 78% | 1% | 100% |
| March 22 | 100% | 76% | 6% | 100% |
| April 22 | 100% | 74% | 2% | 100% |
| May 22 | 100% | 68% | 2% | 100% |
| June 22 | 100% | 47% | 10% | 100% |
| July 22 | 100% | 76% | 3% | 100% |
| August 22 | 100% | 61% | 10% | 100% |
| September 22 | 100% | 63% | 14% | 100% |
| October 22 | 100% | 51% | 15% | 70% |
| November 22 | 95% | 51% | 5% | 100% |
| December 22 | 100% | 69% | 0% | 100% |
| January 23 | 100% | 80% | 2% | 100% |
| February 23 | 100% | 77% | 2% | 100% |
| March 23 | 100% | 76% | 1% | 100% |

Monthly transaction volumes

| Month | Telephone Calls | Email's Processed | Call Back's | Total |
|--------------|-----------------|-------------------|-------------|-------|
| April 21 | 1,080 | 287 | 13 | 1,380 |
| May 21 | 855 | 475 | 11 | 1,341 |
| June 21 | 807 | 944 | 15 | 1,766 |
| July 21 | 929 | 1,795 | 13 | 2,737 |
| August 21 | 936 | 1,329 | 5 | 2,270 |
| September 21 | 858 | 1,470 | 8 | 2,336 |
| October 21 | 767 | 1,241 | 16 | 2,024 |
| November 21 | 815 | 1,206 | 0 | 2,021 |
| December 21 | 513 | 968 | 4 | 1,485 |
| January 22 | 777 | 1,175 | 19 | 1,971 |
| February 22 | 797 | 1,377 | 17 | 2,191 |
| March 22 | 819 | 1,293 | 17 | 2,129 |
| April 22 | 898 | 1,114 | 24 | 2,036 |
| May 22 | 911 | 1,335 | 25 | 2,271 |
| June 22 | 801 | 1,017 | 21 | 1,839 |
| July 22 | 722 | 988 | 16 | 1,726 |
| August 22 | 1,154 | 1,813 | 28 | 2,995 |
| September 22 | 817 | 1,166 | 18 | 2,001 |
| October 22 | 736 | 1,050 | 17 | 1,803 |
| November 22 | 513 | 1,660 | 25 | 2,148 |
| December 22 | 518 | 875 | 6 | 1,399 |
| January 23 | 1,064 | 1,302 | 15 | 2,381 |
| February 23 | 923 | 1,308 | 10 | 2,241 |
| March 23 | 1,077 | 1,439 | 13 | 2,529 |

Top five reasons for calls

| Month | Self Service Activation | Login issues | Claim form guidance | Option guidance – member | Update Address | Leaver form received | Progress check - Actual | Progress check - Quote | Document or Form enquiry | Other |
|--------|-------------------------|-----------------|---------------------|--------------------------|-----------------|----------------------|-------------------------|------------------------|--------------------------|-----------------|
| Jul 21 | 1 st | 2 nd | 3 rd | 4 th | 5 th | | | | | |
| Aug 21 | 1 st | 2 nd | 4 th | 5 th | | 3 rd | | | | |
| Sep 21 | 1 st | 2 nd | 5 th | | 4 th | 3 rd | | | | |
| Oct 21 | 3 rd | | 2 nd | | 4 th | 1 st | 5 th | | | |
| Nov 21 | | 1 st | 4 th | | 3 rd | 2 nd | 5 th | | | |
| Dec 21 | | 4 th | 2 nd | | 3 rd | 1 st | 5 th | | | |
| Jan 22 | 3 rd | 4 th | 1 st | | | 2 nd | | 5 th | | |
| Feb 22 | | 2 nd | 3 rd | 5 th | 4 th | 1 st | | | | |
| Mar 22 | 4 th | 2 nd | 1 st | | | | | 5 th | 3 rd | |
| Apr 22 | | 1 st | 2 nd | 3 rd | 4 th | 5 th | | | | |
| May 22 | | 3 rd | 1 st | | 2 nd | 4 th | | | | 5 th |
| Jun 22 | 1 st | 3 rd | 4 th | 5 th | 2 nd | | | | | |
| Jul 22 | | 3 rd | 1 st | | 5 th | 2 nd | | | 4 th | |
| Aug 22 | | 1 st | 3 rd | 4 th | | | 5 th | | 2 nd | |
| Sep 22 | 3 rd | 1 st | 2 nd | 5 th | | | | | 4 th | |
| Oct 22 | | 3 rd | 2 nd | 4 th | | 1 st | | | 5 th | |
| Nov 22 | 4 th | 3 rd | 2 nd | | 5 th | | | | 1 st | |
| Dec 22 | 4 th | 5 th | 2 nd | | | 3 rd | | | 1 st | |
| Jan 23 | 1 st | 2 nd | 4 th | | 3 rd | | | | 5 th | |
| Feb 23 | 4 th | 2 nd | 1 st | | | 3 rd | | | 5 th | |
| Mar 23 | 2 nd | 3 rd | 1 st | | | 4 th | | | | 5 th |

We are initiating a possibility of using a Chatbot (robot) as an online support tool to help with FAQs.

Telephone survey

This is a new service starting in December 21.

Questions raised by email within 24hrs of call where a caller says they are willing to complete a short survey:

1. How easy was it for you to contact the Pensions Helpdesk today?
2. How confident are you that your question was resolved or will be resolved in the relevant timelines?
3. Based on your recent experience how strongly would you recommend using the Helpdesk to a colleague?
4. How satisfied were you with your overall experience today?

| Question No. | 1 | | | | | 2 | | | | | 3 | | | | | 4 | | | | |
|--------------|---|---|---|----|-----|---|---|----|----|-----|---|---|----|----|-----|---|---|----|----|-----|
| | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 |
| December 21 | 0 | 0 | 0 | 4 | 23 | 1 | 1 | 0 | 5 | 20 | 1 | 0 | 1 | 4 | 21 | 0 | 2 | 1 | 2 | 21 |
| January 22 | 0 | 0 | 0 | 10 | 49 | 4 | 0 | 0 | 7 | 48 | 0 | 1 | 2 | 5 | 51 | 2 | 1 | 1 | 4 | 51 |
| February 22 | 0 | 0 | 1 | 1 | 25 | 0 | 0 | 0 | 2 | 25 | 0 | 0 | 0 | 2 | 25 | 0 | 0 | 0 | 2 | 25 |
| March 22 | 0 | 0 | 2 | 8 | 29 | 1 | 1 | 3 | 8 | 26 | 0 | 2 | 1 | 3 | 33 | 1 | 1 | 1 | 6 | 30 |
| April 22 | 0 | 0 | 0 | 6 | 39 | 0 | 0 | 1 | 6 | 38 | 0 | 0 | 2 | 6 | 37 | 0 | 0 | 0 | 6 | 39 |
| May 22 | 0 | 0 | 0 | 7 | 44 | 0 | 1 | 1 | 5 | 44 | 0 | 0 | 1 | 6 | 44 | 0 | 1 | 2 | 2 | 46 |
| June 22 | 1 | 1 | 5 | 8 | 39 | 0 | 2 | 6 | 11 | 35 | 0 | 2 | 5 | 5 | 42 | 0 | 2 | 5 | 7 | 40 |
| July 22 | 0 | 0 | 1 | 3 | 16 | 0 | 0 | 1 | 4 | 15 | 0 | 0 | 1 | 2 | 17 | | | | | ? |
| August 22 | 0 | 1 | 1 | 5 | 20 | 0 | 1 | 0 | 6 | 20 | 0 | 1 | 0 | 4 | 22 | 0 | 1 | 0 | 5 | 21 |
| September 22 | | | | | ? | | | | | ? | | | | | ? | | | | | ? |
| October 22 | | | | | N/A | | | | | N/A | | | | | N/A | | | | | N/A |
| November 22 | 0 | 0 | 0 | 2 | 6 | 0 | 0 | 0 | 2 | 6 | 0 | 0 | 0 | 1 | 7 | 0 | 0 | 1 | 1 | 6 |
| December 22 | 0 | 0 | 0 | 3 | 54 | 0 | 1 | 3 | 9 | 44 | 1 | 0 | 2 | 5 | 49 | 1 | 1 | 1 | 8 | 46 |
| January 23 | 1 | 1 | 7 | 10 | 98 | 3 | 4 | 6 | 21 | 83 | 0 | 5 | 2 | 16 | 91 | 1 | 6 | 1 | 19 | 92 |
| February 23 | 0 | 0 | 6 | 25 | 96 | 7 | 3 | 12 | 18 | 87 | 2 | 5 | 11 | 12 | 97 | 2 | 4 | 15 | 13 | 93 |
| March 23 | 1 | 0 | 6 | 18 | 112 | 7 | 3 | 10 | 22 | 95 | 1 | 5 | 8 | 18 | 104 | 1 | 5 | 8 | 18 | 105 |

Note: 5 Star is the highest and therefore best rating

An additional question was asked about how many times have your called in connection with your enquiry?

| Month | First Call | Second Call | Third Call | Fourth or more |
|--------------|------------|-------------|------------|----------------|
| December 21 | 17 | 4 | 2 | 4 |
| January 22 | 44 | 9 | 3 | 3 |
| February 22 | 21 | 4 | 2 | 0 |
| March 22 | 25 | 12 | 0 | 2 |
| April 22 | 35 | 8 | 0 | 2 |
| May 22 | 37 | 9 | 3 | 2 |
| June 22 | 42 | 7 | 3 | 2 |
| July 22 | 13 | 6 | 1 | 0 |
| August 22 | 21 | 2 | 3 | 1 |
| September 22 | ? | ? | ? | ? |
| October 22 | N/A | N/A | N/A | N/A |
| November 22 | ? | ? | ? | ? |
| December 22 | 40 | 12 | 2 | 3 |
| January 23 | 99 | 11 | 7 | 1 |
| February 23 | 91 | 26 | 6 | 4 |
| March 23 | 100 | 29 | 3 | 6 |

The Surrey Pensions Helpdesk was taken in-house from 25 November 2022.

ESPF have been ask to bring the Pensions Helpdesk in-house by April 2024.

Pensions Dashboards

Background

Pension Dashboards are digital services (websites, apps or other tools) which individuals will be able to use to see all their pension information in one place, including their State Pension.

The Money and Pensions Service (MaPS) will host its own dashboard on the MoneyHelper website and other organisations will host their own dashboards, subject to approval and regulation by the FCA.

The Pensions Dashboard Programme (PDP) has been set up by MaPS and is responsible for developing the dashboards ecosystem which enables individuals to view their pension data online.

Pension Funds will need to connect with and supply pensions information to dashboards from their scheme-specific staging deadline. Schemes will connect over time according to their type and size. The date dashboards will be launched to the public (known as the “Dashboards Available Point”) will be advised by DWP.

Timeline

2021

Primary legislation passed

The Pension Schemes Act 2021 introduced the legal framework for pensions dashboards

2022

Initial guidance, consultations, standards published & secondary legislation passed

The Pensions Regulator (TPR) published initial guidance in June. DWP published response to consultation in July. PDP consulted on the draft data, connection and reporting standards in August. PDP published updated versions of the standards in November (data, reporting & technical plus the code of connection). Final regulations came into force in December.

2023

Further consultations, dashboards reset & further legislation

FCA consulted on the regulatory framework for commercial dashboard providers. PDP consulted on draft design standards. TPR consulted on its compliance & enforcement policy. Schemes were due to start connecting from August, however in March 23 the DWP announced a reset and staging dates will be moved out. New regulations will be laid to delay the previous staging timetable.

2024+

Schemes start to connect & dashboards go live

Under the revised timetable (TBC) schemes will connect to the dashboards ecosystem from their scheme-specific staging deadline. Dashboards will be launched to the public once enough schemes have staged. This date will be advised by DWP, who must give at least six months’ notice.

Connecting to dashboards via an Integrated Service Provider (ISP)

The Regulation do state that as a public sector organisation the Administering Authority needs to undertake a formal procurement process to appoint an ISP. We understand that “Pensions Dashboards ISP” is being worked on to becoming a Norfolk Framework provision. We have raised this with the ESCC Procurement team and it has been added to their worklog.

An ISP provider will enable us to connect to the Pensions Dashboards, Heywood Technologies were selected as an Alpha Tester by the Pensions Dashboards Programme (PDP) to test the connection to the ecosystem. They are well placed to share thoughts and experiences and discuss options.

The Committee is responsible for:

Connecting – ensuring a constant, responsive & secure connection

Data – providing accurate data for find & view

Governance – delivery, compliance, audit & maintenance

The biggest risks are:

1. Security – we need to connect but we want to ensure administration systems and data are protected.
2. Performance demand – be available 24/7 and be able to handle and be available to handle requests immediately for millions of searches on our data.
3. Reliable data matching – protecting our scheme and members with robust matching and enhanced possible matching, whilst anticipating the impact on day-to-day operations.
4. Providing data value data – data which may not be readily available in the formats needed for dashboards.
5. Reporting & monitoring – compliance is being regulated, fines of up to £50k can be issued.

Getting data dashboards ready – what data do schemes need to provide?

Data Standards

The PDP has identified the data that must be available to individuals via dashboards, which is categorised as “**find**” data and “**view**” data. These data items are set out in full in the PDP’s website:

<https://www.pensionsdashboardsprogramme.org.uk/wp-content/uploads/2022/07/PDP-Data-standards.pdf>

There’s a usage guide too, less detail, but much easier to read:

<https://www.pensionsdashboardsprogramme.org.uk/standards/data-standards/data-usage-guide/>

Non-compliance with the data standards would be considered a breach of the regulations.

Find data

This is the information sent to the scheme from the dashboard once an individual’s identity has been verified.

The Committee need to determine the matching approach they wish to use, including which personal data items we will compare (such as name, date of birth, and NI number) to validate a positive match.

View data

This is the information the scheme will return to the dashboard to be viewed by the user if a success match is made. For a “possible” match only limited administrative data will be returned to the dashboard so the member can contact the scheme administrator (helpdesk). View data is split out further into Administrative data, Signpost data and Value data.

Administrative data

This includes details of the pension scheme, the employer and the administrator’s contact details so the member can get in touch for more information. This includes “**Signpost**” data which is the website address where members can access information such as the scheme’s statement of investment principles.

Value data

- a) Defined Benefit: this will be both accrued and projected benefits for active members. For deferred members this will be the member’s deferred pension revalued to a current date (within the last 13 months).
- b) Defined Contribution: this will be in line with SMPI requirements, including a current and projected fund values (this includes DB schemes with external AVCs [Pru in the case of ESPF]).

Next steps- Pensions Dashboard Readiness Assessment

To help us understand how ready our scheme is for Pensions Dashboards, Heywood Technologies have been instructed to undertake an assessment of ESPF data. As an output from this exercise, they will share summary results to help us understand the quality of our data and what actions we need to take to get ready for Pensions Dashboards.

The summary results will include a score for each of the following areas:

‘Find’ data:

- Checks on potential matching fields (name, date of birth, address) to determine whether or not the data you hold is present, valid and accurate.
- Checking for members which would currently be duplicate matches.
- Checking for undecided leavers and frozen refunds.

‘View’ data:

- Check that employment data is available to be returned to the Pensions Dashboards for each member employment.
- Check that Accrued Retirement Income is available for each member employment.
- Check that Estimated Retirement Income is available for each member employment.

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Report to: Pension Board

Date of meeting: 30 May 2023

By: Chief Internal Auditor

Title: Internal Audit Reports

Purpose: This report advises the Board of the outcomes of the attached audits.

RECOMMENDATIONS

The Board is recommended to note the:

- Pension Fund Cash Management Audit report (Appendix 1);
 - Pension Fund Cyber Security Arrangements Audit report (Appendix 2);
 - Pension Fund Investments and Accounting Audit report (Appendix 3); and
 - Administration of Pension Benefits Audit Report (Appendix 4).
-

1. Background

1.1 The reviews of:

- Pension Fund Cash Management (Appendix 1);
- Pension Fund Cyber Security Arrangements (Appendix 2)
- Pension Fund Investments and Accounting (Appendix 3); and
- The Administration of Pension Benefits (Appendix 4);

were completed as part of the Internal Audit Strategy for Pensions 2022/23 and provide assurance on the overall effectiveness of their respective systems' controls. These are the final reports completed as part of the Strategy.

Pension Fund Cash Management

1.2 This is the first time we have looked at this area as a separate audit and we were able to provide an opinion of **Reasonable Assurance** over the controls in place. Our report contains five findings, all of which were medium- or low-risk, with appropriate management actions to address these.

Pension Fund Cyber Security Arrangements

1.3 Following our work on Pension Fund Cyber Security Arrangements, we were able to give an opinion of **Substantial Assurance** over the controls in place. The report contains a single, low-risk, finding and an action has been agreed with management to address it.

Pension Fund Investments and Accounting

1.4 As a result of our work on Pension Fund Investments and Accounting, we were able to give an opinion of **Substantial Assurance**. Only one low-risk finding was reported and an action to address this was agreed with management.

The Administration of Pension Benefits

1.5 Our work on the Administration of Pension Benefits has seen continuing improvements and we were able to give an opinion of **Reasonable Assurance**. We reported five findings, all of which were medium- or low-risk, and agreed a robust action plan with management to address these.

2. Conclusions and Reasons for Recommendation

2.1 The Pension Board is:

- recommended to note the Internal Audit reports.

RUSSELL BANKS
Orbis Chief Internal Auditor

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

Contact Officer: Danny Simpson, Principal Auditor
Tel No.: 07701 394826

BACKGROUND DOCUMENTS:

None

Internal Audit Report

Pension Fund Cash Management

Final Report

Assignment Lead: Danielle Robinson, Senior Auditor
Assignment Manager: Danny Simpson, Principal Auditor
Prepared for: East Sussex County Council
Date: May 2023

Internal Audit Report – Pension Fund Cash Management

Draft Report Distribution List

Sian Kunert, Head of Pensions
Tim Hillman, Pension Manager - Employer Engagement
Russell Wood, Pensions Manager - Investments & Accounting

Final Report Distribution List

As per the draft report circulation with the inclusion of:
Ros Parker, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Pension Committee
Pension Board

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

East Sussex County Council - Internal Audit Key Contact Information

Chief Internal Auditor: Russell Banks, ☎ 07824362739, ✉ russell.banks@eastsussex.gov.uk

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

Anti-Fraud Hotline: ☎ 01273 481995, ✉ FraudHotline@eastsussex.gov.uk

Internal Audit Report – Pension Fund Cash Management

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 the Local Government Pension Scheme (LGPS) regulations.
- 1.2. The Council has delegated the responsibility for the management and responsibility of the Fund to the East Sussex Pension Committee, and the Pension Board, supported by the Chief Finance Officer for East Sussex County Council.
- 1.3. As of 31 March 2022, the Fund comprised 134 scheme employers with 24,514 active, and 33,646 deferred, scheme members, as well as 23,131 pensioners. The most recent actuarial valuation of the Fund was carried out in 2022. The valuation found that the funding level had improved from 107% in 2019 to 123% in 2022. The Fund's assets and liabilities were valued at £4,618m and £3,760m respectively, a surplus of £858k, compared with a funding surplus of £247k in 2019.
- 1.4. During the financial year 2021/22, the scheme collected £134.2m in contributions from members and their employers. During the financial year 2021/22, the scheme made benefit payments of approximately £134.6m to members who are now pensioners.
- 1.5. This review was part of the agreed Internal Audit Plan for 2022/23.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section 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:
 - Pension contributions from all employers in the scheme are collected in full, at the time they fall due;
 - Information from employers is provided timeously to maintain the Fund's ability to deliver an effective service;
 - Funding levels of new employers is sufficient to cover their liabilities; and
 - Spikes in benefit demands are managed to avoid the Fund becoming overdrawn.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Pension Fund Cash Management.** 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 been able to provide **Reasonable Assurance** over the controls operating within the area under review as the following areas of good practice were identified whilst undertaking the audit because:
- 4.2. The admission of new employers is managed effectively. To show transparency, admissions status is reported quarterly at Pension Board and Committee meetings.
- 4.3. Following the request of the Pension Committee, a bespoke covenant report has been produced to identify and support employers with the lowest financial stability within the Fund that may have difficulties in meeting their pension obligations in full over the longer term.
- 4.4. Work has begun to draft communications that will help support employers in the main key processes they are responsible for. The 'employer toolkit' was initially launched at the employer forum in November 2022. A number of topics that were raised via the employer survey will be included in the toolkit.
- 4.5. Robust processes are in place to ensure that contributions due, as notified by employers, are received intact. Late payments are monitored, and official warning notifications are being sent to employers, whose contributions have not been received by the due date.
- 4.6. To ensure that the Fund is able to cover its liabilities, cash management activities and analysis are undertaken by the Investments and Accounting team on a daily basis. The Head of Pensions is informed when action may be required to maintain adequate liquidity.
- 4.7. However, there are some areas where controls could be strengthened:
- 4.8. A Cash Management Strategy is currently in development. However, on review, this strategy could be strengthened further to provide clarity over roles and responsibilities, including the addition of the strategy's objectives and associated risks.
- 4.9. Whilst the Fund has a separate bank account, with appropriate segregation of duties in place, it is still theoretically possible for a payment to be made from the Fund's account without the involvement of Fund officers, because it is operated by the Council's Treasury Management Team and access permissions do not require transactions' approval by Fund officers. we can, however, confirm that no inappropriate payments have been made.
- 4.10. Pending the on-boarding of all scheme employers onto i-Connect, the existing reconciliation process for employer contributions could be strengthened further by the addition of a process to validate the amount of employee contributions received against the actual amount due to the Fund.
- 4.11. Although engagement activities are routinely taking place, protocols and process guidance for the chasing of late/incomplete employer data have not been documented.

Internal Audit Report – Pension Fund Cash Management

5. Action Summary

5.1. 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. | N/A | N/A |
| Medium | Existing procedures have a negative impact on internal control or the efficient use of resources. | 4 | 1, 2, 3, 4 |
| Low | This represents good practice; implementation is not fundamental to internal control. | 1 | 5 |
| Total number of agreed actions | | 5 | |

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. 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 that provided assistance during the course of this audit.

**Internal Audit Report – Pension Fund Cash Management
Detailed Findings**

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----|---|---|---------------|---|
| 1 | <p>Cash Management Strategy A Cash Management Strategy is currently being drafted by the Pensions Manager (Investments & Accounting) in conjunction with the Head of Pensions.</p> <p>Our review of the strategy highlighted a number of areas that could be enhanced. These include:</p> <ul style="list-style-type: none"> • Strategy objectives • Risks • Roles and Responsibilities • Trend analysis activities, including cyclical events <p>In addition, the day-to-day management of the Pension Fund’s cash flow activities are undertaken by East Sussex County Council’s (ESCC) Treasury Management Team, on behalf of the Pension Fund. Therefore, activities should be reviewed to ensure they are aligned to those documented in the strategy.</p> <p>Furthermore, a service-level agreement (SLA) defining the level of service expected by the Treasury Management Team on behalf of the Fund could not be furnished during our review.</p> | <p>Without a comprehensive Cash Management Strategy, there is a risk that key strategic objectives of the Fund might not be achieved.</p> | <p>Medium</p> | <p>a) The cash management strategy will continue to be developed and take into account the suggested enhancements by Internal Audit.</p> <p>b) No SLA exists between the Pension Fund and ESCC for Treasury Management functions, the service is currently recharged through the recharge model. ESPF and ESCC will consider and create an SLA for this service including payment terms for provision of a fixed service.</p> |

**Internal Audit Report – Pension Fund Cash Management
Detailed Findings**

| | | | |
|------------------------------------|---|---|---|
| <p>Responsible Officer:</p> | <p>a) Russell Wood, Pensions Manager - Investments & Accounting b) Haley Woollard, Principal Accountant (Treasury and Taxation) & Sian Kunert, Head of Pensions</p> | <p>Target Implementation Date:</p> | <p>a) 31 July 2023 b) 01 April 2024</p> |
|------------------------------------|---|---|---|

**Internal Audit Report – Pension Fund Cash Management
Detailed Findings**

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| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|--|------------------------------------|--|
| 2 | <p>Access to the Fund's Bank Account The Pension Fund has its own, separate, bank account, which is operated by the Council's Treasury Management (TM) Team on behalf of the Fund. Appropriate segregation of duties is in place to ensure that no one officer can both set up, and approve, a transaction. Senior officers in the Fund have access to approve transactions from the Fund's account. However, access permissions are such that it is possible for a payment to be made from the Fund's account without the involvement of an officer from the Fund.</p> <p>Testing established that, in practice, no inappropriate payments have been made from the Fund's bank account.</p> | Where officers have the ability to transfer funds between the Pension Fund, and County Council group accounts, without the involvement of Fund officers, there is a risk that inappropriate payments could be made. This risk is increased by the lack of an SLA to define the role of the Treasury Management Team. | Medium | <p>ESPF officers will liaise with ESCC TM team to restrict authorisation access to the Pension Fund's bank account to Pension Fund signatories to be consistent with those who approve investment transactions. This will require new access arrangements to be put in place for Fund officers and controls on the bank account to differ from other TM managed bank accounts. This functionality within the banking system appears to be new.</p> <p>(See the action for finding 1 for SLA comments and management action).</p> |
| Responsible Officer: | | Haley Woollard, Principal Accountant (Treasury and Taxation) & Sian Kunert, Head of Pensions | Target Implementation Date: | 31 July 2023 |

**Internal Audit Report – Pension Fund Cash Management
Detailed Findings**

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|---|------------------------------------|--|
| 3 | <p>Reconciliation - Employee Contributions Scheme employers submit a paper form (LGPS31) on a monthly basis, which provides payroll details and the aggregate amount of pension contributions due to the Fund.</p> <p>A manual reconciliation of employers' contributions is regularly undertaken to ensure that contributions received are within agreed tolerances. If variances (over or under) are identified, these are reviewed, discussed and corrective action taken with the employer. However, the amounts received for employees' contributions each month are not reconciled to expected amounts due to the Fund on an employee-by-employee basis.</p> <p>i-Connect, the secure platform which automates the submission of pension data and brings employees' contributions into Altair, will provide the Fund with the ability to reconcile and validate contributions at member level. However, it is envisioned that this functionality will not be utilised until all of the Fund's scheme employers have been successfully onboarded.</p> | Without independent validation on the employees' contribution amounts provided on LGPS31 forms, errors may not be detected resulting in contributions due to the Fund not being received in full. | Medium | <p>Once all scheme employers have been onboarded onto the i-Connect system, a new process of 'spot' checking individual employee contributions will be implemented. The i-Connect team and Accounts team will manually check against the employee contribution bandings and the amounts coming through via the i-Connect submission.</p> <p>Discrepancies will be investigated, and any necessary amendments will be communicated with the employer.</p> |
| Responsible Officer: | | Tim Hillman, Pension Manager - Employer Engagement | Target Implementation Date: | 31 January 2024 |

**Internal Audit Report – Pension Fund Cash Management
Detailed Findings**

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| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|--|------------------------------------|--|
| 4 | <p>Lack of Documented Processes The Fund has a need to ensure that employers are providing accurate, relevant and timely information to ensure compliance with regulations. Therefore, each scheme employer is designated a named individual for employer engagement with the appropriate delegations to strengthen communication.</p> <p>Our review highlighted that although engagement activities are routinely taking place, protocols and process guidance for the chasing of late or incomplete information and data from employers were not complete.</p> | <p>Where procedures for engagement activities are not formally documented, staff may not be fully aware of their responsibilities and key tasks may not be performed consistently and/or in a timely manner, resulting in late or incomplete data being received, which may lead to the late production of statutory returns (e.g., Annual Benefit Statements).</p> <p>There is also a risk to the continuity of employer engagement activities in the event of staff changes or the absence of key staff.</p> | Medium | <p>Actions have been added to the Pension Administration Strategy (PAS), which is currently under consultation, to allow additional powers to the Pension Fund to engage with employers on meeting required deadlines and providing outstanding data.</p> <p>In addition, stringent measures will be added to the PAS once the i-Connect monthly process has been established and all scheme employers are onboarded.</p> <p>More formal guidance within the PAS will help to define the Employer Engagement (EE) team’s powers in dealing with employers who are missing deadlines. The EE team is currently reviewing processes and responsibilities for each annual task, including to minimise disruption caused by staff changes.</p> |
| Responsible Officer: | | Tim Hillman, Pension Manager - Employer Engagement | Target Implementation Date: | 31 July 2023 |

**Internal Audit Report – Pension Fund Cash Management
Detailed Findings**

Page 113

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|--|---|------------------------------------|--|
| 5 | <p>LGP31 – Authorised Signatories Testing as part of the 2020/21 Pension Administration, People, Processes and Systems review highlighted several instances where employer contribution forms (LGPS31) did not state the source of assurance provided to support the payroll figures provided, and/or that the forms had not been certified by the employer’s Section 151 Officer or equivalent.</p> <p>Following the audit, it was agreed that a request for signatory lists with delegations from all employers would be issued to all scheme employers. The agreed target date for receipt of the lists was May 2022.</p> <p>Following discussions with the Pension Manager for Employer Engagement it was established that, due to a slower response from scheme employers, it is expected that signatory lists will not be received, for all scheme employers, until the end of the 2022/23 financial year. Currently, 112 forms have been received to date (approximately 77%).</p> | Without obtaining assurance that payroll figures, including pension deductions, are correct, there is an increased risk that not all contributions due to the Fund are identified and received. | Low | <p>The EE team will continue the collection of authorised signatory forms and a robust list of correct authorised signatories for all scheme employers will be established.</p> <p>LGPS31 forms are now rejected if the signatory provided does not comply with the authorised signatory held for the employer. Additionally, forms are rejected if the ‘assurance’ or ‘confirmation’ box has not been ticked.</p> <p>An annual review of all authorised signatories will be undertaken to capture any staff or structure changes.</p> |
| Responsible Officer: | | Tim Hillman, Pension Manager - Employer Engagement | Target Implementation Date: | 30 June 2023 |

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.

Internal Audit Report

Pension Fund Cyber Security Arrangements 2022/23

Final Report

Assignment Lead: Angus Rauch, Auditor
Assignment Manager: Mark Winton, Audit Manager
Prepared for: East Sussex County Council
Date: April 2023

Report Distribution List

Draft Report:

Sian Kunert, Head of Pensions

Michael Burton, Pensions Manager – Governance and Compliance

Paul Punter, Head of Pension Administration

Khy Perryman, Information and Security Governance Manager

Nicky Wilkins, Head of Engagement and Digital Innovation

Darren Stuart, Business Partner IT and Digital

Final Report, as draft with the inclusion of:

Ian Gutsell, Chief Finance Officer

Ros Parker, Chief Operating Officer

Matt Scott, Chief Digital Information Officer

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.

Chief Internal Auditor: Russell Banks, ☎ 07824362739, ✉ russell.banks@eastsussex.gov.uk

Audit Manager: Mark Winton, ☎ 07740517282, ✉ mark.winton@eastsussex.gov.uk

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1. Introduction

- 1.1. The pension regulators document, cyber security principles for pension schemes states that:
- 1.2. Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. Trustees and scheme managers need to take steps to protect members and assets accordingly, which includes protecting them against the 'cyber risk'. This is an issue which all trustees and scheme managers, regardless of the size or structure of their scheme should be alert to.
- 1.3. The cyber risk can be broadly defined as the risk of loss, disruption or damage to a scheme or its members as a result of the failure of its information technology systems and processes. It includes risks to information (data security) as well as assets, and both internal risks (eg from staff) and external risks (eg hacking).
- 1.4. This review forms part of the agreed Internal Audit Plan for 2022/23.
- 1.5. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section of the report.

2. Scope

- 2.1. The objective of the audit was to provide assurance that East Sussex Pension Fund complies with the pension regulators cyber security principles for pension schemes. The principles provide guidance over the following areas;
 - Governance;
 - Controls;
 - Incident response;
 - Managing evolving risk.
- 2.2. It should be noted that the document 'Full draft of the new code of practice' contains a number of principles relating to Cyber controls. For the purposes of this audit we compared the principles within the new code of practice to those contained within the Cyber security principles for pension schemes¹. Whilst broadly similar we have used the principles of the pension regulator rather than the new code as the basis of our assessment in this audit as the draft code had not yet been formally issued at the time of our audit.
- 2.3. Appendix B provides a summary of the principles we have used as the basis of our evaluation.

3. Audit Opinion

3.1. **Substantial Assurance is provided in respect of Pension Fund Cyber Security Arrangements 2022/23.** This opinion means that 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 are able to provide an opinion of Substantial Assurance on the basis that, considering all the current cyber security measures in place for the Pension Fund, there is a high level of compliance with the principles set out by the Pension Regulator.
- 4.2. The controls that exist to manage a cyberattack for East Sussex County Council, apply equally to the pension fund. We also found there are adequate preparations in place to manage an incident, with support from the Information Security Team, should a cyber event occur.
- 4.3. Frequent backups online and to offline servers ensure that if an attack were to occur, members and the funds data would be backed up ready to continue service as soon as possible.
- 4.4. The measures around ensuring that staff have the correct knowledge to prevent an attack are sufficient, including phishing testing where the service is testing the employees to ensure that their knowledge is updated in line with emerging threats.
- 4.5. The council has overarching policies which cover the general use of technology and how to use them in a way which is not exposing the council to external breaches or even an employees compromised technology allowing entry into the systems, exposing them to an increased level of risk. The policies could be more pension specific and updated to ensure that emerging threats and updated technology is being covered.
- 4.6. Further, the Pension Fund could benefit from further pension specific controls which are in place to focus on the threats towards the fund and not just the wider council.

5. Action Summary

5.1. 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. | 0 | |
| Medium | Existing procedures have a negative impact on internal control or the efficient use of resources. | 0 | |
| Low | This represents good practice; implementation is not fundamental to internal control. | 1 | 1 |
| Total number of agreed actions | | 1 | |

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit Committee we seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically we may also carry out random sample checks of all priority actions.

6. Acknowledgement

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Internal Audit Report – Pension Fund Cyber Security Arrangements 2022/23
Detailed Findings

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|---|------------------------------------|---|
| 1 | <p>Pension Fund Entity</p> <p>We found that whilst there are generic Council wide policies, procedures and training in place to meet the expectations of the cyber security principles identified by The Pension Regulator, it is not always clear that these also apply to the Pension Fund.</p> <p>Whilst we have obtained assurances that the policies, procedures and training identified during the audit, (including an adequate response from Information Security should a cyber incident occur), do apply to the Pension Fund this could be made clearer.</p> | <p>There may be confusion over the extent to which policies, procedures and training apply to the Pension Fund.</p> | Low | <p>Members of the pension team to meet with IT&D colleagues to agree how to ensure council wide policies and training clearly apply to the pension fund officers and pension fund activities.</p> |
| Responsible Officer: | | Michael Burton, Pensions Manager – Governance and Compliance | Target Implementation Date: | July 2023 |

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Appendix A

Audit Opinions and Definitions

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

Management Responsibilities

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

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

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

Appendix B

| Cyber Security Principles |
|---|
| Receive regular training and have access to the required skills and expertise to understand and manage the cyber risk. |
| The cyber risk should be included on your risk register and reviewed regularly (At least annually) and where there are substantial changes to scheme operations |
| You should assure yourselves that all third-party suppliers have put sufficient controls in place to protect your member data and scheme assets. |
| All organisations will experience security incidents at some point, even those with the most rigorous controls. As such you should ensure an incident response plan is put in place. |
| There should be a range of policies and processes in place around; Acceptable use of devices, email and internet (including social media), Use of password and other authentication. Home and mobile working/ Data access, protection, use and transmission, in line with data protection legislation and guidance. |
| Physical and virtual access should be controlled. Staff should be suitably vetted and have the right level of access for their role. Access should be regularly reviewed and closed down for any leavers |
| Good monitoring habits is essential in order to effectively response to incidents. Systems and networks should be monitored and logged analysed for any unusual activity or unauthorised access which could indicate an issue or threat. |
| All staff, and trustees, should receive training appropriate to their role at an appropriate frequency. |
| There should be systems and processes in place to ensure the safe and swift resumption of operations. This should include an incident response plan. |
| Critical systems and data should be regularly backed up. This should include, if appropriate, one or more offline back-ups, to stop these from being affected by a cyber incident. Processes to restore backed-up data should be tested. |
| IT infrastructure and security should be sufficient for the work undertaken. There should be multiple layers of security put around systems in line with the Information Commissioner's Office's (ICO) guidance on IT security. |
| The pension fund should assure themselves that all third-party suppliers have put sufficient controls in place to protect your member data and scheme assets. They should require suppliers to have, or adhere to, cyber security standards or good practice guides and monitor their performance. Cyber security should be an active consideration in the selection of a supplier and suitable provisions should be included in contracts. |

Internal Audit Report

Pension Fund Investments and Accounting

Final

Assignment Lead: Danny Simpson, Principal Auditor; Danielle Robinson,
Senior Auditor; Harvey Sharpe, Auditor
Assignment Manager: Jodie Hadley, Principal Auditor
Prepared for: East Sussex County Council
Date: April 2023

Internal Audit Report – Pension Fund Investments and Accounting

Report Distribution List

Draft Report

- Sian Kunert, Head of Pensions
- Russell Wood, Pensions Manager: Investments and Accounting

Final Report

- Sian Kunert, Head of Pensions
- Russell Wood, Pensions Manager: Investments and Accounting
- Ros Parker, Chief Operating Officer
- Ian Gutsell, Chief Finance Officer
- Pension Committee
- Pension Board

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

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Audit Manager: Nigel Chilcott, ☎ 07557541803, ✉ nigel.chilcott@eastsussex.gov.uk
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Internal Audit Report – Pension Fund Investments and Accounting

1. Introduction

- 1.1. East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 134 employers.
- 1.2. The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations.
- 1.3. The Fund is a member of ACCESS, a collaboration of 11 LGPS Administering Authorities, which are working together to reduce investment costs and gain economies of scale. ACCESS currently has a total value of £60.1bn, of which £31.8bn is pooled. The ESPF has assets of £4.7bn, of which £2.6bn (55%) is pooled whilst £2.1bn (45%) is not Pooled.
- 1.4. As part of this audit, we reviewed the arrangements to manage investments, including pooling arrangements, and the internal controls of external fund managers.
- 1.5. This review was part of the agreed Internal Audit Plan for 2022/23.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted in the detailed findings section 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:
 - CO1 - The ACCESS Pool achieves the benefits of economies of scale, oversees the Operator, Fund Managers and Custodian effectively, and exploits investment opportunities.
 - CO2 - The Fund's assets are safeguarded and managed in accordance with regulatory requirements.
 - CO3 - The performance of the Fund's investments meets its objectives.
 - CO4 - Investment returns are received in full in a timely manner.
 - CO5 - Effective management of payments and income ensures that the Fund's bank account does not becoming overdrawn.
 - CO6 - Accounting of the Pension Fund is accurate resulting in an unqualified opinion by the external auditor on the Fund's annual accounts.

3. Audit Opinion

- 3.1. **Substantial Assurance is provided in respect of Pension Fund Investments and Accounting.** This opinion means that 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 been able to provide an opinion of Substantial Assurance because:
- 4.2. The recently expanded Fund's Team comprises experienced officers, who are supported by investment consultants, to ensure that investment performance is monitored, that new investment opportunities are explored, and that appropriate due diligence takes place before making new investments. Investments are made and managed in accordance with regulatory requirements.
- 4.3. Robust processes are in place to ensure that assets are safeguarded, including through the receipt of external control assurance reports from fund managers. Although a small number of these reports have had qualified opinions, these are followed up to ensure that any control weaknesses do not pose a risk to the Fund's investments.
- 4.4. Rigorous checks take place to ensure that fund managers' fees are paid in accordance with contractual obligations.
- 4.5. The Fund's custodian, Northern Trust, ensures that all investment returns are received timeously and in full.
- 4.6. Regular reconciliations take place to provide assurance that transactions are accurately reflected in the in the general ledger.
- 4.7. Effective cash management processes are in place to ensure that the bank account remains in credit.
- 4.8. However, there are minor areas where controls could be strengthened further.
- 4.9. The documenting of accounting processes could offer more complete coverage to improve resilience in the event of the loss of key officers.
- 4.10. There remains inefficiency in the ACCESS Pool, where there is no centralised process to review external control reports, resulting in each of the constituent funds having to review reports independently. No management action has been raised in this report because the Fund is aware of this and has limited capacity to act on its own in this matter.

Internal Audit Report – Pension Fund Investments and Accounting

5. Action Summary

5.1. 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. | | |
| Low | This represents good practice; implementation is not fundamental to internal control. | 1 | 1 |
| Total number of agreed actions | | 1 | |

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit Committee we seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically we may also carry out random sample checks of all priority actions.

6. Acknowledgement

6.1. We should like to thank all staff who provided assistance during the course of this audit.

**Internal Audit Report – Pension Fund Investments and Accounting
Detailed Findings**

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|--|---|------------------------------------|--|
| 1 | <p>Process Notes</p> <p>Last year’s audit contained a management action to document the key accounting and control processes.</p> <p>Progress has been made with process documentation covering the payment of fund managers’ invoices and the receipt and handling of fund managers’ external control assurance reports.</p> <p>However, work remains to document more areas of the Team’s work, including reconciliations and the receipt of investment income.</p> | Without fully documented processes there is an increased risk of error with the absence of key personnel. | Low | The Fund will continue to document its accounting processes to ensure all key areas are covered, including investment returns and reconciliations. |
| Responsible Officer: | | Russell Wood, Pensions Manager: Investments and Accounting | Target Implementation Date: | 31 December 2023 |

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.

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Internal Audit Report

The Administration of Pension Benefit Payments

Final

Assignment Lead: Danny Simpson, Principal Auditor; Harvey Sharpe, Auditor

Assignment Manager: Jodie Hadley, Principal Auditor

Prepared for: East Sussex County Council

Date: May 2023

Internal Audit Report – The Administration of Pension Benefit Payments

Report Distribution List

Draft Report:

- Paul Punter, Head of Pensions Administration

Final Report:

- Paul Punter, Head of Pensions Administration
- Sian Kunert, Head of Pensions
- Ros Parker, Chief Operating Officer
- Ian Gutsell, Chief Finance Officer
- Pension Committee
- Pension Board

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

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

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Internal Audit Report – The Administration of Pension Benefit Payments

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 the Local Government Pension Scheme (LGPS) regulations.
- 1.2. The Council has delegated the responsibility for the management and responsibility of the Fund to the East Sussex Pension Committee, supported by the Pensions Board & Chief Finance Officer (S151 officer) for East Sussex County Council.
- 1.3. As of 31 March 2022, the Fund comprised 140 scheme employers with 24,801 active, and 33,043 deferred, scheme members, as well as 23,173 pensioners. The most recent actuarial valuation of the Fund was carried out in 2022. The valuation found that the funding level had improved from 107% in 2019 to 123%.
- 1.4. During the financial year 2021/22, the scheme made benefit payments of approximately £134m.
- 1.5. This audit tested the controls employed by management over the calculation and payment of pension benefits and transfers to and from the Pension Fund.
- 1.6. This review was part of the agreed Internal Audit Plan for 2022/23.
- 1.7. This report has been issued on an exception basis, whereby only weaknesses in the control environment have been highlighted in the detailed findings section 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:
 - Data quality is sufficiently accurate to support transactions and reporting requirements;
 - The calculation of pension benefit entitlements is accurate; and
 - Delivery of the pension administration service complies with the requirements of the Pension Regulator.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of The Administration of Pension Benefit Payments.** 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 been able to provide an opinion of **Reasonable Assurance** over the controls in place within the area of review because:
- 4.2. Processes are in place to ensure that data quality is maintained, with data quality reports showing a good level of compliance with the Pension Regulator's requirements. Data quality and improvement are routinely reviewed at Board and Committee level. Although there are significant concerns about the quality of data being received from one large employer, the Fund is working closely with the employer to ensure it can provide data of the required quality. Where the inability of that employer to provide the necessary data has resulted in breaches of regulations, the breaches have been documented and reported to the Pension Regulator.
- 4.3. Mechanisms are in place to ensure that pension benefits are calculated correctly and are paid on time. If a delay, or complication, in the processing of a new pensioner's benefits results in the first payment being late, interest is paid.
- 4.4. The pension administration system is run in accordance with regulatory requirements and delivers an effective service to members of the Scheme. The number of outstanding tasks has reduced very considerably, compared with the previous year.
- 4.5. However, there are some areas where scope for strengthening controls has been identified.
- 4.6. The pension administration system, Altair, has no control to enforce the approval of payments in accordance with officers' authorised approval limits. We found an example of a payment for £218K that had been approved by a Pension Administrator, which does not comply with the Fund's internal regulations, which require that all payments, in excess of £100K, be approved by the Head of Pension Administration.
- 4.7. Where requests to amend members' bank details are received via bulk requests from employers, no evidence of the requests are retained against individuals' records in Altair, reducing the effectiveness of the paper trail.
- 4.8. New members' details (e.g., relationship status) are not always received in full, resulting in gaps in data. Altair is not always marked to indicate that new members' dates of birth have been verified.
- 4.9. Whilst in general, compliance appears to have improved, a small number of the checklists that govern the processing of transactions are not being completed in full.

Internal Audit Report – The Administration of Pension Benefit Payments

5. Action Summary

5.1. 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. | 0 | N/A |
| Medium | Existing procedures have a negative impact on internal control or the efficient use of resources. | 1 | 1 |
| Low | This represents good practice; implementation is not fundamental to internal control. | 4 | 2 - 5 |
| Total number of agreed actions | | 5 | |

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit Committee we seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically, we may also carry out random sample checks of all priority actions.

6. Acknowledgement

6.1. We should like to thank all staff that provided assistance during the course of this audit.

Internal Audit Report – The Administration of Pension Benefit Payments
Detailed Findings

Page 136

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|------------------------------------|---|---|---|---|
| 1 | <p>The Approval of Payments</p> <p>All payments in excess of £100K are required to be approved by the Head of Pension Administration. Testing of transfers out, found a payment of £218K, which had been approved by a Pensions Administrator.</p> <p>Further enquiries highlighted that any attempt to process a transaction beyond an officer’s authorised approval level, would previously have been blocked within Altair. However, since the introduction of the ‘Immediate Payments’ module in 2022, this is no longer the case, and the Pension Administration Team was unaware of this. Whilst Altair does remind users to create an approval task, that would then lead to a reminder to seek further approval, there is no systemic control to enforce this.</p> <p>Testing confirmed that the payment itself was genuine and had been calculated correctly.</p> | <p>Without a systemic control to block the completing of transactions beyond officers’ approval levels, there is an increased risk of fraud or error.</p> | <p>Med</p> | <p>The team has been reminded that all payments over £100k need additional approval and the online process clearly states this.</p> <p>There is no current functionality within Altair to block a larger financial transaction. However, there may be a way to address restrictions on higher amounts through Altair Workflow, in recently developed functionality that exists in the 23.2 release, expected to go live in June 2023.</p> <p>Assuming that the amount is held in a particular field on a data view, then restrictions on approving higher values could be accommodated via the ‘auto follow-on task creation’. This allows customers to set conditions for automatically creating a follow-on task. We could then set a threshold above which a defined seniority for approval would be needed.</p> <p>We will need to adopt and test the functionality once live to see if this is possible.</p> |
| <p>Responsible Officer:</p> | | <p>Paul Punter, Head of Pensions Administration</p> | <p>Target Implementation Date:</p> | <p>1 September 2023</p> |

Internal Audit Report – The Administration of Pension Benefit Payments
Detailed Findings

Page 137

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|--|------------------------------------|---|
| 2 | <p>Changes to Members’ Bank Account Details</p> <p>Changes to members’ bank details were not always supported by documentary evidence of the request to make the change. We understand that some changes are received in multiple notifications from employers (often on spreadsheets), and these are not uploaded to members’ records because they contain other members’ data.</p> <p>Unlike most processes, there is no checklist, but an Altair workflow task, with a checking stage, is set up on the member’s record that can be used to confirm that the relevant checks are carried out.</p> | <p>Where changes to members’ data are not supported by documentary evidence of the requests, there is an increased risk of fraud or error.</p> | Low | <p>The only time we receive banking changes in bulk are those received via the banking clearing system where, at least in theory, the members have undertaken an online switch of banks and the new bank is informing us after the event. All spreadsheets are retained on the P-Drive so there is evidence of the request.</p> <p>Whilst we don’t intend to upload the bank change request, we intend sending the members an acknowledgement email to log-on to MSS to check their new bank details. We have documented the process.</p> <p>We are investigating sending the email to the member direct from the pensions@eastsussex.gov.uk address and it being automatically saved to their Altair record. However, not all members of the team can create email templates from within the Altair system. This is likely to be a permissions issue that we cannot identify and have raised it with Heywoods.</p> |
| Responsible Officer: | | Paul Punter, Head of Pensions Administration | Target Implementation Date: | 1 August 2023 |

Internal Audit Report – The Administration of Pension Benefit Payments
Detailed Findings

Page 138

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|--|---|------------------------------------|--|
| 3 | <p>Changes of Address</p> <p>Requests to change records of members' addresses in Altair are received via a number of channels, including i-Connect, letters from members and notifications from their employers.</p> <p>When the record of a member's address is changed in Altair, the member is advised accordingly, providing a last check that the request is genuine and providing assurance that the new details are correct.</p> <p>However, confirmation does not always take place. This may be as a result of the number of ways requests are received. In the case of written requests, there is also doubt about the efficacy of providing written confirmation, i.e., if the address were incorrect, no confirmation would reach the member.</p> | <p>If no confirmation is sent to members to advise them that their addresses have been updated, there is a risk that any data-processing errors would not be detected, reducing the quality of data held in Altair.</p> | Low | <p>We struggle with finding an effective and consistent means of communicating confirmation of changes of address or where they are necessary.</p> <p>The point is if the request comes via i-Connect it is in respect of an active member who has informed their employer who has updated their payroll records. If the member informs us via MSS, the member has advised us through a secure password protected system. In these circumstances it is arguable no acknowledgement is required.</p> <p>If the member writes or emails, then we will provide written confirmation of the change of details. We regularly undertake address tracing exercises with a third party (ITM).</p> <p>We don't believe any additional action is required.</p> |
| Responsible Officer: | | Paul Punter, Head of Pensions Administration | Target Implementation Date: | N/A |

Internal Audit Report – The Administration of Pension Benefit Payments
Detailed Findings

Page 139

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|---|------------------------------------|---|
| 4 | <p>The Setting up of New Members in Altair</p> <p>When new members join the scheme, their personal details are entered onto Altair, based on details supplied by their employers.</p> <p>When testing a sample of newly set-up members, we found that Altair had not always been marked to indicate that checks on members' ages had been completed, though we understand that checks were completed in practice.</p> <p>Moreover, forms from new members are sometimes received that lack details of their relationship status, resulting in gaps in datasets.</p> <p>Although these checks would be revisited before any benefit payments were made, it would be more efficient, and contribute to a more robust data set, if all data elements were checked and confirmed at the point new members were set up in Altair.</p> | Without ensuring that all data is complete and recording checks on the accuracy of data, there is an increased risk of error, poor quality and incomplete data. | Low | A reminder was circulated to members of the PAT, on 28 April 2023, reminding them to ensure that all data is complete. Any missing data needs to be sought from employers even if not a mandatory field to set up the record. In addition, the date of birth and marital status verification boxes need to be updated if the appropriate certificates have been verified. |
| Responsible Officer: | | Paul Punter, Head of Pensions Administration | Target Implementation Date: | Complete |

Internal Audit Report – The Administration of Pension Benefit Payments
Detailed Findings

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|---|------------------------------------|--|
| 5 | <p>The Completion of Checklists</p> <p>The processing of transactions is governed by checklists, which detail the tasks to be undertaken by the administrator and provide quality assurance through the signature of an officer, independent of the one performing the transaction.</p> <p>Compliance has improved since last year, with fewer examples found where independent checks had not been completed. However, we still found examples in the processing of death benefits, where no independent checks had been evidenced.</p> | Without carrying out independent checks on administrative tasks, the risk of fraud or error is increased. | Low | When the internal audit was in progress the team was reminded in the Pension Admin team March meeting that it is important that all checklists are completed in full by both doers and checkers. |
| Responsible Officer: | | Paul Punter, Head of Pensions Administration | Target Implementation Date: | Complete |

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.

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Report to: Pension Board

Date of meeting: 30 May 2023

By: Chief Finance Officer

Title: East Sussex Pension Fund (ESPF) 2022/23 Outturn report

Purpose: This report provides the financial outturn of the ESPF for the 2022/23 financial year

RECOMMENDATIONS

The Pension Board is recommended to note the report.

1. Background

1.1 This report provides the outturn financial position for 2022/23 for the East Sussex Pension Fund (the Fund or ESPF).

1.2 The business plan and budget sets out the direction of travel, objectives and targets to be achieved in the management of the Fund. The budget and business plan for 2022/23 was approved by the Pension Committee at its meeting on 24 February 2022.

1.3 As reported at the last meeting on 22 February 2023, the budget estimates do not incorporate any provision for investment fees earned by the alternative fund managers since these are deducted at source by asset managers.

2. 2022/23 Final Outturn Position

2.1 The budget requirements for 2022/23 were set at **£7.141m** (£7.205m 2021/22) to support the Business Plan activities and administration of the Fund.

2.2 The final outturn position of 2022/23 is **£5.743** (forecast £5.793m in Q3), **a decrease of £0.050m** from the last reported position. The 2022/23 outturn against budget line items is shown in the table below.

2.3 The underspend mostly relates to other administration projects which have been postponed whilst awaiting clarification from government and manager fees being invoiced lower than anticipated due to negative investment performance in the quarter. These were offset by some increases on staff costs recharges from East Sussex County Council and external audit fees. The main movements to the budget are detailed in Paragraphs 2.4 to 2.7.

202022/23 Outturn Report

| 2021/22 Outturn £000 | Item | 2022/23 Budget £000 | 2022/23 Actual Outturn £000 | 2022/23 Forecast Outturn Q3 £000 | Variance to Previous Quarter £000 |
|----------------------------|--|---------------------------|--------------------------------------|---|--|
| | Pension Fund Staff Costs | | | | |
| 1,234 | Staffing | 1,900 | 1,483 | 1,435 | (48) |
| 2 | Recruitment costs | 5 | (1) | - | 1 |
| 1,236 | Sub Total | 1,905 | 1,482 | 1,435 | (47) |
| | Pension Fund Oversight and Governance | | | | |
| 55 | Actuarial | 200 | 125 | 133 | 8 |
| 57 | Employer Actuarial work | 80 | 69 | 76 | 7 |
| -38 | Employer recharges | (80) | (76) | (77) | (1) |
| - | Governance consultancy costs | - | 70 | 60 | (10) |
| - | Communications | 42 | 7 | 5 | (2) |
| 8 | Training Costs | 30 | 13 | 20 | 7 |
| 47 | External Audit – Grant Thornton | 35 | 59 | 24 | (35) |
| 279 | East Sussex County Council recharges | 249 | 206 | 184 | (22) |
| 56 | Legal Fees | 78 | 56 | 55 | (1) |
| 70 | Subscriptions and Other Expenses | 72 | 87 | 81 | (6) |
| 534 | Sub Total | 706 | 616 | 561 | (55) |
| | Investment activities | | | | |
| 216 | Investment Advice | 135 | 155 | 150 | (5) |
| 21 | ESG Advice | 50 | 24 | 24 | - |
| 139 | Custodian | 136 | 101 | 97 | (4) |
| 110 | ACCESS | 125 | 117 | 125 | 8 |
| 3,210 | Investment Manager Fee Invoices | 2,872 | 2,175 | 2,208 | 33 |
| 3,696 | Sub Total | 3,318 | 2,572 | 2,604 | 32 |

| 2021/22 Outturn £000 | Item | 2022/23 Budget £000 | 2022/23 Actual Outturn £000 | 2022/23 Forecast Outturn Q3 £000 | Variance to Previous Quarter £000 |
|----------------------------|--|---------------------------|--------------------------------------|---|--|
| | Pension Administration | | | | |
| 150 | East Sussex County Council recharges | 281 | 194 | 198 | 4 |
| 98 | System Services and License | 346 | 378 | 394 | 16 |
| 156 | Consultancy & Service Providers - Benefits | 100 | 206 | 218 | 12 |
| - | Other Administration projects | 150 | 13 | 65 | 52 |
| 218 | Admin operational support services | 289 | 262 | 269 | 7 |
| 14 | Other Expenses | 50 | 35 | 52 | 17 |
| (3) | Other Income | (4) | (15) | (3) | 12 |
| 633 | Sub Total | 1,212 | 1,073 | 1,193 | 120 |
| 6,099 | Total | 7,141 | 5,743 | 5,793 | 50 |

2.4 An increase of £48k and £22k is being reported in the outturn for 2022/23 on staffing and East Sussex County Council recharges for overheads, which are linked to staffing costs. This relates to an error on prior quarter budget monitoring that resulted in an accrual for 2021/22 being double counted in the totals, this has been corrected as part of the outturn position.

2.5 The expected expenditure for external audit has increased by £35k, following the receipt of the external audit workplan which advises the fee for 2022/23 is £12k higher than anticipated following prior year estimates. There is an expectation that the 2021/22 audit will also be around £47k however as this is still being undertaken there are unable to confirm the exact amount for 2021/22.

2.6 There is a reduction of £33k in the manager fees based on the values of the assets under management with the respective investment managers being lower than anticipated at the quarter end.

2.7 There is a reduction of a £52k that relates to the other administration projects this covers arrange of projects that were expected to start this year that have not progressed as anticipated. There are different reasons for each project such as the McCloud project is behind schedule with information gathering still taking place. Pension dashboard and member self-service work will take place in late 2023 and 2024.

3. Conclusion and reasons for recommendation

3.1 The Board is recommended to note the Final 2022/23 outturn position.

Ian Gutsell
Chief Finance Officer

Contact Officer: Russell Wood, Pensions Manager: Investments and Accounting
Email: Russell.wood@eastsussex.gov.uk

Report to: Pension Board

Date of meeting: 30 May 2023

By: Chief Finance Officer

Title: External Audit Plan for the East Sussex Pension Fund 2022/23

Purpose: To inform the Board of the content of the East Sussex Pension Fund external audit plan for 2022/23

RECOMMENDATIONS

The Pension Board is recommended to note the external audit plan for the East Sussex Pension Fund for 2022/23

1. Background

1.1 Grant Thornton (GT), as the East Sussex Pension Fund's (ESPF) external auditors, have provided the draft External Audit Plan for 2022/23 (Appendix 1) which provides an overview of the planned scope and timing of the statutory audit of the ESPF Annual Report and accounts and identifies any significant risks.

2. Supporting Information

2.1 The External Audit Plan for 2022/23 identifies a number of risks that require audit consideration as they could potentially cause a material error in the financial statements. These are:

- ISA240: Fraudulent revenue recognition (this presumed risk has been rebutted);
- Fraudulent expenditure recognition (this presumed risk has been rebutted);
- Management override of controls (journals, estimates and transactions);
- Valuation of level 3 investments;

2.2 Page 6 of the plan highlights that the materiality level for the audit has yet to be set. The local GT team have advised that they are working through recent guidance issued by GT to inform the appropriate materiality level.

2.3 We are working with GT to ensure that the audit is completed as close to the 30 September 2023 deadline; however there are significant challenges for the audit sector, particularly from regulatory requirements regarding estimate valuations and the backlog of audits not completed for 2020/21 and 2021/22. There is a strong possibility that the audit will not be completed by the end of September 2023.

2.4 The proposed audit fees for 2022/23 are £46,871 but these have yet to be confirmed by the Public Sector Audit Appointments (PSAA).

3. Conclusion and Recommendation

3.1 The External Audit Plan is presented to the Board for awareness and noting.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ian Gutsell, Chief Finance Officer
Tel. No: 01273 481399
Email: ian.gutsell@eastsussex.gov.uk

Local Member(s): All
Background Documents
None

East Sussex Pension Fund audit plan

Year ending 31 March 2023

Draft version

East Sussex Pension Fund

May 2023

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Contents



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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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Key matters



National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment.

The pressures on household income have raised concerns that members will look at their pension contributions as a way of cutting back on their monthly costs. The cost-of-living crisis is having a detrimental impact on pension savings, with some even dipping in to their savings to supplement short-term needs and several members are also requesting early access to their pension after age 55 as a means to financially manage their commitments. The cost of living crisis makes it even more important that lowly paid workers have access to a good quality pension.

Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations requires pension fund administering authorities to obtain an actuarial valuation of the fund's assets and liabilities every three years. Triennial funding valuation reports as at 31 March 2022 were required to be obtained by 31 March 2023. The Code requires actuarial present value of promised retirement benefits to be disclosed by LGPS Funds. We will carry out additional audit work to gain assurance over the valuation process during the 2022/23 audit fieldwork. This will include:

- Documenting the procedures and controls established by the Pension Fund and actuary to ensure the accuracy of data communicated to the actuary, and the adequacy and appropriateness of the method and assumptions used in the valuation;
- Reconciling the data extracts provided to the actuary to the data in the Altair system; and
- Carrying out detailed testing of the data extract submitted to the actuary to gain assurance over completeness and accuracy.

This work will also allow the Pension Fund auditor to provide assurance to other auditors of participating employers where this is requested.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Chief Finance Officer.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.
- Auditing standards assume an inherent risk of management override of control in respect of financial reporting- refer to page 8.
- We have identified a significant risk in regards to the valuation of Level 3 investments specifically as the valuation of these investments is very sensitive to key assumptions – refer to page 9.

Introduction and headlines

Purpose

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

Note that for the purposes of the external audit, those charged with governance is considered to be the Audit Committee. However, key reports and findings from the audit will also be reported to the Pension Committee for the Fund.

Respective responsibilities

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



Scope of our audit

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

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public sector pensions are safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

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

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of Level 3 Investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £**m (PY £42.4m) for the Pension Fund, which equates to *% of your prior year net assets as at 31/03/2022. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £**m (PY £2.1m).

Audit logistics

Our audit planning work was completed in March/April 2023 and the date of our final fieldwork visit is in discussion between our team and your Finance Team. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £46,871 (PY: TBC) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers. Note we have not yet completed the 2021/22 audits of the County Council and Pension Fund financial statements for the reasons reported in our Audit Findings Reports at Audit Committee (therefore the final fee for 2021/22 remains TBC)

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Significant risks identified

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

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---------------------------------------|--|--|
| ISA240 fraudulent revenue recognition | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having 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; • The culture and ethical frameworks of local authorities, including East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for East Sussex Pension Fund.</p> | Significant risk rebutted. |
| Fraudulent expenditure recognition | <p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2022/23 accounts as:</p> <ul style="list-style-type: none"> • The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; • We have not found significant issues, errors or fraud in expenditure recognition in the prior 3 years audits; • Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. <p>Therefore we do not consider this to be a significant risk for East Sussex Pension Fund.</p> | Significant risk rebutted. |

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified (continued)

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|----------------------------------|--|---|
| Management over-ride of controls | <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criteria for selecting unusual journals; • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

Significant risks identified (continued)

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| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|----------------------------------|---|---|
| Valuation of Level 3 Investments | <p>You revalue your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p>By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£944 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes for valuing Level 3 investments; • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; against the requirements of the Code; • Independently request year-end confirmations from investment managers and custodian; • For a sample of investments, test 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 2023 with reference to known movements in the intervening period; • In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • Where available review investment manager service auditor report on design effectiveness of internal controls. |

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other matters

Other work

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

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

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.

We consider our other duties under legislation and the Code, as and when required, including:

- Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
- Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
- Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
- Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

| Matter | Description | Planned audit procedures |
|--------|---|--|
| 1 | <p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the net assets as at 31/03/2022 for the Pension Fund. Materiality at the planning stage of our audit is £**m (PY £42.4m), which equates to *% of your net assets as at 31/03/2022.</p> <p>Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.</p> | <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements. |
| 2 | <p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p> | <p>An item may be considered to be material by nature where it may affect instances when greater precision is required. We have not identified any areas of the accounts which we consider to be material by nature, and therefore we have not applied any lower areas of materiality for the audit.</p> |

Our approach to materiality (continued)

| Matter | Description | Planned audit procedures |
|--------|---|--|
| 3 | <p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p> | <p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p> |
| 4 | <p>Other communications relating to materiality we will report to the Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> | <p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £**m (PY £2.1m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p> |

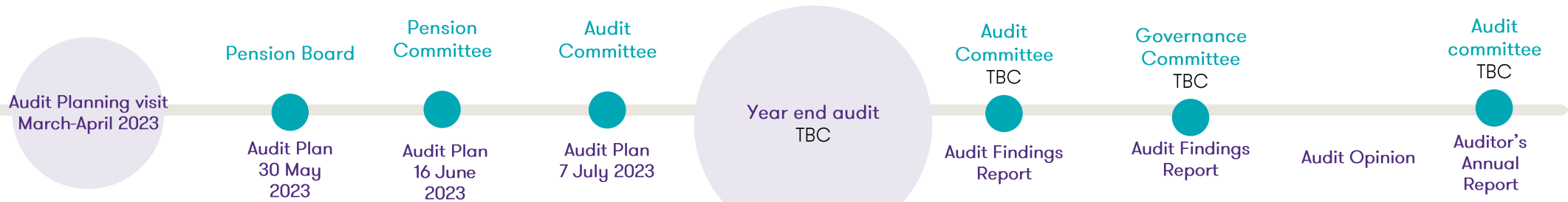
IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 15.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system | Audit area | Planned level IT audit assessment |
|-----------|-------------------------------------|---|
| SAP | Financial reporting, General Ledger | <ul style="list-style-type: none"> Complete ITGC design assessment (see page 15 for further information) |
| Altair | Pensions Administration | <ul style="list-style-type: none"> Complete ITGC design assessment (see page 15 for further information) |

Audit logistics and team



Audit Planning visit
March-April 2023

Pension Board

Audit Plan
30 May
2023

Pension
Committee

Audit Plan
16 June
2023

Audit
Committee

Audit Plan
7 July 2023

Year end audit
TBC

Audit
Committee
TBC

Audit Findings
Report

Governance
Committee
TBC

Audit Findings
Report

Audit Opinion

Audit
committee
TBC

Auditor's
Annual
Report

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Darren Wells, Key Audit Partner

Darren will be the main point of contact for the Chair, the Chief Executive and Members. Darren will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with the Corporate Management Team and Audit Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work focussing his time on the key risk areas to your audit.



Andy Conlan, Audit Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Audit Committee, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.

Zolani Mzinani, Assistant Manager

Zolani will support Andy in coordinating the audit, and will oversee particular technical areas of the audit deliver and significant risks. Zolani will also attend Audit Committee.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for East Sussex Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £x. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that. Note that all fees and fee variances are reviewed and approved by Public Sector Audit Appointments (PSAA).

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf.

Audit fees

| | Estimated Fee 2021/22 | Proposed fee 2022/23 |
|----------------------------------|--------------------------|--------------------------|
| East Sussex Pension Fund Audit | £38,487 Note 1 | £46,871 Note 2 |
| Total audit fees (excluding VAT) | £TBC | £46,871 |

Assumptions

- Page 164
In setting the above fees, we have assumed that the Pension Fund will:
- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
 - provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
 - provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Note 1 – As stated on page 6, we have not yet completed the audits and signed the audit opinions for the County Council and Pension Fund financial statements 2021/22, for reasons communicated in the Audit Findings Report to Those Charged with Governance. We therefore will communicate a confirmed fee variance for the delays/additional work incurred in the audit once this work is completed. Note that all fees and fee variances are reviewed and approved by Public Sector Audit Appointments (PSAA).

Note 2 – see the breakdown of the 2022/23 Proposed Fee on page 17.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees –detailed analysis

| | |
|---|----------------|
| Scale fee published by PSAA | £24,237 |
| <i>Ongoing increases to scale fee first identified in 2019/20</i> | |
| Raising the bar/regulatory factors | £5,534 |
| <i>New issues for 2020/21</i> | |
| Impact of new auditing standards | £13,600 |
| <i>New issues for 2022/23</i> | |
| Payroll – Change of circumstances | £500 |
| Impact of ISA 315 – see page 15 | £3,000 |
| Total audit fees (excluding VAT) | £46,871 |

Independence and non-audit services

Auditor independence

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

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

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

| Service | Fees £ | Threats | Safeguards |
|--|---|---|---|
| Audit related | | | |
| Provision of IAS 19 Assurances to Scheme Employer auditors | 5,000 (plus £1,000 for each assurance letter to be issued) | 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 this fee in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall is not material. 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. |
| Total | TBC | | |

Communication of audit matters with those charged with governance

Our communication plan

| | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters | • | |
| Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant matters in relation to going concern | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.



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Report to: Pension Board

Date of meeting: 30 May 2023

By: Chief Finance Officer

Title: Pension Fund Risk Register

Purpose: To consider the Pension Fund Risk Register

RECOMMENDATION:

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

1. Background

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

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

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.

1.4 It is accepted that whilst mitigations are put in place for identified risks, it will not always be possible for all risk to be eliminated. In these cases, a level of risk is tolerated and kept under review.

2. Supporting Information

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

3 Changes to the Risk Register

3.1 Risk A1 has been updated to reflect the use of a skills matrix to help identify where Pensions Administration Officers require training around specific processes and procedures.

4. Conclusion

4.1 The Pension Board is recommended to review and note the Pension Fund Risk Register.

IAN GUTSELL
Chief Finance Officer

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

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Summary Post Mitigation Risk scores

| Reference | Strategic Risk | Feb-22 | Jun-22 | Sep-22 | Nov-22 | Feb-23 | May-23 | Change from February |
|---------------------------|---|--------|--------|--------|--------|--------|--------|----------------------|
| Employer | | | | | | | | |
| E1 | Contributions Funding Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| E2 | Employer data Employers fail to provide accurate and timely data to the PAT team | 9 | 9 | 9 | 12 | 12 | 12 | ↔ |
| E3 | Employer Covenant Delay in employers agreeing Admission Agreement, risk of insufficient security | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| Administration | | | | | | | | |
| A1 | Pensions service Delivery Inadequate delivery of Pensions Administration | 6 | 6 | 6 | 6 | 6 | 6 | ↔ |
| A2 | Regulatory Change Risk that new benefit structures can not be set up correctly or in time | 6 | 6 | 6 | 6 | 6 | 6 | ↔ |
| A3 | Production of Statutory member returns Risk of failure to produce ABS, annual allowance and event reports | 6 | 6 | 10 | 10 | 10 | 10 | ↔ |
| A5 | Transfer Scams Failure to comply with CETV anti scam checks | 2 | 2 | 2 | 2 | 2 | 2 | ↔ |
| A7 | MBOS Project Failure to deliver the new ERP system to effectively deliver for Pension Fund accounting and payroll requirements | 3 | 3 | 3 | 3 | 3 | 3 | ↔ |
| Governance | | | | | | | | |
| G1 | Key Person risk Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| G2 | Committee / Board Member Lack of decision making caused by loss of Pension Committee/Pension Board members or insufficient knowledge and skills of members | 6 | 6 | 6 | 9 | 9 | 9 | ↔ |
| G3 | Cyber Security Risk of Loss of data or systems breaches through cyber attacks | 8 | 8 | 8 | 8 | 8 | 8 | ↔ |
| G4 | Governance and Compliance Inadequate governance arrangements and controls to discharge powers & duties | 3 | 3 | 3 | 3 | 6 | 6 | ↔ |
| G5 | Data Breach Failure to comply with General Data Protection Regulations | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| G6 | Fraud Internal and External fraud risk | 3 | 6 | 6 | 4 | 4 | 4 | ↔ |
| Investment/Funding | | | | | | | | |
| I1 | Funding risk - poor investment returns Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| I2 | Changes to International Trade The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| I3 | Regulatory risk Failure to comply with regulations, legislation and guidance from an accounting and investment perspective | 2 | 2 | 2 | 2 | 2 | 2 | ↔ |
| I4 | Investment Pooling Inability to comply with government direction on pooling, insufficient sub funds to implement investment strategy, poor management of the pool | 6 | 6 | 6 | 6 | 12 | 12 | ↔ |
| I5 | Funding risk - higher inflation Risk of inflation leading to increased liabilities, lower asset returns and a funding gap | 2 | 6 | 6 | 6 | 6 | 6 | ↔ |
| I6 | Environmental, Social and Governance Risk of EGS factors within Investment strategy, underlying holdings and implementations of investment decisions | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| I7 | Climate change Risk to assets and liabilities associated with Climate Change | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |
| I8 | Liquidity Insufficient cash to pay benefits as they fall due | 4 | 4 | 4 | 4 | 4 | 4 | ↔ |



| Ref | Strategic Risks | Pre-mitigati on RAG | Risk Control / Response | Post-mitigati on RAG | Risk Owner |
|----------------------|--|---------------------|---|----------------------|------------------|
| Employer Risk | | | | | |
| E1 | Contributions Funding Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate | 9 | <ul style="list-style-type: none"> •Monthly Employer contribution monitoring completed •Monitoring of late payments by Employer engagement team to address breaches for late payment. Chasers are sent out during the lead up to the deadline to prompt employers providing information and payment on time •Contributions recorded in Finance system for each employer to track employer cashflows in line with actuarial requirements for Valuation and FRS17/IAS19 reporting requirements. Also enables ability to see trends in contributions collected •Pension Administration strategy in place from January 2021 clearly outlining ability to charge employers for late payment, late receipt of remittance advice or poor quality of data. Late payment charges are now being administered as a deterrent and to cover the impact on the Fund for late payment. This strategy was refreshed in February 2023 •Implementation of i-Connect is improving the quality of contribution data received to better aid reconciliation of payments and drill into the accuracy of employers' contribution payments, however functionality is still being improved by the software provided •Report produced for Pensions Board meetings to highlight any late payment of contributions and Employer engagement actions from February 2021 •Covenant review undertaken helps identify employers most likely to have financial difficulties. Engagement with those posing most risk is ongoing •Triennial valuation process aims to stabilise contribution rates where possible and senior management involved in detailed discussions on funding assumptions. Triennial Valuation complete for 2022 and new rates set for April 2023 onwards. LGPS31 forms issued to all employers with new rates. •Guide to Employers on implications of Pensions on Outsourcing published and issued to all employers •Contribution deferral policy approved by Committee in June 2020 •Deferred debt and debt spreading policies drafted for approval in June 2023 •Employer engagement team are confirming the correct signatories for contribution submissions to ensure they are signed off at an appropriate management level •Regular communication with Employers through Employer engagement team •Cash Management covered by internal audit in 2022/23 year looking at contribution collection and cash management strategy •Cash Management and Contribution rate collection both identified in the 2023/24 internal audit programme for further investigation | 4 | Head of Pensions |
| E2 | Employer data Employers fail to provide accurate and timely data to the PAT team | 12 | <ul style="list-style-type: none"> •Pension Administration Strategy approved in operation from January 2021 and refreshed in February 2023 with consultation with employers April 2023 •Employing authorities are contacted for outstanding/accurate information •User Guide and Training provided to Employers for outsourcing implications with LGPS •Regular communication and meeting with administration services regarding service updates and additional data, when required •Employer engagement team established from January 2021 to support employers 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 look at Data Improvement as part of BAU and is a regular item on the Administration working group. Data is also cleansed where appropriate as part of other projects •Introduction of i-Connect system will limit employer ability to submit incorrect data. Data is received monthly rather than annually to allow for regular cleansing and discussion with employers •Meetings held between senior pensions Management team and employers where there are current or historic data concerns •As part of the lead into the 2022 triennial valuation data cleansing and challenge was conducted by the Actuary with PAT to ensure the integrity of data <p>Further Red level risk responses - (See exempt risk register for more information) This risk is currently ranked as a red risk due to recent failure by one large employer to provide data to the Fund. A plan is being discussed with the employer to resolve the data issues and produce statutory returns for effected members. S151 has met with the employers CFO to address issues and the Fund will help the employer. The employer has been reported to the regulator. The Fund will work closely with other employers and in particular with large employer i-Connect onboarding the engagement and i-Connect team will be able to manage expectations based on knowledge of how bad the data matching can be and programme required to resolve.</p> | 12 | Head of Pensions |

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| E3 | Employer Covenant Delay in employers agreeing Admission Agreement, risk of insufficient security | 6 <ul style="list-style-type: none"> •Full suite of admission agreements in place to ensure the Fund can provide comprehensive admission agreements at the outset of negotiations in line with the risk sharing arrangements agreed with the letting employer. New templates have been developed for pooling rate. Fixed rate template and Bond template in place. These templates are shared with the employers early in the process to speed up the agreeing of new admission agreements •The Fund will consider moving to a template portal which will automatically populate the variable data in the admission agreement ensuring no addition terms are changed and provides assurance from external legal term that the agreement is comprehensive and enforceable. However, the functionality is not yet sufficient to make the processes easier for letting employers and contractors •Guide to outsourcing is publicly available and distributed to all employers with coverage in both Employer forum in November 2020 and 2021. This guide directs employers of all the activities and considerations they need to take on any outsourcing arrangement with TUPE staff implications •Officers meet regularly to review status and movement on each in progress admission and an update is provided at team meetings monthly to ensure the admission is complete and effective at all stages •A new data flow and process map has been written to ensure officers request and communicate all the required information in a timely manner and on execution of the agreements data is required in line with the Administration strategy •Admissions in progress are reported quarterly to Board and Committee to ensure awareness of status | 4 Head of Pensions |
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Administration

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|----|--|----|---|----|---------------------------------|
| A1 | <p>Pensions service Delivery The scheme is not administered correctly resulting in the wrong benefits being paid or benefits not being paid, including the result of poor data</p> | 9 | <ul style="list-style-type: none"> •The PAT team is an in-house provision since December 2020 and enables the management team to have complete control over service delivery •Annual internal audit report on the administration of pensions including regular reporting and monitoring of "red" recommendations to ensure the service is acting in line with best practice. The Fund has received reasonable assurance since bring inhouse •Quarterly Reports to Pension Board and Committee on areas of work and KPIs •New service level KPI's now reportable within the Administration software •Awareness of the Pension Regulator Guidance by all team members, with training provided at team meetings or through provision of courses •Task workflow is managed by the Senior Pension Officers to all PAT staff and helpdesk add all tasks to the workflow system, to ensure all tasks completed as planned and to a high standard. PAT staff also add tasks as appropriate. •Checklists in place and all activity impacting members recorded on member records for other teams members to access •All tasks are peer reviewed. Constant monitoring / checking by team managers and senior officers for more junior staff members •In house risk logs covering projects •SAP / Altair reconciliation monthly to ensure pension payment records complete and correct •Task management systems built into Altair to ensure activity is completed and monitored •Pension meetings held monthly to include S151, COO, IT and Business Admin to ensure other ESCC services are working effectively to ensure the Pensions team can work effectively •Pensions Admin working group in place to discuss service delivery issues on a regular basis •Pensions Admin Team has skills matrix to identify training needs for particular processes | 6 | Head of Pensions Administration |
| A2 | <p>Regulatory Change Risk that new benefit structures can not be set up correctly or in time</p> | 9 | <ul style="list-style-type: none"> •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 upcoming changes in regulation •Reports to Pension Board and Committee to ensure knowledge is shared to decision makers •Oversight via Pension Admin Working Group | 6 | Head of Pensions Administration |
| A3 | <p>Production of Statutory member returns Risk of failure to produce ABS, annual allowance and event reports</p> | 15 | <ul style="list-style-type: none"> •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 throughout the year. Currently many leavers are not being notified until year-end. This will also cleanse data relating to Annual Allowance •Structure of Pensions team includes Employer Engagement team to support Pensions Administration Team 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 <p>Further Red level risk responses - This risk is currently ranked as a red risk due to recent breaches in this area due to failure from one employer to provide data to the Fund. A plan has been proposed with the employer to resolve the data issues and produce statutory returns for effected members. S151 has met with the employers CFO to address and the Fund will help the employer over the coming months. The employer has been reported to the regulator.</p> | 10 | Head of Pensions Administration |
| A5 | <p>Transfer Scams Failure to comply with CETV anti scam checks</p> | 6 | <ul style="list-style-type: none"> •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 •Process mapping process has taken place to ensure transfers are fully documented with clear guidance to staff in carrying out this activity •Member informed of "red flags" identified •Scorpion campaign material provided to members seeking a CETV •Quality assurance checks ensure appropriate checks carried out | 2 | Head of Pensions Administration |

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|-------------------|---|----|---|---|--|
| A7 | MBOS Project Failure to deliver the new ERP system to effectively deliver for Pension Fund accounting and payroll requirements | 6 | <ul style="list-style-type: none"> •Officers are part of the project roll out and involved in testing. Needs of the Pension Fund are therefore being considered •Officers produced process mapping for all functions within the existing finance system •A specific stream of planning has been identified in the project for the interface with Altair •S151 officer on the programme board •Heywood's paid to produce a scheme specific payroll data output report for transfer to Oracle | 3 | Head of Pensions |
| Governance | | | | | |
| G1 | Key Person risk Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team | 12 | <ul style="list-style-type: none"> •Diversified staff / team •Attendance at pension officers' user groups to network and exchange information •Procedural notes which include 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 prior to recruitment processes •Training officer post within team structure since 2021 •Training strategy in place and regularly reviewed with training log where required •Recruitment project to fill to vacant positions coming to an end •Utilisation of apprenticeships allow for bring new staff into to train in advance of vacancies | 4 | Head of Pensions / Head of Pensions Administration |
| G2 | Committee / Board Member Lack of decision making caused by loss of Pension Committee/Pension Board members or insufficient knowledge and skills of members | 9 | <ul style="list-style-type: none"> •Record kept of terms of Office •Pension Board terms of Office staggered •Vice Chairs in place to cover chair absence •Officers aware of election cycles and request for officers as a preference over elected members is communicated to employers •Robust Terms of reference in place that is clear and comprehensive •Training plans in place for new members | 9 | Head of Pensions |
| G3 | Cyber Security Risk of Loss of data or systems breaches through cyber attacks | 16 | <ul style="list-style-type: none"> • ICT defence - in-depth approach. • Utilising firewalls, passwords and ICT control procedures including system access and account deletion protocols. Network activity is monitored to identify security threats. • Email and content scanners • Using anti-malware which is regularly updated, together with other protective software • 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 in development • Engagement with ICT to understand and receive reports on monitoring for successful cyber attacks. Cyber training is provided to all staff around techniques and methods used to launch cyber attacks | 8 | Head of Pensions |
| G4 | Governance and Compliance Inadequate governance arrangements and controls to discharge powers & duties | 9 | <ul style="list-style-type: none"> •Training strategy in place which covers Pension Committee, Pensions Board and officers •100 days of internal audit commissioned for each calendar year to 2022/23 and 75 days from 2023/24 with regular reporting from IA to committee and board, including areas Governance and Compliance •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 •Review carried out against TPR COP14 requirements to identify any governance gaps •Specialist legal advisers and governance advisers to provide clear and accurate advice to the Fund on point of law or regulation •Publication of annual Governance and Compliance Statement explaining governance arrangements and reviewed and approved by Board / Committee •Training coordinator appointed. This officer liaises with chair of Pension Board and Committee to identify training needs | 6 | Head of Pensions |

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| G5 | Data Breach Failure to comply with General Data Protection Regulations | 9 | <ul style="list-style-type: none"> •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 and April 2022 •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 were completed •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 | 4 | Head of Pensions |
| G6 | Fraud Internal and External fraud risk | 12 | <ul style="list-style-type: none"> •Quarterly review of log in credentials •Senior officers have sight of bank account •Senior officers are signatories to bank account •Multiple sign off needed to make payment •Mortality checks, Tell us once and NFI data •Contract in place with a third party to support with mortality and address training | 4 | Head of Pensions |

| Investment/Funding | | | | | |
|--------------------|--|---|---|---|------------------|
| I1 | Funding risk - poor investment returns Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate | 9 | <ul style="list-style-type: none"> •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. Officers have a rolling programme to meet and challenge investment managers •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 •All investment decisions made, based on proper advice •Diversified strategy to reduce correlation of manager volatility •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 | 4 | Head of Pensions |
| I2 | Changes to International Trade The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses | 9 | <ul style="list-style-type: none"> •Diversification of the Fund's investments across the world •Regular monitoring of investment performance and reports on potentially problematic trends •Diversification of the Fund's investments across multiple asset classes •Currency Hedging requirements considered within the investment strategy •Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented | 4 | Head of Pensions |
| I3 | Regulatory risk Failure to comply with regulations, legislation and guidance from an accounting and investment perspective | 9 | <ul style="list-style-type: none"> •Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures •Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations •Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers •Internal Audits - carried out in line with the Pension Audit strategy •External Audit review the Pension Fund's accounts annually •Specialist legal advisers to provide clear and accurate advice to the Fund on point of law or regulation •Breaches policy in place to ensure breaches mapped and reported | 2 | Head of Pensions |

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| 14 | Investment Pooling Inability to comply with government direction on pooling, insufficient sub funds to implement investment strategy, poor management of the pool | 16 | <ul style="list-style-type: none"> •ACCESS Support Unit team provide support to the pool •Operator contract provided by Link for assets held within the ACS •The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe, then alternative options may be considered, e.g. Funds may continue to hold the sub fund outside the ACS •KPI's introduced within revised operator agreements •Consultants involved in analysing the creation of sub-funds and transitioning of assets into the pool, under a variety of scenarios •Opportunities to transfer securities in 'specie'. Reducing cost on transition •Transition manager in place to preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled •Due Diligence completed by legal advisers to ensure no hidden costs or governance issues not known at time of decision to invest •S151, chair of pension committee and monitoring officer representation on respective committees, working groups or distributions to ensure ESPF involved in all decisions and concerns and questions can be raised early in processes •Regular meetings between officers and ACCESS pool with officers on a number of working groups to ensure involvement in decision making <p>Further Red level risk responses (See also exempt risk register for more details) Risk rating increased due to a commulation of various smaller factors relating to the operator Link Fund Solutions going through a sale process, the market conditions around transitioning of illiquid assets onto possible ACCESS solutions in the near term, a delay in government guidance and a number of projects and work that will require a draw on resources to impliment. The Fund will work with the ACCESS pool and participating Funds to work through market conditions and uncertainty around the anticipated government pooling consultation and help ensure the business plan and actions stay on track with a drive to increase investment on the ACCESS pool where possible.</p> | 12 | Head of Pensions |
| 15 | Funding risk - higher inflation Risk of inflation leading to increased liabilities, lower asset returns and a funding gap | 12 | <ul style="list-style-type: none"> •Investment strategy include weighting to index linked gilts, infrastructure and real estate which are all inflation correlated to mitigate increases in liabilities from inflation •Potential to further increase infrastructure weightings •Fund monitor portfolio sensitivity to inflation via expert investment consultants •Triennial Valuation assumptions include local knowledge of the Administering authority on anticipated pay inflation •Flexibility in the DGF mandates to react to the market and adapt the investment portfolio •Report received in Feb 22 on inflation possibilities with possible actions to take in the medium term. To be considered as part of the strategy review day •Quarterly monitoring of funding position helps identify risk early •2022 Triennial Valuation currently underway - inflation models used to estimate the average inflation across a 20 year time horizon, including consideration of the current high inflation environment | 6 | Head of Pensions |
| 16 | Environmental, Social and Governance Risk of EGS factors within Investment strategy not being properly considered affecting underlying holdings and implementations of investment decisions | 6 | <ul style="list-style-type: none"> •Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors •Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions •Trim unconscious exposure to companies with poor ESG rating through removal of traditional index funds ensuring active managers have a strong conviction in the underlying companies including on ESG matters and less traditional passive indexes / smart beta funds have robust screening processes in place to ensure ESG principles are taken into account •Tracking of the portfolio as underweight in fossil fuel exposure to benchmarks •Production of annual reports on the carbon footprint of the Fund and review of managers from EGS perspective including transition pathway of underlying companies •2020 Stewardship code submission approved in February 2023 for the 2021 reporting year •Membership of collaborative groups to help drive policy change •Challenging managers on their holdings with regard ESG issues •Introduction of an ESG impact assessment for all managers reported in July 2021 including improvement actions for each manager on ESG methodology, reporting or collaboration. This will be updated and reported annually •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 | 4 | Head of Pensions |

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|----|---|----|--|---|------------------|
| 17 | Climate change Risk to assets and liabilities associated with Climate Change | 12 | <ul style="list-style-type: none"> •Statement of Responsible Investment Principles (SRIP) outlines investment beliefs including Climate Risk. The Fund take the SRIP into account for implementation of decisions and monitoring of investment managers, carbon emissions and climate risk to the Fund •Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions •Restructuring of the equity portfolio removed structural exposure to fossil fuel companies to avoid high risk companies from a climate perspective •The Fund are able to exploit opportunities from the low energy transition by investing in climate impact funds and resource efficient companies •The Fund has trimmed unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through removal of traditional index funds •Member of Institutional Investors group on climate change (IIGCC), the Fund also expects its managers to be IIGCC members •The Fund carries out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio. Additionally, the Fund carries out ESG impact assessment of all investment managers which includes a climate score. •Signatory to UN PRI with first planned submission in 2023 (as no 2022 submission window) •Commitment to report TCFD's with a first attempt published in the 2021 Annual Report and improvement in 2022 annual report •The Fund is investigating climate scenario modelling which will help better understand this risk and allow further consider approaches in tackling these risks •Where exposed to fossil fuels, the Fund uses its vote to drive engagement and improved practices. A number of Fund managers are Climate 100+ engagement partners, leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action. Managers have escalation plans for when engagement is not effective which includes disinvesting from the high carbon or fossil fuel company. •Focus on Climate change through training to committee and officers •Focus on Climate Change in decision making and strategy changes •Immaterial impact to the Fund value from direct exposure to fossil fuel companies in the instance of carbon taxes, valuation falls or stranded assets due to the underweight very low exposure to this sector and no structural allocation of these companies | 4 | Head of Pensions |
| 18 | Liquidity Insufficient cash to pay benefits as they fall due | 8 | <ul style="list-style-type: none"> •Contributions monitored on monthly basis •Monitoring of members close to retirement •Daily cash position monitored •Distributing investments to ensure stream of income from investment activity •Income from investments is considered as a key risk in all investment strategy decisions and the income profile managed •Liaison between administration and investment team on cash requirements •Cash Management internal audit completed in Q3 2022/23 and will be picked up in the 2023/24 IA plan for further review | 4 | Head of Pensions |

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 |

Report to: Pension Board

Date of meeting: 30 May 2023

By: Chief Finance Officer

Title: Work Programme

Purpose: To note the Board and Committee work programme

RECOMMENDATION

The Pension Board is recommended to note the 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 Board and Committee's work both during formal meetings and outside of them. The Board is recommended to consider and agree the updated work programme including consideration of the regularity of agenda items to ensure effective governance of the 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 Committee Agenda | A consideration of the draft agenda of the Pension Committee. | Head of Pensions |
| Governance Report | A report on governance issues effecting the fund, developments in the LGPS, policy amendments and McCloud working group update | Pensions Manager – Governance and Compliance |
| Employer Engagement and Contributions Report | A report on Employer Engagement matters to note, Employer Contributions update, Communications from the Fund and Communications working group update | Pensions Manager – Employer Engagement |
| 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 |

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| 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 |
| 30 May 2023 | | |
| Governance and Compliance Statement | Annual Review of Governance and Compliance Statement | Governance and Compliance Pensions Manager |
| External Audit Plan for the East Sussex Pension Fund 2022/23 | Draft External Audit Plan for 2021/22 Pension Fund Financial Statements | Head of Pensions |
| 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 |

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| Privacy Notice and Memorandum of Understanding | Annual review of Funds Privacy Notice (summary and full) and Memorandum of Understanding to check for any changes. This will be reported as a note in the governance report if no required changes. | Governance and Compliance Pensions Manager |
| Breaches Policy refresh | 3 year review of the Breaches policy to ensure up to date and representing best practice | Governance and Compliance Pensions Manager |
| 4 September 2023 | | |
| 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 |
| Additional Voluntary Contributions (AVC) Report | AVC update report on AVC offerings to members | Head of Pensions |
| Pension Fund Annual Report and Accounts 2021/22 | 2020/21 Annual Report and Accounts for approval | Head of Pensions |
| 2 November 2023 | | |
| Employer Forum Agenda | Discussion on Pension Fund Employer Forum Agenda topics | Pensions Manager – Employer Engagement |
| Annual Training Plan | Report on Training completed in the year and training recommendations for the up-coming year | Head of Pensions |
| 8 February 2024 | | |

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| Business Plan and Budget 2024/25 | Report to set the Budget for the Pension Fund for the Financial Year 2024/25 including the Business Plan with key deliverables for the year. | Head of Pensions |
| External Audit Plan for the East Sussex Pension Fund 2023/24 | Draft External Audit Plan for 2023/24 Pension Fund Financial Statements | Head of Pensions |
| 5 June 2024 | | |
| 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 |
| Privacy Notice and Memorandum of Understanding | Annual review of Funds Privacy Notice (summary and full) and Memorandum of Understanding to check for any changes. This will be reported as a note in the governance report if no required changes. | Governance and Compliance Pensions Manager |
| Training Strategy | Two year review and refresh of the Funds Training Strategy | Governance and Compliance Pensions Manager |
| Risk Management Policy | Three years review and refresh of the Funds Risk Management Policy | Governance and Compliance Pensions Manager |
| 11 September 2024 | | |
| 7 November 2024 | | |
| 13 February 2025 | | |

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 |
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Future Pension Committee Agenda

| Item | Description | Author |
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| Standing items (items that appear on each agenda) | | |
| Governance Report | A report on governance issues effecting the fund, developments in the LGPS, approval of policy amendments and McCloud working group update | Pensions Manager – Governance and Compliance |
| 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 |
| Investment Report | A Quarterly performance report of the investment managers | Head of Pensions and Investment Consultant |

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| 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 |
| 16 June 2023 (Revised date) | | |
| 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 |
| External Audit Plan for the East Sussex Pension Fund 2022/23 | Draft External Audit Plan for 2021/22 Pension Fund Financial Statements | Head of Pensions |
| Privacy Notice and Memorandum of Understanding | Annual review of Funds Privacy Notice (summary and full) and Memorandum of Understanding to check for any changes. This will be reported as a note in the governance report if no required changes. | Governance and Compliance Pensions Manager |
| Breaches Policy refresh | 3 year review of the Breaches policy to ensure up to date and representing best practice | Governance and Compliance Pensions Manager |
| Additional Voluntary Contributions (AVC) Report | AVC update report on AVC offerings to members | Head of Pensions |

20 July 2023 Investment Strategy review and training day (not a formal Committee meeting unless urgent decisions required)**19 September 2023**

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| 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 |
| Additional Voluntary Contributions (AVC) Report | AVC update report on AVC offerings to members | Head of Pensions |
| Pension Fund Annual Report and Accounts 2021/22 | 2020/21 Annual Report and Accounts for approval | Head of Pensions |
| Carbon Footprinting | A report on the carbon footprint of the portfolio of ESPF including whether investments are in line with transition pathways. (Note this may slip to September depending on supplier turnaround times) | Head of Pensions |
| Investment Strategy Statement | Refresh of the Investment Strategy Statement following Strategy review day in July to formalise and approve the new strategy post triennial valuation. Review to include Statement of Investment Principles. | Head of Pensions |
| Stewardship Code submission for 2022 | Second annual submission to FRC for Stewardship activities for calendar year 2022 prior to October submission date | Head of Pensions |

16 November 2023

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| Employer Forum Agenda | Discussion on Pension Fund Employer Forum Agenda topics | Pensions Manager – Employer Engagement |
| Annual Training Plan | Report on Training completed in the year and training recommendations for the up-coming year | Head of Pensions |
| 22 February 2024 | | |
| Business Plan and Budget 2024/25 | Report to set the Budget for the Pension Fund for the Financial Year 2024/25 including the Business Plan with key deliverables for the year. | Head of Pensions |
| External Audit Plan for the East Sussex Pension Fund 2023/24 | Draft External Audit Plan for 2023/24 Pension Fund Financial Statements | Head of Pensions |
| 19 June 2024 | | |
| 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 |
| Privacy Notice and Memorandum of Understanding | Annual review of Funds Privacy Notice (summary and full) and Memorandum of Understanding to check for any changes. This will be reported as a note in the governance report if no required changes. | Governance and Compliance Pensions Manager |
| Training Strategy | Two year review and refresh of the Funds Training Strategy | Governance and Compliance Pensions Manager |

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| Risk Management Policy | Three years review and refresh of the Funds Risk Management Policy | Governance and Compliance Pensions Manager |
| 17 July 2024 - Investment Strategy Review and training day | | |
| 25 September 2024 | | |
| 21 November 2024 | | |
| 27 February 2025 | | |

Actions requested by the Committee

| Subject Area | Detail | Status |
|---|---|--|
| The case for Divestment and implications on Investment Strategy | <p>Committee agreed in July 2022 to ask officers and the Fund's external advisers to conduct a piece of work concurrent with the completion of the triennial valuation which:</p> <ol style="list-style-type: none"> 1. Assesses the fiduciary and legal consequences of fossil fuel divestment for the Fund; 2. Examines how such a move aligns with relevant guidance and advice; 3. Explores how practical an act it would be within the context of the ACCESS pool; and 4. Reviews evidence on the efficacy of such an approach in promoting the energy transition. | In progress - planned for discussion to aid the strategy review in July 2023, in advance of the September committee for investment strategy approval |
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| 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 IIWG meetings</p> <ul style="list-style-type: none"> • 27 February 2023 (private debt, inflation linked property) • 5 April 2023 <i>Officers and Advisers only</i> – progress on Divestment project • 24 April 2023 <i>Officers and Advisers only</i> – progress on Divestment project • 11 May 2023 (Gilt triggers, property pooling, performance, strategy review progress, PE valuations, liquid asset pooling) • 24 May 2023 <i>Officers and Advisers only</i> – progress on Divestment project <p>Scheduled</p> <ul style="list-style-type: none"> • 29 June 2023 <i>Officers and Advisers only</i> – progress on Divestment project | <p>William Bourne, Russell Wood, Sian Kunert, Representative from Investment Consultant</p> <p>Cllr Fox or substitute committee member is invited to attend</p> |
| Administration Working Group | <p>The Administration Working Group was set up in 2021 following the conclusion of the ABS and Data Improvement Working Group. The group discuss ongoing administration projects and areas of administration focus</p> <p>Recent meetings</p> <ul style="list-style-type: none"> • 20 March 2023 • 16 May 2023 <p>Scheduled</p> | <p>Cllr Fox, Ray Martin, Neil Simpson, Paul Punter, Sian Kunert, Ian Gutsell</p> |

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|------------------------------|---|--|
| | <ul style="list-style-type: none"> • 4 July 2023 • 24 August 2023 • 9 October 2023 • 5 December 2023 | |
| 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"> • 5 January 2023 | Cllr Fox, Lynda Walker, Paul Punter, Sian Kunert, Dave Kellond, Mike Burton |
| 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"> • 21 February 2023 – Summary accounts and ABS changes • 17 May 2023 – TME/MSS, Member booklet <p>Scheduled meetings</p> <ul style="list-style-type: none"> • 12 September 2023 • 12 December 2023 | <p>Lynda Walker, Ray Martin, Sian Kunert, Tim Hillman, Paul Linfield, employer rep vacancy</p> <p>Note - All Board members invited to attend</p> |

Training and Development – attendance at recent events

| Invited | Date | Topic | Committee | Board |
|---------|--------|--|---|-----------|
| PB&PC | 28-Mar | Implementing TPR's New Code of Practice - Codes and conversations with Nick Gannon | | Neil |
| PB&PC | 30-Mar | Structure and powers of TPR | Cllrs Redstone, Hollidge | Ray, Neil |
| PC | 28-Apr | Fiduciary Duties, the power to invest and MiFID II | Cllrs Fox, Hollidge, Redstone, Tutt, Taylor | |

Upcoming Training Offered to Pension Board

Training and Development – Upcoming Training Offered to Pension Board

| Date | Topic |
|---|---|
| 21 June Organiser: PensionsAge Time: 08:55 – 15:10 Location: Leeds Cost: Free | Pensions Age Northern Conference The organisers are saying why should we attend: Hear the views of key associations and spokespeople in the industry Understand the hot topics and current issues facing UK pension schemes in the current environment Understand what the changes in pensions regulation mean for you and how you can best address the changes Learn about new and effective investment and asset allocation trends in both the DB and DC space Understand how to generate returns while managing your risk Learn how to effectively communicate to your members Learn from case studies and experience Network with other pension professionals • Gain up to 7 CPD hours with some accrediting bodies |

Training and Development – Upcoming Training Offered to Pension Committee

| Date | Topic |
|--|---|
| 6-8 June Organisation: PLSA Time: Location: Edinburgh Cost: Free | Investment Conference 2023 This year pensions industry leaders and aspiring leaders will discuss: The impact of macroeconomic and political instability on the investment climate The way we identify, understand and manage the next big risks The investment outlook for an industry searching for growth opportunities How pension funds can support positive growth for the national economy and society |
| 14 June Organiser: PMI Time: 10:00 - 11:00 Location: Online Cost: Free | Using Dormant Assets to Transform Communities and Change Lives More details to follow. |
| 14-15 June Time: 08:50 – 16:50 Location: London Cost: Free | Sustainable Investment Festival The Sustainable Investment Festival (SIF) will take impactful engagement and positive social change as key themes. This will include: Exploring best practice in how asset managers engage with companies How advisers engage with clients on sustainable investing How fund selectors and pension professionals engage with fund managers to drive positive social and environmental change |
| 21 June Organiser: Pensions Age Time: 08:55 – 15:10 Location: Leeds Cost: Free | Pensions Age Northern Conference The organisers are saying why should we attend: Hear the views of key associations and spokespeople in the industry Understand the hot topics and current issues facing UK pension schemes in the current environment Understand what the changes in pensions regulation mean for you and how you can best address the changes Learn about new and effective investment and asset allocation trends in both the DB and DC space Understand how to generate returns while managing your risk Learn how to effectively communicate to your members Learn from case studies and experience Network with other pension professionals • Gain up to 7 CPD hours with some accrediting bodies |
| 26-28 June | Local Authority Conference |

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|---|---|
| <p>Organisation: PLSA Time: Location: Gloucestershire Cost: £495</p> | <p>We ask what's the investment outlook for schemes amid recent market turmoil and the continued threat of recession? How can we ensure operational sustainability of the LGPS when schemes are continually pushed to do more with less? How should funds communicate with employers and savers during the cost-of-living crisis? What's next on ESG, pensions dashboards and the levelling up debate? Come to conference to find out more.</p> |
| <p>4-6 July Organiser: DG Publishing Time: 19:00 – 13:05 Location: The Grove, Hertfordshire Cost: Free</p> | <p>LAPF Strategic Investment Forum This is a leading investment conference and dinner for senior LGPS fund investment officers and their advisers. The event will cover wide variety topics such as: Geopolitical Risks, Fixed Income Returns, Real Estate Long Income, Biodiversity, Private Equity, Private Debt, Social Housing, Commercial property</p> |

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