

Report to: **Pension Committee**

Date: **16 July 2018**

By: **Chief Finance Officer**

Title of report: **Independent Auditor's (KPMG) Report to those charged with governance and Annual Report 2017/18**

Purpose of report: **To present the KPMG report to those charged with governance, and to report on anticipated unqualified audit opinion on the 2017/18 Pension Fund Annual Report**

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**RECOMMENDATIONS - To:**

**(1) Note the Independent Auditor's (KPMG) report to those charged with governance on Pension Fund Annual Report 2017/18.**

**(2) Approve the Pension Fund Annual Report for publication.**

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**1. Background**

1.1 This report summarises the key findings arising from KPMG final audit work in relation to the Pension Fund - 2017/18 Annual Report.

**2. Supporting Information**

2.1 The Pension Committee at its meeting on 15 June 2018 received the draft Annual Report and Accounts of the Pension Fund for the year ended 31 March 2018, in line with the statutory requirement to prepare the accounts and that the draft accounts are presented to Members.

2.2 KPMG is obliged to produce a report to those charged with governance on the Pension Fund annual report/accounts (Appendix 1), which formally reports on the outcome of the final audit of the financial statements.

2.3 KPMG report requires publication of more detailed points, which in the past were treated as routine technical matters between officers and the auditors. As it happens, on this occasion there are few such points.

**3. Changes to ESCC Statement of Accounts**

3.1 The Chief Finance Officer (Section 151 Officer) on 30 May 2018 formally approved the draft Pension Fund Accounts, in line with the Accounts and Audit 2015 Regulations. Since then the final audit has been carried out by KPMG, who is expected to issue an unqualified "true and fair" audit opinion. The Regulations require me to report on changes to the accounts before they can be published.

3.2 Subject to any issues been identified by KPMG between the issue of this report and the meeting, I am able to report that KPMG propose to issue an unqualified opinion.

3.3 KPMG has not identified any control findings or recommendations in the course of 2017/18 audit that need to be reported to this committee.

3.4 The Pension Fund Annual Report is attached as Appendix 2, and the legal deadline for publishing the 2017/18 Annual Report is 1<sup>st</sup> December 2018.

#### **4. Conclusion and reasons for recommendations**

4.1 The committee to note the Independent Auditor's (KPMG) report to those charged with governance, and approve the 2017/18 Pension Fund Annual Report for publication.

**IAN GUTSELL**  
**Chief Finance Officer**

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Local Member(s): All

#### Appendices

Appendix 1 Independent Auditor's (KPMG) report to those charged with governance;  
Appendix 2 2017/18 Annual Report/Accounts.



# External Audit Report 2017/18

**East Sussex County Council Pension Fund**

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13 July 2018

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This report is addressed to East Sussex County Council Pension Fund (the Pension Fund) and has been prepared for the sole use of the Pension Fund. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Joanne Lees, the engagement lead to the Pension Fund, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

# Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to East Sussex County Council Pension Fund (the Pension Fund) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (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 Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

**Basis of preparation:** We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

**Purpose of this report:** This Report is made to the Authority's Audit Committee as Administering Authority for the Pension Fund in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

**Limitations on work performed:** This Report is separate from our audit opinion and does not provide an additional opinion on the Pension Fund's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

**Status of our audit:** Our audit is still in progress, and we will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Final sample and transactional testing
- Final investments testing
- Review of disclosures within the financial statements
- Final review and closedown procedures
- Receipt of the signed management representation letter

**Financial statements audit – see section 2 for further details**

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Pension Fund's financial statements for the deadline of 31 July 2018, following the Audit Committee adopting them and receipt of the management representations letter. We have completed our audit of the financial statements. We have read the Pension Fund Annual Report. Our key findings are:

- There are no unadjusted or adjusted audit differences identified during our audit.
- We agreed presentational changes to the accounts with the Finance Team, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- We are not asking for any additional requests for management representations with respects of the Pension Fund in addition to our routine requests.
- We reviewed the Pension Fund Annual Report and have no matters to raise with you.

We are now in the completion stage of the audit. We intend to issue our 2017/18 Annual Audit Letter in August 2018. The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2016/17. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

**Other matters**

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Pension Fund should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014. There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Pension Fund's 2017/18 financial statements. We have not made any recommendations as a result of our audit of the Pension Fund 2017/18.

This year we have been requested to undertake enhanced procedures on behalf of a number of the admitted and scheduled bodies to the Pension Fund. Work is ongoing in relation to this, and an additional fee will be agreed with management on behalf of the Pension Fund, which can be recharged on to those bodies.

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	Before	During	After
<b>1. Business understanding:</b> review your operations	✓	✓	–
<b>2. Controls:</b> assess the control framework	✓	–	–
<b>3. Prepared by Client Request (PBC):</b> issue our prepared by client request	✓	–	–
<b>4. Accounting standards:</b> agree the impact of any new accounting standards	✓	✓	–
<b>5. Accounts production:</b> review the accounts production process	✓	✓	✓
<b>6. Testing:</b> test and confirm material or significant balances and disclosures	–	✓	✓
<b>7. Representations and opinions:</b> seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Head of Finance and this was issued as a final document to the finance team. This resulted in audit working papers which were of appropriate quality for the purposes of the audit.
4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes primarily related to for the Pension Fund, amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

## Financial statements audit

5. Accounts Production	<p>We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.</p> <p>This is the fourth year that the Pension Fund has completed its accounts and audit process to an accelerated deadline, and we consider that the overall process for the preparation of your financial statements is adequate. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit. We have identified presentational changes to the accounts which we have agreed with the Finance Team.</p>
7. Representations	<p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Chief Financial Officer on 3 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are not requesting any new management representations this year in addition to our routine requests.</p>



# Financial statements audit

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with Management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Pension Fund's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of hard to price investments, which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

# Financial statements audit

## Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

SIGNIFICANT audit risk	Account balances affected	Summary of findings
Valuation of hard to price investments	<p>Level 2 investments: £1.9billion</p> <p>Level 3 investments: £566m</p>	<p>The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.</p> <p>In the prior year financial statements, £751.7million out of a total of £3.2billion of investments, or 23%, were in this harder to price category. For year ended 31 March 2018, £2.4billion out of a total of £3.2billion of investments, or 75%, were in this harder to price category</p> <p>As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures.</p> <p>As a result of this work we have no matters to raise with you.</p>

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our External Audit Plan 2017/18 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p>	<p>In our External Audit Plan 2017/18 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>
Fraud risk from management override of controls	<p>Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>There are no matters arising from this work that we need to bring to your attention.</p>

# Financial statements audit

## Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset/liability class	Current year	Prior year	Balance	KPMG comment
Valuation of hard to price investments	3	3	Level 2 investments: £1.9billion  Level 3 investments: £566m	<p>The Pension Fund invests in a range of funds designed to achieve the maximum return for the Pension Fund. These funds are classified as either Level 1, Level 2, or Level 3, categorised based on the quality and reliability of information used to determine fair values. Level 1 investment assets are those where the fair values are based on unadjusted quoted prices in active markets. By contrast, Level 2 and Level 3 investments are investments which may, for example, not be publicly traded, or where valuation techniques are used to determine fair value.</p> <p>Our procedures here involved reconciling the accounts figures to the Custodian report, and selecting a sample of investments to agree to publicly quoted sources, or to the audited accounts of Fund Managers. All the items tested could be appropriately agreed back to third party evidence sources and hence on this basis we are satisfied that the judgements made in the valuation process are reasonable.</p> <p>There are no matters arising from this work which we wish to bring to raise with you.</p>

# Financial statements audit

## Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in East Sussex County Council's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of East Sussex County Council. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

## Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year for both the Council and the Pension Fund. We are not in a position to issue our audit certificate with the audit opinion as:

- As previously noted we have an ongoing objection outstanding.
- HM Treasury has recently issued its guidance for completing the WGA on the Authority accounts and issued the consolidation packs that authorities need to complete. The audit deadline is 31 August 2018.

## Audit fees

Our fee for the audit was £26,607 excluding VAT (£26,607 excluding VAT in 2016/17). This fee was in line with that highlighted in our audit plan approved by the Audit Committee in March 2018.

During the year we were asked by auditors of the Pension Fund's admitted and scheduled bodies to undertake an enhanced suite of testing, which we are required to complete under the terms of the PSAA contract. Work is ongoing in relation to this and a fee will be agreed with management [and the PSAA through the PSAA fee variation process](#), which the Pension Fund is able to recharge on to the admitted bodies to which the work relates.

# Recommendations raised and followed up

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		

We are pleased to report that there are no recommendations arising from our audit in 2017/18. There were no recommendations arising from our audit in 2016/17 for follow up.

# Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in March 2018. Materiality for the Pension Fund's accounts was set at £33 million which equates to around 1% of assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to Audit Committee

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 misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.65m for the Pension Fund.

Where 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.

# Audit differences

**Audit differences**

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £1.65m are shown below.

**Unadjusted audit differences**

We are pleased to report there are no unadjusted audit differences.

**Adjusted audit differences**

We are pleased to report there are no adjusted audit differences.



# Audit independence

## ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF EAST SUSSEX COUNTY COUNCIL PENSION FUND

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

# Audit independence

## Independence and objectivity considerations relating to the provision of non-audit services

### Summary of fees

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority for significant professional services provided by us during the reporting period, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Pension Fund	26,607	26,607
<b>Total audit services</b>	<b>26,607</b>	<b>26,607</b>
Allowable non-audit services	0	0
Audit related assurance services	0	0
Mandatory assurance services	0	0
<b>Total Non Audit Services</b>	<b>0</b>	<b>0</b>

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. There were no non audit fee services provided to the Pension Fund in 2017/18.

During the year we were asked by auditors of the Pension Fund's admitted and scheduled bodies to undertake an enhanced suite of testing, which we are required to complete under the terms of the PSAA contract. Work is ongoing in relation to this and a fee will be agreed with management and the PSAA through the PSAA fee variation process, which the Pension Fund is able to recharge on to the admitted bodies to which the work relates.

# Audit independence

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

## Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

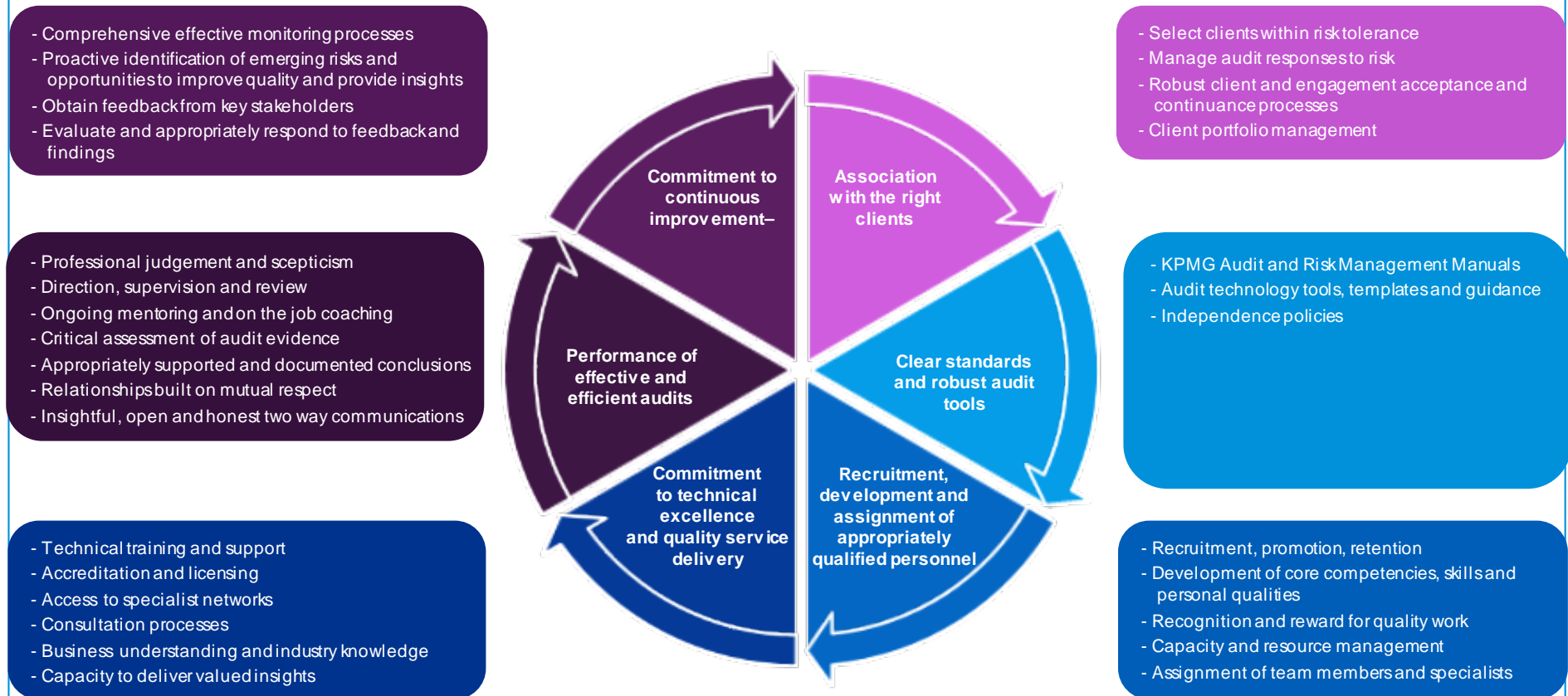
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**KPMG LLP**

**13 July 2018**

# Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





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Item 6 – Appendix A – Appendix 2

# **East Sussex Pension Fund Annual Report and Accounts**

**2017/2018**

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# 1. Introduction

## Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Public Services Pensions Act 2013. The rules of the scheme are provided in the Local Government Pension Scheme Regulations that came into force from 1 April 2014 and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, mainly set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all non teaching employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Academies, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 132 participating employers. A full list of participating employers is given at note 29.

## Administering Authority Responsibilities

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

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as the other benefits of the pension scheme. As part of its responsibilities as the administering authority the County Council is responsible for setting investment policy and reviewing the performance of the Fund’s external investment managers.

The County Council has entered in to a partnership arrangement with Surrey County Council known as Orbis to undertake the day to day functions associated with the administration of the LGPS. The main services provided by Orbis include maintenance of scheme members’ records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund’s Actuary.

Although the day to day work associated with administering the LGPS has been passed to Orbis, the County Council takes its statutory responsibility very seriously. It has therefore set up procedures to ensure that Orbis undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participating employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS102 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with East Sussex County Council, as administering authority for the East Sussex Pension Fund. The County Council has in place an established annual employers’ pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

## Changes affecting the LGPS, and future developments

In line with the Public Service Pensions Act 2013, the East Sussex Pension Fund set up a Pensions Board. The Pension Board consists of 3 Employer representatives, 3 Scheme member representatives and an independent chair. The Board met for the first time in July 2015 and meets no less frequent than four times a year:

Additional information about the Pension Board, agendas and minutes of the Board’s meetings are available at: <https://democracy.eastsussex.gov.uk/mgCommitteeDetails.aspx?ID=374>



Information and updates about any future developments in the scheme are contained on the Pension Fund's dedicated member website: <http://www.eastsussexpensionfund.org/>.

## LGPS Investment Pooling

The Government is encouraging LGPS Funds to work together to put forward plans to “pool investments to significantly reduce costs, while maintaining investment performance.” In response eleven like-minded LGPS Funds (including East Sussex) are working together under the name of ACCESS (A Collaboration of Central, Eastern and Southern Shires). Individually the participating funds have a strong performance history and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise. Collectively the ACCESS Pool has significant scale with assets of £43bn, managed on behalf of c3,000 employers and c900,000 members. It is the Government's expectation that the asset pools are formed in order for assets to begin being transferred from individual LGPS Funds from 1 April 2018. ACCESS contains the following other funds:

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

ACCESS's collaboration was based on pooling investments via a Collective Investment Vehicle (CIV) that would be administered and maintained by a third party Operator. The eleven participating authorities have a clear set of objectives and principles that will drive the decision-making and allow participating authorities to continue to help shape the design of the Pool.

### Objectives

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

### Principles



### Progress to date

ACCESS authorities have appointed UBS to manage its passive mandates (approx. £11b). The indicative saving of £5.2m per annum exceeds the estimated saving projection of £4m per annum stated in our July 2016 submission.

The ACCESS authorities have appointed Link Fund Solutions (Link) as the pool's Financial Conduct Authority (FCA) authorised Operator. The appointment means a significant shift in governance arrangements with the Operator responsible for selecting and contracting with managers on behalf of the authorities participating in the pool. With the procurement phase completed, the implementation phase of the project is in train and progressing well.

There is a robust management of the Operator contract and the Operator Company is held to account by the administering authorities participating in the pool via the Joint Committee. To support the governance arrangements, ACCESS is setting up the ACCESS Support Unit (ASU) which will manage the Operator contract against specified KPIs and provide technical and secretariat support services to the Joint Committee (JC) and Officer Working Group (OWG).

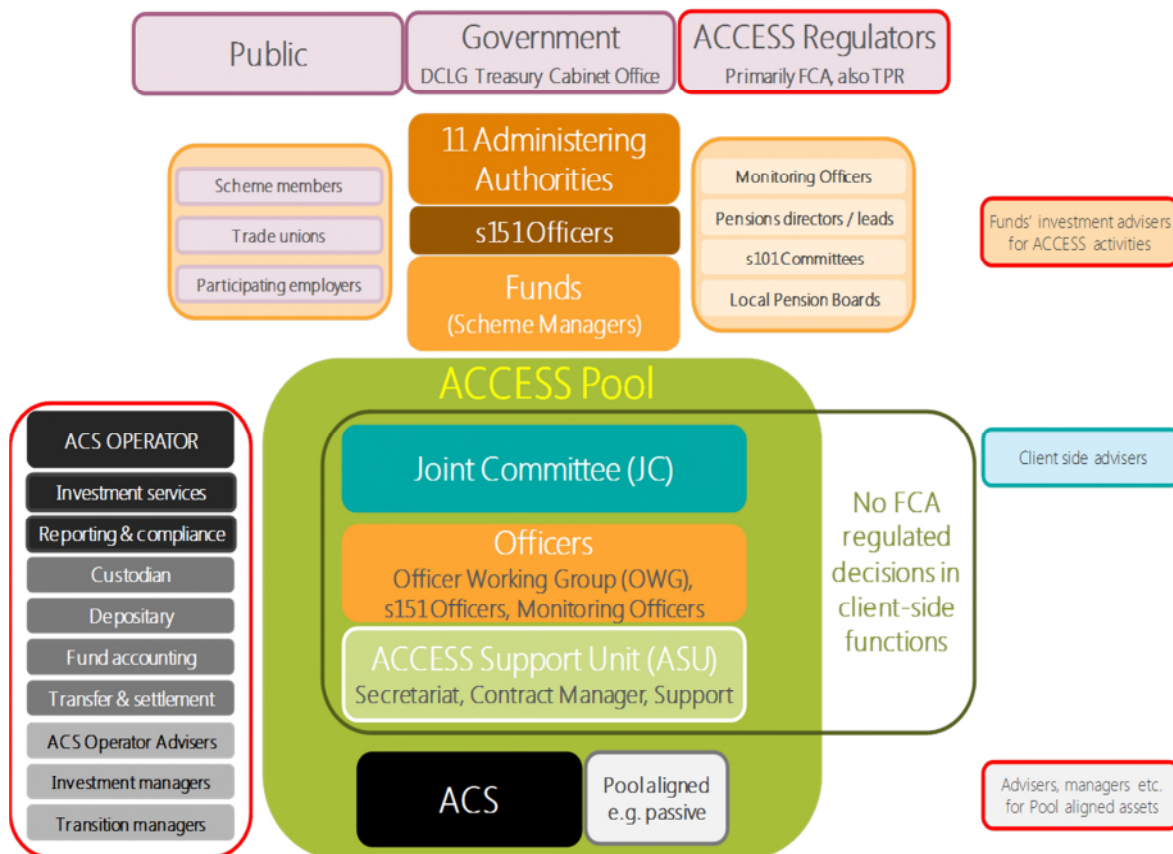
Local decision making (including strategic asset allocation) remains and the roles and responsibilities associated with the Pool and those which remain with the Administering Authority are clearly defined to ensure democratic accountability and that authorities continue to meet their fiduciary responsibilities.

The potential for greater savings in the longer term remains as the ACCESS pool applies its leverage as one of the largest asset pools in the UK and collaborates with other pools to achieve further benefits of scale in investment management including new ways of investing in illiquid assets, including infrastructure.

In addition to the savings in investment management fees due to the reduction in manager numbers and an increase in mandate size, there are other tangible benefits from pooling including a governance dividend (potential for reduced risk due to manager diversification achieved at pool level) and tax savings for funds moving from pooled funds to segregated mandates in the pool's tax transparent ACS. For some asset classes such as global equities tax savings alone are material relative to additional costs of implementing pooling.

### ACCESS Governance Structure

The diagram below sets out the overarching ACCESS governance arrangements.



Elected Members continue to be fully engaged in the Pooling initiative. The Joint Committee has appointed a Chairman (Cllr Andrew Reid, Suffolk County Council) and Vice-Chairman (Cllr Richard Stogdon, East Sussex County Council).

## 2. Management and financial performance report

### Scheme management and advisers

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

#### 2017/18 Pension Committee Members

##### East Sussex County Councillors:

Richard Stogdon (Chairman)  
Gerard Fox  
Stuart Earl

Simon Elford  
David Tutt

#### 2017/18 Pension Board Members

##### Independent Chairman:

Richard Harbord

##### Employer Representative:

Councillor Kevin Allen  
Councillor Brian Redman  
Sue McHugh

Brighton & Hove City Council  
Districts & Borough Councils  
Educational Bodies

##### Member Representative:

Angie Embury  
Rezia Amin  
Diana Pogson

Active & Deferred  
Active & Deferred  
Pensioners

##### FUND MANAGERS:

Longview Partners  
Prudential M&G  
UBS Infrastructure

Adams Street Partners  
Newton  
Ruffer  
UBS Passive

Harbourvest  
Panthleon  
Schroders

##### CUSTODIAN:

Northern Trust

##### AVC PROVIDER:

Prudential

##### ACTUARY:

Hymans Robertson  
20 Waterloo Street  
Glasgow  
G2 6DB

##### LEGAL ADVISORS:

Appointed from National LGPS Framework for Legal Services

##### BANKERS TO THE FUND:

NatWest Bank

##### TREASURER:

Ian Gutsell  
Chief Finance Officer (Section 151  
Officer)  
East Sussex County Council

##### HEAD OF PENSIONS:

Ola Owolabi

##### AUDITOR:

KPMG

##### SCHEME ADMINISTRATOR:

East Sussex County Council

##### ADMINISTRATION PROVIDER:

Orbis Business Operations

##### INVESTMENT ADVISER:

Hymans Robertson

##### INDEPENDENT ADVISER:

William Bourne

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##### *Day-to-Day Matters*

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Lewes, BN7 1UE

(01273) 337450

## Risk management

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

Risk is identified and managed as follows:

### **Management Risk:**

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

Risks include the non-payment of contributions by employers and processes are in place to ensure that contributions are reconciled regularly and late payers are reported. The operational risks of using third party suppliers are monitored through the annual review of Internal Control Reports

### **Benefits Administration Risk:**

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

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

### **Internal Control Framework:**

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

### **Investment risk:**

Investment risk is regularly considered by Members and Officers, advised by the East Sussex Pension Fund (ESPF) Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility.

The ESPF Investment Strategy Statement (see page 59), sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12 month period under review.

# Financial performance

## Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on pages 11 to 17.

### Fund Account

Net (Contributions)/withdrawals
Management Expenses
Return on Investments
<b>Net Increase in Fund</b>

<b>2016/17 £000</b>	<b>2017/18 £000</b>
(5,970)	32,081
13,591	13,330
(578,699)	(86,348)
<b>(571,078)</b>	<b>(40,937)</b>

### Net Asset Statement

Bonds
Equities
Pooled Funds
Cash
Other
<b>Total Investment Assets</b>
Non-Investment Assets
<b>Net assets of the fund available to fund benefits at the year end.</b>

<b>2016/17 £000</b>	<b>2017/18 £000</b>
478,519	497,920
341,077	363,116
2,373,593	2,377,402
134,212	133,789
7,411	3,545
<b>3,334,812</b>	<b>3,375,772</b>
7,631	7,608
<b>3,342,443</b>	<b>3,383,380</b>

## Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2017/18.

Month	Payments Due	Payments Received Late
April	129	6
May	130	3
June	129	7
July	132	7
August	129	7
September	131	4
October	131	10
November	132	8
December	132	7
January	132	4
February	132	6
March	132	4

No interest was charged on any of the late payments.

## Forecasts

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

### Fund Account

	2016/17		2017/18		2018/19
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Contributions	(131,600)	(130,372)	(133,500)	(131,416)	(136,900)
Payments	122,400	124,402	157,100	163,497	133,200
Administration expenses	1,450	1,037	1,110	1,005	1,086
Oversight and governance costs	680	743	660	673	733
Investment expenses:					
fees invoiced to the fund	8,850	7,775	8,850	7,541	4,650
fees deducted at source	-	4,036	-	4,111	-
Net investment income	(30,500)	(42,669)	(44,400)	(37,799)	(39,300)
Change in market value	(203,200)	(536,030)	(197,600)	(48,549)	(231,700)
<b>Net increase in the Fund</b>	<b>(231,920)</b>	<b>(571,078)</b>	<b>(207,780)</b>	<b>(40,937)</b>	<b>(268,231)</b>

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

### Net Asset Statement

	2016/17		2017/18		2018/19
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,831,300	2,158,436	2,307,400	2,190,268	2,341,400
Bonds	457,500	478,519	510,100	497,920	530,800
Property	347,000	321,767	348,500	344,411	373,000
Alternatives	246,500	234,467	253,700	205,839	222,700
Cash	80,400	134,212	104,800	133,789	135,800
Other	7,100	7,411	7,900	3,545	3,800
<b>Total Investment Assets</b>	<b>2,969,800</b>	<b>3,334,812</b>	<b>3,532,400</b>	<b>3,375,772</b>	<b>3,607,500</b>

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

## Management Expenses

	2016/17		2017/18		2018/19
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Orbis Finance Support Services	40	37	40	57	51
Orbis Business Operations Support Services	770	970	970	909	935
Supplies and Services	440	30	100	39	100
<b>Administration total</b>	<b>1,250</b>	<b>1,037</b>	<b>1,110</b>	<b>1,005</b>	<b>1,086</b>
<b>Oversight and governance costs</b>					
Orbis Finance Support Services	200	229	200	193	263
Supplies and Services	480	529	460	477	470
Third Party Payments	180	133	150	119	150
Other Income	(180)	(148)	(150)	(116)	(150)
<b>Oversight and governance total</b>	<b>680</b>	<b>743</b>	<b>660</b>	<b>673</b>	<b>733</b>
<b>Investment Management</b>					
Investment expenses:					
fees invoiced to the fund	8,850	7,775	8,850	7,541	4,650
fees deducted at source	-	4,036	-	4,111	-
<b>Investment Management Total</b>	<b>8,850</b>	<b>11,811</b>	<b>8,850</b>	<b>11,652</b>	<b>4,650</b>
<b>Management Expenses Total</b>	<b>10,780</b>	<b>13,591</b>	<b>10,620</b>	<b>13,399</b>	<b>6,469</b>

## Pension overpayments

	2014/15		2015/16		2016/17		2017/18	
	Number	Value £000	Number	Value £000	Number	Value £000	Number	Value £000
<b>Overpaid Pensioners</b>	<b>40</b>	<b>22</b>	<b>44</b>	<b>34</b>	<b>73</b>	<b>61</b>	<b>52</b>	<b>52</b>
Recoveries	31	14	38	23	45	30	41	42
Write Off	1	1	-	-	2	4	3	1
Outstanding	8	7	6	11	26	27	8	9

### 3. Investment policy and performance

#### Bodies which the fund is member, subscriber or signatory

Pensions and Lifetime Savings Association

Local Authorities Pension Fund Forum

CIPFA Pensions Network

Club Vita

Local Government Association (LGPC)

Local Government Pension Scheme National Framework for Passive Investments, Legal Services, Actuarial and Investment Consultants

#### Current Investment Arrangements

The Pension Committee ("the Committee"), in working towards the Fund's long-term objectives, agreed to make modest changes to the Fund's asset allocation and investment manager structure over the course of the financial year to 31 March 2018. In addition, the Fund has introduced its Investment Strategy Statement, in line with the new investment regulations.

At the beginning of 2018, in conjunction with the ACCESS pool, the Fund transferred all its passive holdings (with State Street and Legal & General) to UBS Asset Management ("UBS")

When considering the investment portfolio, diversification is one of the most important issues that the Committee considers as a wider spread of investments will tend to reduce risk. For example, any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If a particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

The Fund's investments are very well diversified, as a way of controlling risk. This applies in two ways:-

##### 1. Asset Allocation

Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property and infrastructure ("real" assets with a different performance cycle to equities) and a small exposure to bonds (which more closely "match" the value placed on the Fund's liabilities). The allocation to absolute return mandates provides further diversification. Uniquely, within these latter mandates, the managers have the flexibility to alter asset allocation between a wide range of asset classes. Within equities, diversification is achieved by investing in different markets across the world and using different benchmarks which provides exposure to many different stocks and sectors.

Over the course of the year, the Fund has continued to develop its governance arrangements, developing its set of Investment beliefs, progressing its approach to environmental, social and governance issues and appointing Trucost to monitor the Fund's carbon footprint across its equity holdings.

##### 2. Manager Structure

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

- In February 2018, UBS became the Fund's largest single equity manager; the majority of the assets are managed passively against UK and Global equity market benchmarks. The allocation to the UBS All World Equity Fundamentally Weighted Index Fund offers additional diversification from the market capitalisation based passive management approach. The Fund has one active global equity manager (Longview). The Committee maintains the belief that a blend of active and passive management of equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund's other mandates, due to their flexible and unconstrained management approach.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.
- Corporate bonds and absolute return bonds are managed by M&G. Index-linked bonds are managed by UBS.
- The Fund's allocations to infrastructure and unquoted equities are currently divided between four managers, two within each asset class.



The objective is to seek to ensure:

1. each active manager adds value, net of the fees which it charges;
2. each manager brings something different - specialist skills or a different approach to investment - to the mix.

In this way, the Fund seeks to achieve an appropriate return and added value over the medium term, but in a risk controlled fashion

## **Independent Adviser's report**

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is primarily to act as a separate source of insight to Officers and Committee members, and to challenge service providers. Our collective objective is to invest the Fund's assets so that it can pay members' pensions in full and on time. There is also a governance aspect to my remit, in that I am able to provide stakeholders with some assurance that the Fund is being appropriately and properly managed.

2018 is the ninth year of rising prices in asset markets, propelled largely by the major central banks' decision to print money to avert disaster after the 2008/9 financial crisis. That has been of great benefit to the value of the Fund's assets, which have risen from £1.4bn in 2009 to £3.4bn today. It has also depressed bond yields, which has had the effect of increasing the actuarial valuation of the Fund's liabilities. Overall these trends have benefited the Fund and the funding ratio, which stood at 92% at the last valuation in 2016, is now likely to be even closer to full funding.

It has been clear for some time that the central banks' loose monetary policy could not continue indefinitely. In the past 12 months, despite the benign global economic background, equity market indices have stopped rising and the 10 year gilt (UK Government bond) yield has almost doubled from a low of 0.75% in 2017. High asset valuations leave little room for further expansion and the threats to economic growth globally are growing. The Fund is to some extent protected, both by the prudence of the actuarial assumptions and by its diversified asset allocation policy, but stakeholders should brace themselves for less favourable market conditions.

As the Fund approaches full funding, the question arises whether to 'de-risk' and lock in the valuation gains on the asset side, or whether to maintain the level of risk and look in due course to reduce employers' contributions. The current level reflects underpayments in recent years and the smoothing mechanism, and, if the funding level continues to improve, employers may anticipate an end to the increases and perhaps even a reduction for some as secondary contributions fall away.

The Fund's increasing maturity makes it likely that net cashflow will deteriorate. In 2017 pension payments slightly exceeded contributions, which is not untypical of the average LGPS fund, and investment income comfortably covered the shortfall. In future the Fund may need to pay more attention to ensuring that investment income is sufficient to cover any negative cashflow.

Over the next 12 months, under the Government's direction to all funds within the LGPS, the Fund will transfer the majority of its assets to the management of the ACCESS pool. ACCESS has been set up to keep the additional costs to the Fund as low as feasible, while benefiting from economies of scale. The additional layer of decision-making will inevitably involve increased complexity, and it will be important that the Committee is able to monitor performance and hold the decision-makers to account through effective governance processes. I am aware from experience elsewhere that where services are shared, this can be a considerable challenge.

The Fund is in a good position today and there is every reason to believe that it will be able to pay out pensions on time as it was designed to do. However, there is considerable uncertainty ahead, both because the market environment is changing and also because of pooling. I attend every Committee meeting and I see that Committee members, supported by Officers, consider in detail the courses of action before them. There can never be a guarantee that the route they opt for will turn out to be the best one but, in my view, they are performing their duties appropriately, conscientiously and according to the regulations.

## Voting

The Fund expects its investment managers to monitor investee companies, engage with company management where necessary and report on voting, governance and engagement activity.

### Active mandate

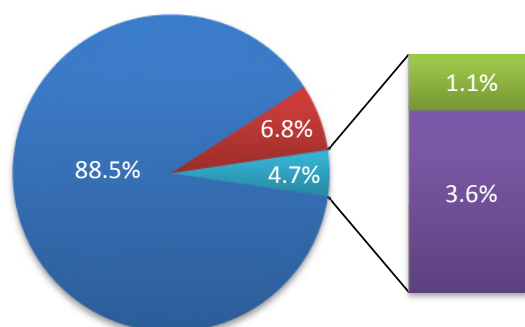
Longview are currently responsible for the Fund's actively managed equity mandate. The table below summarises the combined voting statistics for the Fund's Global equity mandate over the quarter:

Number of vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	1 Year*	With management	Against management
34	548	88.5%	6.8%	1.1%	3.6%	92.3%	7.7%

\* This shows votes cast in relation to the frequency of vote on executive compensation where a specific time period is required

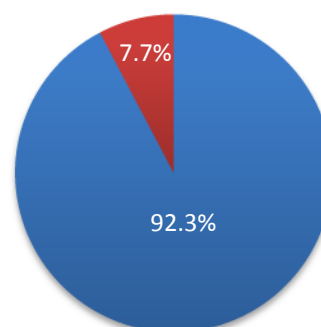
### Voting Instruction

■ For ■ Against ■ Abstain/ withheld/ DNV ■ 1 year



### With/Against Management

■ With management ■ Against management



Votes were withheld in six cases relating to the election of board directors. Longview voted against management on 42 proposals covering a range of issues. As requested by the Fund, Longview voted against any proposal to authorise political donations.

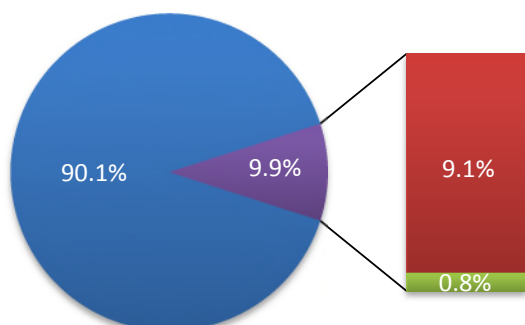
## Passive mandates

Following the transfer of assets from Legal & General and State Street, UBS is now responsible for the Fund's passively managed equity mandates. The table below summarises the combined voting statistics over the year for the regions that the Fund's equity mandate is invested in. We note that the Fund has not been invested with UBS over the full year.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
3,427	42,265	90.2%	9.1%	0.8%	91.9%	8.1%

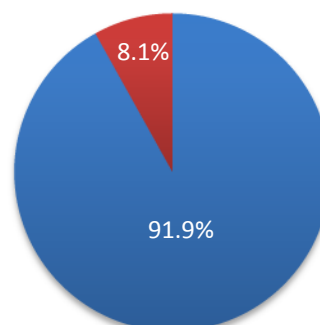
### Voting instruction

■ For ■ Against ■ Abstain/ withheld/ DNV



### With/ against management

■ With management ■ Against management



UBS voted against management on 3,409 proposals covering a range of issues.

## Custodian

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

The responsibilities of the Custodian are:

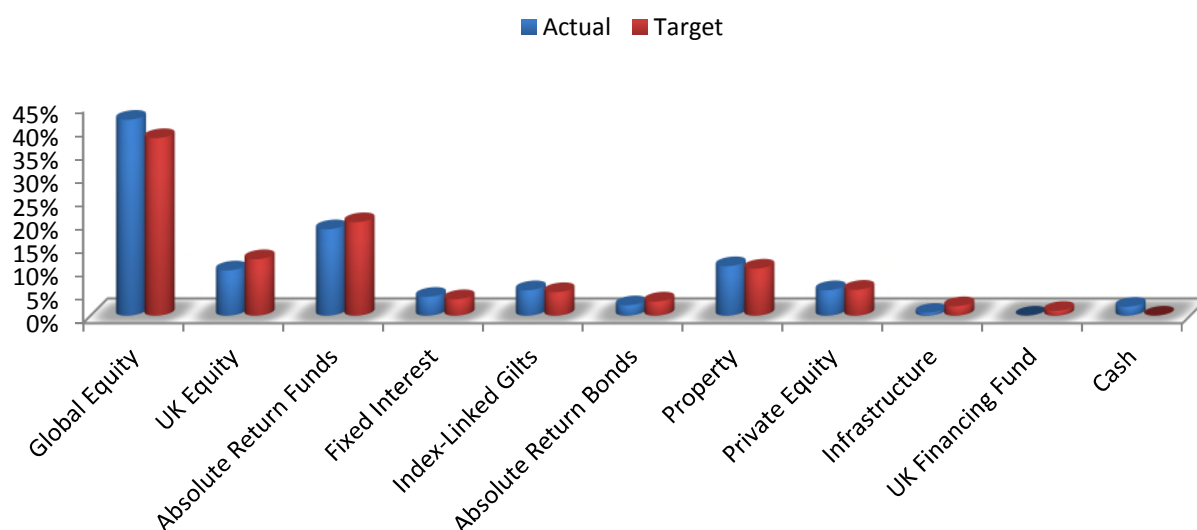
- Collection of investment income.
- Arranging for the custody of the schemes assets in compliance with the custody agreement.
- Providing quarterly valuations of the schemes assets, details of all transactions and investment accounting.
- Responsibility for cash management and investing the daily cash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

## Asset allocation

Mandate	Value (£m)	Proportion (%)		Value (£m)	Proportion (%)	
	Q1 2016	Actual	Target	Q1 2017	Actual	Target
<b>Equities</b>						
Active						
Longview - Global Equity	233.2	7.0%	5.0%	236.1	7.0%	5.0%
Passive						
UBS - Global Equities	-	-	-	567.8	16.8%	15.5%
UBS - Fundamental Indexation	-	-	-	611.0	18.1%	17.5%
UBS - UK Equities	-	-	-	325.7	9.6%	12.0%
L&G - Global Equities	516.3	15.5%	15.5%	-	-	-
State Street - Fundamental Indexation	657.4	19.7%	17.5%	-	-	-
L&G - UK Equities	354.4	10.6%	12.0%	-	-	-
<b>Total Equities</b>	<b>1,761.3</b>	<b>52.8%</b>	<b>50%</b>	<b>1,740.6</b>	<b>51.5%</b>	<b>50.0%</b>
<b>Absolute Return</b>						
Newton	285.9	8.6%	10.0%	308.4	9.1%	10.0%
Ruffer	292.6	8.8%	10.0%	317.0	9.4%	10.0%
<b>Total Absolute Return</b>	<b>578.5</b>	<b>17.4%</b>	<b>20.0%</b>	<b>625.4</b>	<b>18.5%</b>	<b>20.0%</b>
<b>Bonds</b>						
UBS - 5yr ILG	-	-	-	181.0	5.4%	5.0%
M&G - Bonds	200.9	6.0%	6.5%	207.1	6.1%	6.5%
L&G - 5yr ILG	179.6	5.4%	5.0%	-	-	-
<b>Total Bonds</b>	<b>380.5</b>	<b>11.4%</b>	<b>11.5%</b>	<b>388.1</b>	<b>11.5%</b>	<b>11.5%</b>
<b>Other Investments</b>						
Schroder - Property	327.9	9.8%	10.0%	353.3	10.5%	10.0%
M&G - Infrastructure Fund	14.0	0.4%	1.0%	0	0.0%	1.0%
UBS - Infrastructure	22.8	0.7%	1.0%	19.0	0.6%	1.0%
Adams Street - Private Equity	101.6	3.0%	2.8%	96.1	2.8%	2.8%
HarbourVest - Private Equity	89.8	2.7%	2.7%	86.7	2.6%	2.7%
M&G - UK Financing Fund	5.2	0.2%	1.0%	1.0	0.0%	1.0%
Cash account	53.2	1.6%	0.0%	65.6	1.9%	0.0%
<b>Total Other Investments</b>	<b>614.5</b>	<b>18.4%</b>	<b>18.5%</b>	<b>621.7</b>	<b>18.4%</b>	<b>18.5%</b>
<b>Total</b>	<b>3,334.8</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3,375.8</b>	<b>99.9%</b>	<b>100.0%</b>

Set out below is the Fund's strategic target and actual allocations at the end of the 2017/18 financial year.

### Asset allocation of strategic target versus actual by asset class



## Investment performance

The Fund delivered an absolute return of 2.3% over the twelve month period to 31 March 2018, underperforming its customised benchmark by 0.2%. Note 30 on page 58 gives further detail on the total fund performance.

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

Mandate	1 year			3 year (p.a.)			5 year (p.a.)		
	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*
<b>Equities</b>									
Longview - Global	1.2%	2.4%	-1.2%	10.5%	10.2%	0.4%	15.1%	11.0%	4.1%
UBS - Global	-3.9%	-3.9%	0.0%	N/A	N/A	N/A	N/A	N/A	N/A
UBS - Fundamental Indexation	-3.7%	-3.6%	-0.1%	N/A	N/A	N/A	N/A	N/A	N/A
L&G - UK	-6.8%	-6.8%	0.0%	N/A	N/A	N/A	N/A	N/A	N/A
<b>Absolute Return</b>									
Newton	-1.8%	0.4%	-2.2%	0.8%	0.6%	0.2%	2.2%	0.6%	1.6%
Ruffer	-0.3%	0.4%	-0.7%	1.6%	0.6%	1.1%	3.6%	0.6%	3.0%
<b>Bonds</b>									
L&G - 5yr ILG	2.8%	2.7%	0.1%	N/A	N/A	N/A	N/A	N/A	N/A
M&G – Corporate	2.7%	1.6%	1.1%	5.5%	4.4%	1.1%	7.1%	6.2%	0.9%
M&G - Absolute Return	3.7%	0.4%	3.3%	3.5%	0.6%	2.9%	3.6%	0.6%	3.10%
<b>Other Investments</b>									
Schroder – Property	10.9%	10.1%	0.8%	8.1%	8.4%	-0.3%	11.0%	11.5%	-0.5%
UBS – Infrastructure	-4.9%	0.4%	-5.3%	3.4%	0.6%	2.8%	1.7%	0.6%	1.1%
Adams Street - Private Equity	5.2%	2.4%	2.8%	12.1%	9.2%	2.9%	13.0%	10.1%	2.9%
HarbourVest - Private Equity	6.3%	2.4%	3.9%	13.7%	10.4%	3.3%	13.2%	11.3%	1.9%
M&G - UK Financing Fund	5.4%	0.4%	5.0%	4.8%	0.6%	4.2%	4.8%	0.5%	4.3%
Cash account	-8.1%	0.2%	-8.3%	-3.2%	0.3%	-3.5%	-1.8%	0.3%	-2.2%

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

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

The Funding Strategy Statement was reviewed during the year to reflect funding principles agreed for the 2016 actuarial valuation, with the new version signed off in February 2017. The new funding principles applied to employer contributions payable from 1 April 2017.

Contribution rates payable by participating employers over the year to 31 March 2017 were set at the 2013 valuation in line with the principles summarised in the Funding Strategy Statement dated March 2014. Similarly, the approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers has been in line with that Funding Strategy Statement.

The Fund monitors the change in the funding position at a whole Fund level on a regular basis.

The next review of the Funding Strategy Statement will take place over the 2019/20 year.

**An analysis of fund assets as at the reporting date**

	<b>UK £m</b>	<b>Non-UK £m</b>	<b>Global £m</b>	<b>Total £m</b>
Equities	427	422	1,187	2,036
Bonds	478	26	88	592
Property (direct holdings)	-	-	-	-
Alternatives	345	-	216	561
Cash and cash equivalents	92	42	18	152
Other	-	-	35	35
<b>Total</b>	<b>1,342</b>	<b>490</b>	<b>1,544</b>	<b>3,376</b>

**An analysis of investment income accrued during the reporting period**

	<b>UK £000</b>	<b>Non-UK £000</b>	<b>Global £000</b>	<b>Total £000</b>
Equities	1,616	5,264	-	6,880
Bonds	1,820	129	-	1,949
Property (direct holdings)	-	-	-	-
Alternatives	10,750	-	18,167	28,917
Cash and cash equivalents	128	264	-	392
Other	-	60	-	60
<b>Total</b>	<b>14,314</b>	<b>5,717</b>	<b>18,167</b>	<b>38,198</b>

In the above tables:

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

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

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

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

## 4. Administrative management performance

### Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Calculation of spouses benefits	Medium	within 5 days	90%	96%
Deferred benefit notifications	Low	within 25 days	95%	99%
Transfers in request values	Low	within 10 days	90%	98%
Transfers in request payment	Low	within 10 days	90%	99%
Transfers out request values	Low	within 25 days	90%	98%
Transfers out request payment	Low	within 25 days	90%	97%
Refunds	Low	within 10 days	95%	99%
Payment of lump sums	High	within 5 days	95%	95%
Estimates provided (Employer)	Medium	within 7 days	95%	93%
Death notification acknowledged, recorded and documentation dispatched	Medium	within 5 days	95%	99%

	2016/17	2017/18
Number Of Complaints	13	4

### Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund		Benchmark Unit Costs
	2016/17	2017/18	
Excluding investment management expenses	24.98	23.10	35.80
Including investment management expenses	190.79	188.51	190.83

### Key staffing indicators

At 31 March 2018 staffing numbers within Orbis – Business Operations were 16.9 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,390.

With an average cases per member of staff of 1:443

### Membership

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

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

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

	Active	Ceased	Total
Scheduled body	95	23	118
Admitted body	37	23	60
<b>Total</b>	<b>132</b>	<b>46</b>	<b>178</b>

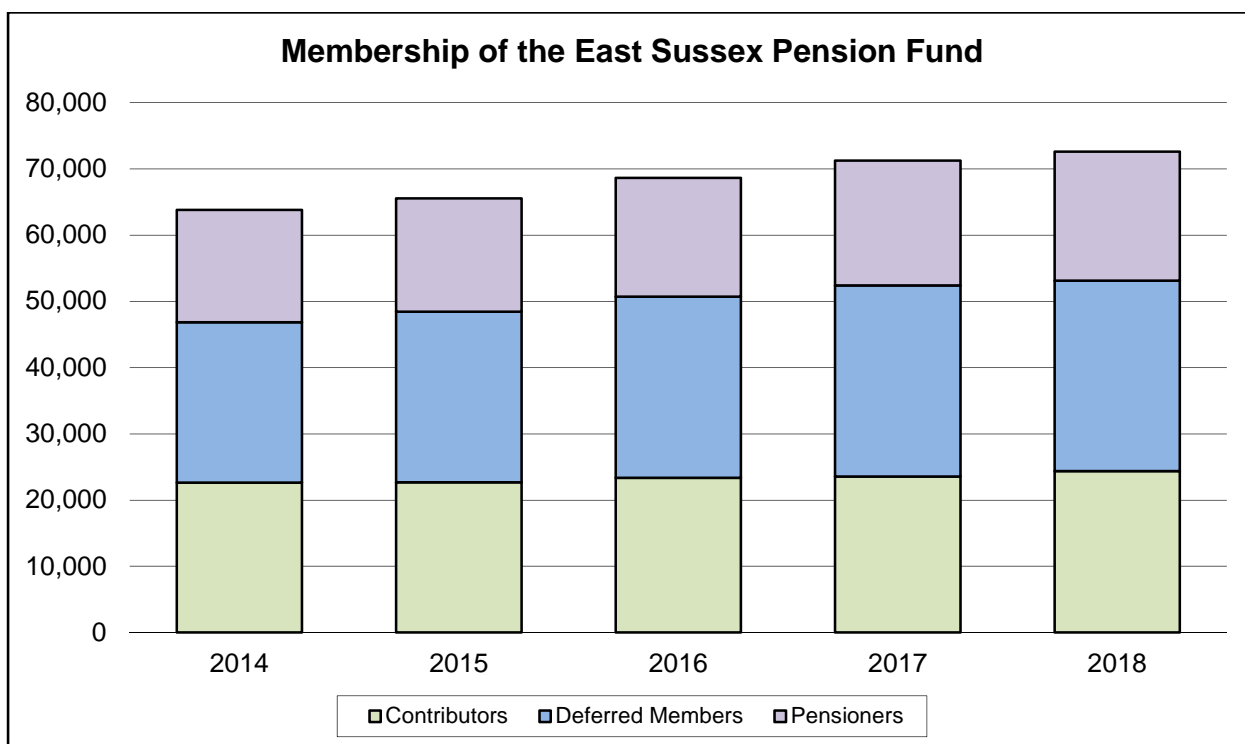
During 2017/18 the number of contributing members within the Pension Fund increased by 3.9% from 23,567 to 24,365. In summary, the number of members contributing to the Scheme is:

	<b>2016/17</b>	<b>2017/18</b>
East Sussex County Council	8,252	8,157
Scheduled Bodies	14,937	15,808
Admitted Bodies	378	400
<b>Total</b>	<b>23,567</b>	<b>24,365</b>

The number of pensioners in receipt of payments from the Fund increased from 18,812 to 19,597 (or 4.2%).

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

	<b>March 2014</b>	<b>March 2015</b>	<b>March 2016</b>	<b>March 2017</b>	<b>March 2018</b>
Active Members (contributors)	22,649	22,688	23,367	23,567	24,365
Pensioners (inc dependents)	16,993	17,117	17,942	18,812	19,475
Deferred Members	24,173	25,757	27,344	28,853	28,775





## 5. Scheme administration report

East Sussex County Council is the Administering Authority for the East Sussex Pension Fund and the Scheme administration is the responsibility of their Chief Finance Officer. The costs of administering the Scheme are charged to the Pension Fund. The administration of the scheme uses the Altair system to support the complex requirements of the Local Government Pension Scheme. The Pension Fund website [eastsussexpensionfund.org](http://eastsussexpensionfund.org) provides scheme members and employers access to up to date information on the Local Government Pension Scheme. Alongside this website East Sussex County Council also provides information on their website around how the Pension Fund is governed [eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/default.htm](http://eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/default.htm).

The County Council has entered in to a partnership arrangement with Surrey County Council known as Orbis to undertake the day to day functions associated with the pensions administration of the LGPS.

The Accounts and Pensions team and Orbis staff assist the Chief Finance Officer in their statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team at Orbis comprises of 16.9 full time equivalent staff who provide a wide range of services including:

- administration of the affairs of East Sussex Pension Fund and also provision of services in connection with the pensions of teachers and uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the Local Government Pension Scheme and provision of early retirement estimates;
- administration of new starters in the Scheme;
- calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Local Government and Fire Brigade Schemes;
- collection of employee and employer contributions to be invested into the Local Government Pension Scheme;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- calculation of deferred pensions and refunds for early leavers;
- undertaking the annual pension increase exercise;
- calculation of widows and dependants benefits for retired and active members;
- dealing with the administration of in-house AVCs;

A team of 4.4 full time equivalent staff in Accounts and Pensions provide support to the Chief Finance Officer in their statutory role in relation to governance, accounting and investment related activities for the Pension Fund, including:

- production of newsletters for active and retired members;
- preparation of Pensions Fund Committee and Board reports relating to administration related issues;
- working with Pension Fund employers to assist them in understanding and managing the cost of participation in the Local Government Pension Scheme;
- liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers;
- preparation of the Pension Fund Accounts for inclusion in East Sussex County Council's Statement of Accounts;
- preparation of the Annual Report and Accounts of the Pension Fund;
- liaison with External and Internal Audit;
- day-to-day accounting for the Pension Fund;
- completion of statistical and financial returns for Government and other bodies;
- co-ordination of the production of FRS102/ IAS19 information for employers;
- preparation of Pension Fund Committee and Board reports relating to investments and accounting issues;
- co-ordination of reports for Quarterly Pension Fund meetings and the Pension Fund's Annual Meeting;
- liaison with Investment Managers, Advisers and Actuary;

- appointment of Investment Managers, Advisers and Actuary;
- monitoring and Review of Investment Managers, Advisers and Actuary;
- preparation of the Statement of Investment Principles and Funding Strategy Statement;
- allocation of Cash to Investment Managers;
- rebalancing of Investment Managers to their asset allocations;
- investment of Pension Fund surplus cash balances;
- calculation of interest on all Managers' cash held by the Pension Fund;
- reconciliation of all Managers' purchases, sales and dividends received.

## Internal Dispute Resolution Procedure

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

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

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

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

	2017/18
First Stage	5
Upheld	
Declined	5
Ongoing	-
Second Stage	3
Upheld	-
Declined	3
Ongoing	

## 6. Actuarial report on funds

An Actuarial valuation is carried out by the Fund's actuary, in particular, to test future funding or current solvency of the Pension Fund's assets against its liabilities. In the case of the LGPS the Actuary values the Fund's assets and liabilities every three years.

The underlying principle of the Fund is to ensure that employer contribution rates are set at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as stable as possible. The purpose of the valuation exercise is to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. The Fund's liabilities are essentially the benefits promised to fund members (past and current contributors) and to members' dependent on their death.

From an employee perspective, members' benefits are currently guaranteed by statute and therefore not directly related to the Fund's assets. In this respect the employer is responsible for making contributions to meet any shortfall.

The latest actuarial valuation of the fund was carried out as at 31 March 2016 and set the employer contribution rates from 1 April 2017 to 31 March 2020. The full valuation report can be downloaded from the Fund's website and is discussed in some detail in the Funding Strategy Statement. The actuary has also provided a report on the Fund which can be seen in Note 19 to the Pension Fund Accounts on page 49.

The common contribution rate for employers at the 2016 valuation was a primary rate of 17.2% and a secondary rate of £14.997m (17/18), £17.643m (18/19) and £20.396m (19/20). Average employee contributions rate is 6.1%.

Between the 2013 and 2016 valuation the funding position improved:

- **Assets:** Although the Fund is not 100% funded on the Actuary's assumptions, the Fund exceeded its asset performance objectives over the period by £190m.
- **Actual membership experience:** The membership experience of the Fund has differed to the assumptions made at the 2013 valuation which has a positive impact of £138m. This was mainly due to a lower than expected number of early retirements and lower than expected salary increases.

It is important to note that significant valuation shortfalls are rarely funded in one go. The Council's strategy is to phase in its own contribution rate increases over three years, with the view of recovering the deficit over 20 years. The Council produces a Funding Strategy Statement which explains how it intends to meet those liabilities over the longer term. This is available on the Fund's website.

The next actuarial valuation will be carried out as at 31 March 2019.

## 7. Governance Arrangements

### Pensions Committee

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

### Pension Board

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role. This strategy sets out the requirements and practicalities for the training of members of both the Pensions Committee and the Pension Board. It also provides some further detail in relation to the attendance requirements for members of the Pension Board and in relation to the reimbursement of expenses.

The East Sussex Pension Funds’ objectives’ relating to knowledge and skills is to:

- Ensure the pension fund is managed and its services delivered by Officers who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to its stakeholders for decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives:-

**The East Sussex Pension Fund’s Pension Committee** require an understanding of:

Their responsibilities in exercising their delegated decision making power on behalf of East Sussex County Council as the Administering Authority of the East Sussex Pension Fund;

- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the Fund.

**East Sussex Pension Fund’s Local Pension Board members** must be conversant with-

- The LGPS Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund

And have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed

To achieve these objectives, the Fund aims for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the Scheme Advisory board, the Pensions Regulator and guidance issued by the Secretary of State. Ideally, targeted training will also be provided that is timely and directly relevant to the Committee’s and Board’s activities as set out in the Fund’s business plan.

Board members (current and new) will receive induction training to cover the role of the East Sussex Pension Fund, Pension Board and understand the duties and obligations for East Sussex County Council as the Administering Authority, including funding and investment matters.

Also those with decision making responsibility in relation to LGPS pension matters and Board members will also:

- Have their knowledge assessed;
- Receive appropriate training to fill any knowledge gaps identified; and
- Seek to maintain their knowledge.

### ACCESS Pool Joint Committee

The ACCESS Pool operates a Joint Committee which has been set up through an Inter Authority Agreement (IAA) which was formalised and executed by each Individual Authority between May and June 2017 and came into effect on

the 31 July 2017 at the first formal Joint Committee meeting. The role of Joint Committee which has one representative from each fund is to:

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

## **The Knowledge and Skills Framework**

In an attempt to determine what constitutes the right skill set for a public sector pension finance professional the Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework. This is intended as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs, and an assessment tool for individuals to measure their progress and plan their development.

The framework is designed so that elected members and officers can tailor it to their own particular circumstances. In total, there are six main areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pension finance or for Members responsible for the management of the Fund. These have been summarised below –

1. Pension Legislation & Governance Context
2. Pensions Accounting & Auditing Standards
3. Financial Services Procurement & Relationship Management
4. Investment Performance & Risk Management
5. Financial Markets & Products Knowledge
6. Actuarial Methods, Standards & Practices

**Scheme Employers** now have a greater need –

- Of being kept up to date of their increased responsibilities as a result the introduction of the CARE Scheme in the LGPS and the timeliness of providing data and scheme member information
- Of appreciating some of the determinations being made by the Pensions Ombudsman that impact directly on their decisions concerning ill-health retirement cases
- To be aware of the importance of having written discretion policies in place
- Of their representation role on the East Sussex Pension Board.

## **Application of the training strategy**

This Training Strategy will set out how ESCC will provide training to representatives with a role on the Pension Committee, Pension Board members and Employers. Officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

## **Purpose of training**

The purpose of training is to:

- Equip members with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Ensure individuals understand their obligation to act, and to be seen to act with integrity;
- Ensure that members are appropriately skilled to support the fund in achieving its objectives.

Four training sessions were held in 2016/17 and it is proposed that further joint sessions for the Board and Committee will be held in 2017/18.

## **Summary**

Officers will work in partnership with members to deliver a training strategy that will:

- Assist in meeting the East Sussex Pension Fund objectives;
- Support the East Sussex Pension Fund's business plans;
- Assist members in achieving delivery of effective governance and management;
- Equip members with appropriate knowledge and skills;
- Promote ongoing development of the decision makers within the East Sussex Pension Fund;
- Demonstrate compliance with the CIPFA Knowledge and Skills Framework;

- Demonstrate compliance with statutory requirements and associated guidance

## Business Plan

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 71,000 individuals employed by 127 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

This Business Plan (BP) provides an overview of the Fund's key objectives for 2016/17. The key high level objectives of the fund are summarised as:

- Optimise Fund returns consistent with a prudent level of risk
- Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
- Ensure the suitability of assets in relation to the needs of the Fund.

The governance of the Fund is the responsibility of the Chief Finance Officer for the East Sussex County Council, the East Sussex Pension Committee, and the Pension Board. The day to day management of the Fund is delegated to Officers with specific responsibility delegated to the Head of Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Pensions Investment Manager.

The Pensions Committee aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

## Committee membership and attendance

During the year ended 31 March 2018 there were 4 meetings of the Pension Committee, 4 meetings of the Pension Board and one annual employers forum.

Member attendance at committee meetings during 2017/18

2017/18 Pension Committee Members		
		Nos. of meetings attended
<b>East Sussex County Councillors:</b>	Richard Stogdon (Chairman)	4/4
	David Tutt	4/4
	Stuart Earl	2/4
	Simon Elford	4/4
	Gerard Fox	4/4

Member attendance at Board meetings during 2017/18

2017/18 Pension Board Members		
		Nos. of meetings attended
<b>Independent Chairman:</b>	Richard Harbord	4/4
<b>Employer Representative:</b>		
Brighton & Hove City Council	Councillor Kevin Allen	4/4
Districts & Borough Councils	Councillor Brian Redman	3/4
Educational Bodies	Sue McHugh	4*/4
<b>Employee Representative:</b>		
Active & Deferred	Angie Embury	4/4
Active & Deferred	Bernadette Carlyle**	3/4
	Rezia Amin**	-/-
Pensioners	Tony Watson***	2/2
	Diana Pogson***	1/1

\*Simon Osborn substituted for Sue McHugh at the November meeting of the Board

\*\*Bernadette Carlyle resigned from the board in February 2018 and was replaced by Rezia Amin in March 2018

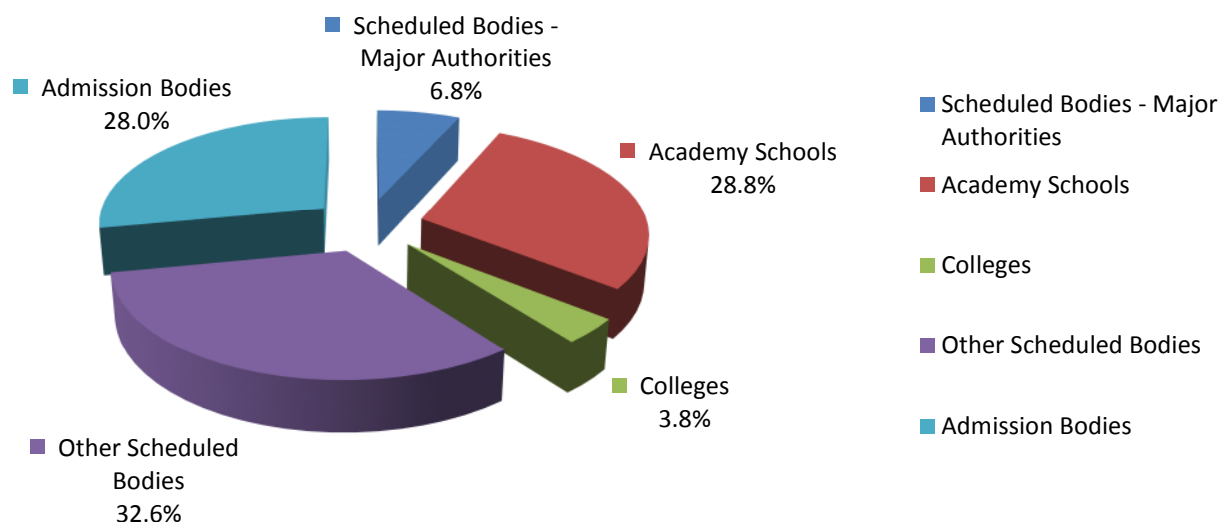
\*\*\* Tony Watson left the Pension Board in September 2017 and was replaced by Diana Pogson in January 2018

## Employer statistics by Employer type

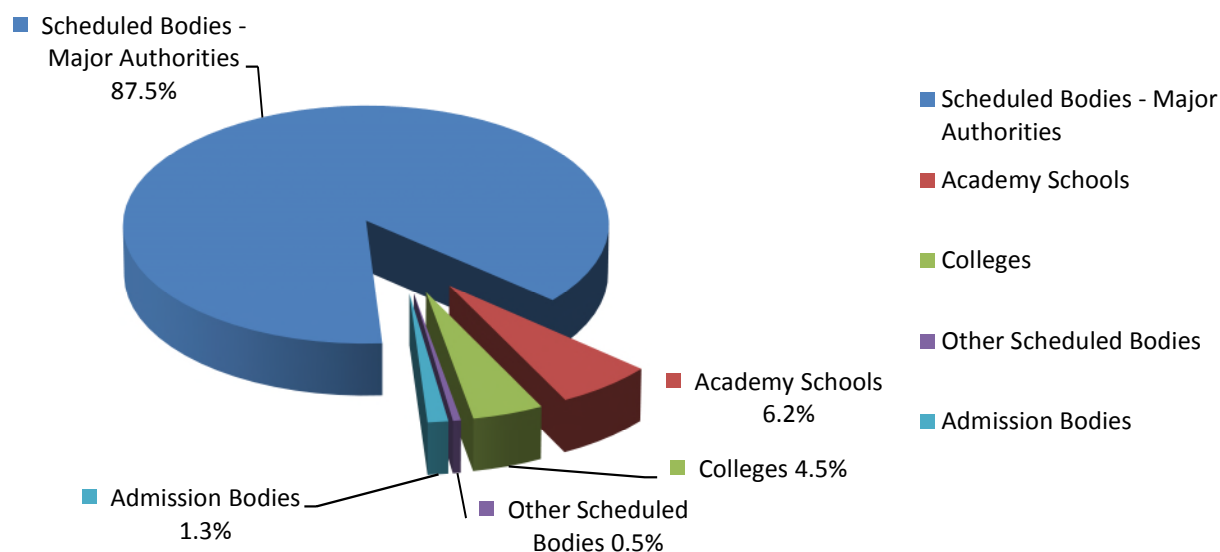
Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
<b>Scheduled Bodies - Major Authorities</b>	6.8%	87.5%	9
<b>Academy Schools</b>	28.8%	6.2%	38
<b>Colleges</b>	3.8%	4.5%	5
<b>Other Scheduled Bodies</b>	32.6%	0.5%	43
<b>Admission Bodies</b>	28.0%	1.3%	37

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

### Number of Employers as a percentage of total



### Percentage of total fund membership



## **Regulatory Framework**

### **The Annual Report**

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a document known as “the pension fund annual report”. From 1 April 2014, this report must contain information about the fund on the following:

- The management and financial performance during the year;
- The authority's investment policy and a review of performance of the fund assets;
- Administration arrangements;
- A statement by the Actuary of the assets, liabilities and funding level at the most recent valuation;
- The current version of the Governance Compliance Statement;
- The Fund Account and Net Asset Statement and supporting notes and disclosures in accordance with proper practices;
- The current version of the Investment Strategy Statement (which has replaced the Statement of Investment Principles);
- The current version of the Communications Statement;
- The current version of the Funding Strategy Statement; and
- Other material considered appropriate.

### **The Scheme and benefits available**

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

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

The LGPS meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

Pensions and entitlements are still fully protected in law. The Scheme is open to all eligible employees under age 75, whether they work full-time or part-time. All members of the scheme can choose to leave at any time.



**a. East Sussex Pension Fund Account**

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## b. Net Assets Statement for the year ended 31 March 2018

31 March 2017 £000		Notes	31 March 2018 £000
3,198,119	Investment assets	14	3,242,925
4,161	Other Investment balances	21	2,256
(1,680)	Investment liabilities	22	(3,198)
134,212	Cash deposits	14	133,789
<b>3,334,812</b>	<b>Total net investments</b>		<b>3,375,772</b>
10,703	Current assets	21	10,704
(3,072)	Current liabilities	22	(3,096)
<b>3,342,443</b>	<b>Net assets of the fund available to fund benefits at the year end.</b>		<b>3,383,380</b>

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

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2018 and of the movements for the year then ended.

**Ian Gutsell**

Chief Finance Officer (Section 151 Officer)

Business Services Department

## c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2018

### 1: Description of fund

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

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

#### a) General

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

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

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

#### b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

There are 132 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	127	132
<b>Number of employees</b>		
County Council	8,252	8,157
Other employees	15,315	16,413
<b>Total</b>	<b>23,567</b>	<b>24,570</b>
<b>Number of pensioners</b>		
County Council	8,402	8,708
Other employers	10,410	10,889
<b>Total</b>	<b>18,812</b>	<b>19,597</b>
<b>Deferred pensioners</b>		
County Council	13,685	13,558
Other employers	15,168	15,695
<b>Total</b>	<b>28,853</b>	<b>29,253</b>

#### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 6.7% to 44.5% of pensionable pay.

#### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth $1/80 \times$ final Pensionable salary	Each year worked is worth $1/60 \times$ final Pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off -tax Free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

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

## 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

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

## 3: Summary of significant accounting policies

### Fund account – revenue recognition

#### a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions (see below) to purchase additional scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

#### c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

## **Fund account – expense items**

**d) Benefits payable**

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

**e) Taxation**

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

**f) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses.

### **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

### **Oversight and governance costs**

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

### **Investment management expenses**

All investment management expenses are accounted for on an accruals basis.

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

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, £1.6m of fees is based on such estimates (2015/16: £1.0m).

## **Net assets statement**

**g) Financial assets**

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing

levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

**h) Foreign currency transactions**

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

**i) Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes (see Note 15).

**j) Cash and cash equivalents**

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

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

**k) Financial liabilities**

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

**l) Actuarial present value of promised retirement benefits**

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

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

**m) Additional voluntary contributions**

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

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

**n) Contingent assets and contingent liabilities**

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

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

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

#### **4: Critical judgements in applying accounting policies**

##### **Unquoted private equity investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2012. The value of unquoted private equities at 31 March 2018 was £182.8 million (£191.3 million at 31 March 2017).

##### **Pension fund liability**

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

## Use of Financial Instruments

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

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

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

The items in the Net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2016 Valuation the actuary advised that:</p> <ul style="list-style-type: none"> <li>• A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £101 million (3%).</li> <li>• A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £91 million (3%).</li> <li>• A change in methodology from peaked to non-peaked longevity would increase the liability by approximately £94 million (3%).</li> </ul>
<b>Debtors</b>	At 31 March 2018, the fund had a balance of sundry debtors of £1.5 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £182.8 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

## 6: Events after the balance sheet date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## 7: Contributions Receivable

	2016/17 £000	2017/18 £000
<b>By category</b>		
Employee's contributions	27,900	28,902
Employer's contributions		
Normal contributions	87,505	81,427
Deficit recovery contributions	5,030	13,083
Augmentation contributions	1,383	679
<b>Total</b>	<b>121,818</b>	<b>124,091</b>
<b>By authority</b>		
Scheduled bodies	74,461	77,156
Admitted bodies	4,098	3,572
Administrative Authority	43,259	43,363
<b>Total</b>	<b>121,818</b>	<b>124,091</b>

## 8: Transfers in from other pension funds

	2016/17 £000	2017/18 £000
Group transfers	-	-
Individual transfers	8,554	7,325
<b>Total</b>	<b>8,554</b>	<b>7,325</b>

## 9: Benefits payable

	2016/17 £000	2017/18 £000
<b>By category</b>		
Pensions	101,092	102,800
Commutation and lump sum retirement benefits	17,007	17,780
Lump sum death benefits	2,677	3,325
<b>Total</b>	<b>120,776</b>	<b>123,905</b>
<b>By authority</b>		
Scheduled bodies	68,685	70,040
Admitted bodies	3,134	3,997
Administrative Authority	48,957	49,868
<b>Total</b>	<b>120,776</b>	<b>123,905</b>

## 10: Payments to and on account of leavers

	2016/17 £000	2017/18 £000
Refunds to members leaving service	343	387
Group transfers	520	28,467*
Individual transfers	2,763	10,738
<b>Total</b>	<b>3,626</b>	<b>39,592</b>

\* Brighton and Hove City College transferred to West Sussex County Council on the 1 April 2017 with assets of £28.467m

## 11: Management expenses



	2016/17	2017/18
	£000	£000
Administrative costs	1,037	1,005
Investment management expenses	11,811	11,652
Oversight and governance costs	743	673
<b>Total</b>	<b>13,591</b>	<b>13,330</b>

#### 11a: Investment management expenses

	2016/17	2017/18
	£000	£000
Management fees	11,444	11,354
Custody fees	68	83
Transaction costs*	299	215
<b>Total</b>	<b>11,811</b>	<b>11,652</b>

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

During the year, the Pension Fund incurred management fees which were deducted at source for 2017/18 of £2.4m (£2.7m in 2016/17) on its private equity investments, fees of £0.3m (£0.6m in 2016/17) on its infrastructure investments and fees of £1.4m (£0.7m in 2016/17) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

#### 12: Investment income

	2016/17	2017/18
	£000	£000
Income from bonds	2,559	1,949
Income from equities	6,656	6,864
Private equity income	147	49
Pooled property investments	10,287	10,750
Pooled investments - unit trusts and other managed funds	22,963	18,133
Interest on cash deposits	382	393
Class Actions	66	60
<b>Total</b>	<b>43,060</b>	<b>38,198</b>

#### 13: Other fund account disclosures

##### 13a: Taxes on income

	2016/17	2017/18
	£000	£000
Withholding tax – equities	(179)	(203)
Withholding tax – pooled	(212)	(196)
<b>Total</b>	<b>(391)</b>	<b>(399)</b>

##### 13b: External audit costs

	2016/17	2017/18
	£000	£000
Payable in respect of external audit	27	27
Payable in respect of other services	-	-
<b>Total</b>	<b>27</b>	<b>27</b>

#### 14: Investments

2016/17	2017/18
£000	£000

**Investment assets**

Bonds	478,518	497,920
Equities	341,077	363,116
Pooled Investments	1,820,986	1,828,109
Pooled property investments	321,767	344,411
Private equity/infrastructure	227,497	200,960
Commodities	4,930	4,487
Multi Asset	3,344	3,921

**Derivative contracts:**

Forward Currency Contracts	712	480
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Cash deposits with Custodian	134,212	133,789
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Other Investment balances (Note 21)	3,449	1,777
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**Total investment assets** **3,336,492** **3,378,970**

Investment Liabilities (Note 22)	(1,669)	(3,198)
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**Derivative contracts:**

Forward Currency Contracts	(11)	-
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**Total Investment Liabilities** **(1,680)** **(3,198)**

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**Net investment assets** **3,334,812** **3,375,772**

**14a: Reconciliation of movements in investments and derivatives**

	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£000	£000	£000	£000	£000
Bonds	478,518	281,469	(267,961)	5,894	497,920
Equities	341,077	118,567	(96,740)	212	363,116
Pooled investments	1,820,986	1,925,067	(1,943,746)	25,802	1,828,109
Pooled property investments	321,767	27,060	(29,319)	24,903	344,411
Private equity/infrastructure	227,497	23,073	(45,079)	(4,531)	200,960
Commodities	4,930	4,895	(5,071)	(267)	4,487
Multi Asset	3,344	5,359	-	(4,782)	3,921
	3,198,119	2,385,490	(2,387,916)	47,231	3,242,924
<b>Derivative contracts</b>					
■ Forward currency contracts	701	5,485	(8,713)	3,007	480
	3,198,820	2,390,975	(2,396,629)	50,238	3,243,404
<b>Other investment balances:</b>					
■ Cash deposits	134,212			(1,689)	133,789
■ Other Investment Balances	3,449				1,777
■ Investment Liabilities	(1,669)				(3,198)
<b>Net investment assets</b>	<b>3,334,812</b>			<b>48,549</b>	<b>3,375,772</b>

	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Bonds	429,154	42,918	(60,764)	67,210	478,518

Equities	<b>290,442</b>	84,564	(107,578)	73,649	<b>341,077</b>
Pooled investments	<b>1,420,022</b>	26,862	(5,670)	379,772	<b>1,820,986</b>
Pooled property investments	<b>322,775</b>	18,831	(21,089)	1,250	<b>321,767</b>
Private equity/infrastructure	<b>216,898</b>	21,915	(35,954)	24,638	<b>227,497</b>
Commodities	<b>3,613</b>	3,878	(3,109)	548	<b>4,930</b>
Multi Asset	<b>1,585</b>	5,617	-	(3,858)	<b>3,344</b>
	<b>2,684,489</b>	<b>204,585</b>	<b>(234,164)</b>	<b>543,209</b>	<b>3,198,119</b>
<b>Derivative contracts</b>					
■ Forward currency contracts	<b>1,647</b>	47,914	(39,295)	(9,565)	<b>701</b>
	<b>2,686,136</b>	<b>252,499</b>	<b>(273,459)</b>	<b>533,644</b>	<b>3,198,820</b>
<b>Other investment balances:</b>					
■ Cash deposits	<b>79,131</b>			2,386	<b>134,212</b>
■ Other Investment Balances	<b>1,375</b>				<b>3,449</b>
■ Investment Liabilities	<b>(1,510)</b>				<b>(1,669)</b>
<b>Net investment assets</b>	<b>2,765,132</b>			<b>536,030</b>	<b>3,334,812</b>

## 14b: Analysis of investments

	2016/17 £000	2017/18 £000
<b>Bonds</b>		
<b>UK</b>		
Corporate quoted	200,893	132,119
Public sector quoted	271,704	339,720
<b>Overseas</b>		
Public sector quoted	5,921	26,081
	<b>478,518</b>	<b>497,920</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	51,161	59,570
Unquoted	3,627	958
<b>Overseas</b>		
Quoted	286,289	302,588
	<b>341,077</b>	<b>363,116</b>
<b>Pooled funds - additional analysis</b>		
<b>UK</b>		
Unit trusts	647,124	641,509
<b>Overseas</b>		
Unit trusts	1,173,862	1,186,600
	<b>1,820,986</b>	<b>1,828,109</b>
Pooled property investments	321,767	344,411
Private equity/infrastructure	227,497	200,960
Commodities	4,930	4,487
Multi Asset	3,344	3,921
Derivatives	712	480
	<b>558,250</b>	<b>554,259</b>
Cash deposits	134,212	133,789
Other investment balances (Note 21)	3,449	1,777
	<b>137,661</b>	<b>135,566</b>
<b>Total investment assets</b>	<b>3,336,492</b>	<b>3,378,970</b>
Investment Liabilities (Note 22)	(1,669)	(3,198)
Derivatives	(11)	-
<b>Total Investment Liabilities</b>	<b>(1,680)</b>	<b>(3,198)</b>
<b>Net investment assets</b>	<b>3,334,812</b>	<b>3,375,772</b>

**14c: Investments analysed by fund manager**

	Market value 31 March 2017		Market value 31 March 2018	
	£000	%	£000	%
Prudential M&G	128,577	3.9%	132,124	3.9%
East Sussex Pension Fund Cash	53,220	1.6%	65,515	1.9%
UBS Infrastructure Fund	22,850	0.7%	19,027	0.6%
Prudential Infracapital	13,952	0.4%	-	0.0%
Legal & General	1,050,300	31.4%	-	0.0%
M&G UK Financing Fund	5,234	0.2%	958	0.0%
Schroders Property	327,945	9.8%	353,310	10.5%
Harbourvest Strategies	89,752	2.7%	86,705	2.6%
Adams St Partners	101,559	3.0%	96,129	2.8%
M&G Absolute Return Bonds	72,335	2.2%	75,014	2.2%
Ruffer LLP	292,582	8.8%	316,959	9.4%
Newton Investment Management	285,931	8.6%	308,431	9.1%
Longview Partners	233,171	7.0%	236,143	7.0%
State Street Global Advisers	657,404	19.7%	-	0.0%
UBS Passive Funds	-	0.0%	1,685,457	50.0%
	<b>3,334,812</b>		<b>3,375,772</b>	

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

Security	Market Value 31 March 2017 £000	% of total fund	Market value 31 March 2018 £000	% of total fund
UBS Fundamental Index	-	0.0%	611,429	18.1%
UBS World Equity Index	-	0.0%	508,242	15.1%
UBS UK Equity Index	-	0.0%	325,708	9.6%
Newton Real Return (Pooled Fund)	285,931	8.6%	308,431	9.1%
UBS Over 5 year Index Gilt Linked	-	0.0%	180,995	5.4%
State Street Fundamental Index	657,404	19.7%	-	0.0%
L&G UK Equity Index	319,171	9.6%	-	0.0%
L&G North America Equity Index	310,596	9.3%	-	0.0%
L&G Over 5 year Index Gilt Linked	179,595	5.4%	-	0.0%

**14d: Stock lending**

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

**15: Analysis of derivatives****Objectives and policies for holding derivatives**

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

**a) Futures**

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

**b) Forward foreign currency**

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

**c) Options**

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

**Open forward currency contracts**

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to 2 months	USD	1,135	GBP	(809)	-	-
Up to 2 months	EUR	180	GBP	(158)	-	-
Greater than 2 months	GBP	7,398	EUR	(8,322)	85	-
Greater than 2 months	GBP	48,396	JPY	(7,148,471)	395	-
					480	-
<b>Net forward currency contracts at 31 March 2018</b>						<b>480</b>
<b>Prior year comparative</b>						
Open forward currency contracts at 31 March 2017					712	(11)
<b>Net forward currency contracts at 31 March 2017</b>						<b>701</b>

#### 16: Fair value – basis of valuation

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

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Equities	18%	20,758	24,494	17,022
Pooled property investments	14%	344,411	392,629	296,193
Private Equity/Infrastructure	28%	200,960	255,219	146,701
<b>Total</b>		<b>566,129</b>	<b>672,342</b>	<b>459,916</b>

### 16a: Fair value hierarchy

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

#### Level 1

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

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

#### Level 2

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

### Level 3

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

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

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	809,092	1,869,959	566,130	3,245,181
Non-financial assets at fair value through profit and loss	0	0	0	0
Financial liabilities at fair value through profit and loss	0	-3,198	0	-3,198
<b>Net investment assets</b>	<b>809,092</b>	<b>1,866,761</b>	<b>566,130</b>	<b>3,241,983</b>

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	2,448,904	184,760	568,616	3,202,280
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(1,680)	-	(1,680)
<b>Net investment assets</b>	<b>2,448,904</b>	<b>183,080</b>	<b>568,616</b>	<b>3,200,600</b>

### 16b: Transfers between levels 1 and 2

During 2016/17 the fund has not transferred any financial assets between levels 1 and 2.

### 16c: Reconciliation of fair value measurements within level 3

Period 2017/18	Market value 1 April 2017	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2018
Equities	19,352	-	-	7,901	(4,348)	(4,157)	2,010	20,758
Pooled property investments	321,767	-	-	27,060	(29,319)	13,891	11,013	344,412
Private Equity/Infrastructure	227,497	-	-	23,073	(42,386)	(33,676)	26,452	200,960
<b>Total</b>	<b>568,616</b>	<b>-</b>	<b>-</b>	<b>58,034</b>	<b>(76,053)</b>	<b>(23,942)</b>	<b>39,475</b>	<b>566,130</b>

Period 2016/17	Market value 1 April 2016	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2017
Bonds	5,534	-	-	-	(5,607)	(386)	459	-
Equities	30,318	-	-	-	(8,748)	(2,496)	278	19,352
Pooled property investments	315,888	9,249	-	26,130	(31,032)	(8,662)	10,194	321,767
Private Equity/Infrastructure	216,898	-	-	21,915	(32,626)	316	20,994	227,497
<b>Total</b>	<b>568,638</b>	<b>9,249</b>	<b>-</b>	<b>48,045</b>	<b>(78,013)</b>	<b>(11,228)</b>	<b>31,925</b>	<b>568,616</b>



## 17: Financial instruments

### 17a: Classification of financial instruments

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

31 March 2017			31 March 2018		
Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
<b>Financial Assets</b>					
478,518	-	-	497,920	-	-
341,077	-	-	363,116	-	-
1,820,986	-	-	1,828,109	-	-
321,767	-	-	344,411	-	-
227,497	-	-	200,960	-	-
4,930	-	-	4,487	-	-
3,344	-	-	3,921	-	-
712	-	-	480	-	-
-	134,212	-	-	133,789	-
-	399	-	-	-	-
3,449	-	-	1,777	-	-
-	10,304	-	-	10,704	-
<b>3,202,280</b>	<b>144,915</b>	-	<b>3,245,181</b>	<b>144,493</b>	-
<b>Financial liabilities</b>					
(11)	-	-	-	-	-
(1,669)	-	-	(3,198)	-	-
-	-	(3,072)	-	-	(3)
-	-	(3,072)	-	-	(3,093)
<b>(1,680)</b>	-	<b>(3,072)</b>	<b>(3,198)</b>	-	<b>(3,096)</b>
<b>3,200,600</b>	<b>144,915</b>	<b>(3,072)</b>	<b>3,241,983</b>	<b>144,493</b>	<b>(3,096)</b>

### 17b: Net gains and losses on financial instruments

	31 March 2017 £000	31 March 2018 £000
<b>Financial assets</b>		
Fair value through profit and loss	543,255	51,065
Loans and receivables	2,340	(2,510)
<b>Financial liabilities</b>		
Fair value through profit and loss	(9,565)	(6)
<b>Total</b>	<b>536,030</b>	<b>48,549</b>

## 18: Nature and extent of risks arising from financial instruments

### Risk and risk management

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

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

#### **a) Market risk**

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

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

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

The fund manages these risks in two ways:

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

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

#### **Other price risk**

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

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

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

#### **Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

<b>Asset Type</b>	<b>Potential Market Movements (+/-)</b>
Index Linked	9%
Other Bonds	8%
UK equities	17%
Global equities	18%
Absolute Return	13%
Pooled property investments	14%
Private Equity	28%
Infrastructure funds	20%

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

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

<b>Asset Type</b>	<b>Values at 31 March 2018 £000</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Index Linked	180,995	197,285	164,705

Other Bonds	207,133	223,075	191,191
UK equities	326,665	382,198	271,132
Global equities	1,411,750	1,665,865	1,157,635
Absolute Return	571,010	645,241	496,779
Pooled property investments	344,411	392,629	296,193
Private Equity	181,933	232,874	130,992
Infrastructure funds	19,027	22,832	15,222
Net derivative assets	480	480	480
<b>Total assets available to pay benefits</b>	<b>3,243,404</b>	<b>3,762,479</b>	<b>2,724,329</b>

<b>Asset Type</b>	<b>Values at 31 March 2017 £000</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Index Linked	179,611	195,776	163,446
Other Bonds	200,893	218,973	182,813
UK equities	358,102	415,398	300,806
Global equities	1,396,045	1,647,334	1,144,758
Pooled property investments	514,204	581,049	447,357
Private Equity	321,767	366,814	276,720
Infrastructure funds	190,695	245,996	135,394
Absolute Return	36,802	44,162	29,442
Net derivative assets	701	701	701
<b>Total assets available to pay benefits</b>	<b>3,198,820</b>	<b>3,716,203</b>	<b>2,681,437</b>

#### Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

<b>Asset type</b>	<b>As at 31 March 2017 £000</b>	<b>As at 31 March 2018 £000</b>
Cash with Custodian	134,212	133,789
Cash balances	399	(3)
Fixed interest securities	200,893	227,951
<b>Total</b>	<b>335,504</b>	<b>361,737</b>

#### Interest rate risk sensitivity analysis

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

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

<b>Asset type</b>	<b>Carrying amount as at 31 March 2018</b>	<b>Potential movement on 1 % change in</b>	<b>Value on increase</b>	<b>Value on decrease</b>
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	interest rates			
	£000	£000	£000	£000
Cash and cash equivalents	133,789	-	133,789	133,789
Cash balances	(3)	-	(3)	(3)
Fixed interest securities	227,951	2,280	230,231	225,671
<b>Total change in assets available</b>	<b>361,737</b>	<b>2,280</b>	<b>364,017</b>	<b>359,457</b>

Asset type	Carrying amount as at 31 March 2017	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	134,212	-	134,212	134,212
Cash balances	399	-	399	399
Fixed interest securities	200,893	2,009	202,902	198,884
<b>Total change in assets available</b>	<b>335,504</b>	<b>2,009</b>	<b>337,513</b>	<b>333,495</b>

Income Source	Amount receivable as at 31 March 2018	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits/cash and cash equivalents	393	1,338	1,731	(945)
Fixed interest securities	1,334	-	1,334	1,334
<b>Total change in assets available</b>	<b>1,727</b>	<b>1,338</b>	<b>3,065</b>	<b>389</b>

Income Source	Amount receivable as at 31 March 2017	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits/cash and cash equivalents	382	1,346	1,728	(964)
Fixed interest securities	1,913	-	1,913	1,913
<b>Total change in assets available</b>	<b>2,295</b>	<b>1,346</b>	<b>3,641</b>	<b>949</b>

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

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2017	Asset value as at 31 March 2018
	£000	£000
Overseas index linked	5,921	5,263

Overseas fixed interest	-	20,818
Overseas quoted securities	286,289	302,588
Overseas unit trusts	1,173,862	1,186,600
<b>Total overseas assets</b>	<b>1,466,072</b>	<b>1,515,269</b>

### Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

This assumes no diversification with other assets, and in particular, interest rates remain constant.

A 10% strengthening/weakening of the UK pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

<b>Currency exposure - asset type</b>	<b>Values at 31 March 2018 £000</b>	<b>Potential Market movement £000</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Overseas index linked	5,263	526	5,789	4,737
Overseas fixed interest	20,818	2,082	22,900	18,736
Overseas quoted securities	302,588	30,259	332,847	272,329
Overseas unit trusts	1,186,600	118,660	1,305,260	1,067,940
<b>Total change in assets available</b>	<b>1,515,269</b>	<b>151,527</b>	<b>1,666,796</b>	<b>1,363,742</b>

<b>Currency exposure - asset type</b>	<b>Values at 31 March 2017 £000</b>	<b>Potential Market movement £000</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Overseas index linked	5,921	592	6,513	5,329
Overseas quoted securities	286,289	28,629	314,918	257,660
Overseas unit trusts	1,173,862	117,386	1,291,248	1,056,476
<b>Total change in assets available</b>	<b>1,466,072</b>	<b>146,607</b>	<b>1,612,679</b>	<b>1,319,465</b>

### b) Credit risk

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

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

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

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

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

<b>Summary</b>	<b>Asset value as at 31 March 2017 £000</b>	<b>Asset value as at 31 March 2018 £000</b>
<b>Money market funds</b>		
NTGI Global Cash Fund	78,993	-

**Short term bills and notes**

UK Treasury bills	50,033	36,097
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**Bank current accounts**

NT custody cash accounts	5,186	97,692
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**Total overseas assets**

<b>134,212</b>	<b>133,789</b>
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**c) Liquidity risk**

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

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

All financial liabilities at 31 March 2018 are due within one year.

**Refinancing risk**

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

**19: Funding arrangements**

The latest actuarial valuation of the fund was carried out as at 31 March 2016. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund which together with investment growth will be sufficient to meet the fund's future liabilities. The 2016 valuation shows the fund has a past service deficit, being 92% funded in respect of past liabilities. This compares with 81% funded at the 2013 valuation.

**East Sussex Pension Fund ("the Fund")****Actuarial Statement for 2016/17**

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

**Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated February 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

**Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £2,771 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £240 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

#### Method

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

#### Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

\*Figures assume members aged 45 as at the 2016 valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/2017. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

## 20: Actuarial present value of promised retirement benefits

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund ("the Fund").

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

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

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

### Present value of Promised Retirement Benefits

Year ended	31 March 2017	31 March 2018
------------	---------------	---------------

Active members (£m)	1,717	1,867
Deferred pensions (£m)	930	925
Pensioners (£m)	1,612	1,548
<b>Total</b>	<b>4,258</b>	<b>4,340</b>

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £83m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

### Financial assumptions

Year ended	31 Mar 2017 % p.a.	31 Mar 2018 % p.a.
Pension Increase Rate	2.4%	2.4%
Salary Increase rate	2.8%	2.8%
Discount Rate	2.6%	2.7%

### Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

\*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2016.

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

### Commutation assumptions

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

### Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	8%	350
0.5% increase in salary increase rate	1%	58
0.5% decrease in discount rate	10%	433

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



**21: Current assets**

	31 March 2017 £000	31 March 2018 £000
<b>Other Investment Balances</b>		
Sales inc Currency	2,554	480
Investment Income Due	1,178	1,371
Recoverable Taxes	411	405
Managers Fee Rebate	18	-
<b>Total</b>	<b>4,161</b>	<b>2,256</b>

	31 March 2017 £000	31 March 2018 £000
<b>Current Assets</b>		
Contributions receivable from employers and employees	9,126	9,254
Sundry Debtors	1,178	1,450
Cash	399	-
<b>Total</b>	<b>10,703</b>	<b>10,704</b>

**22: Current liabilities**

	31 March 2017 £000	31 March 2018 £000
<b>Investment Liabilities</b>		
Purchases including currency	(11)	(1,846)
Managers Fees	(1,669)	(1,352)
<b>Total</b>	<b>(1,680)</b>	<b>(3,198)</b>

	31 March 2017 £000	31 March 2018 £000
<b>Current Liabilities</b>		
Pension Payments (inc Lump Sums)	(454)	(439)
Cash	-	(3)
Professional Fees	(65)	(84)
Administration Recharge	(1,314)	(1,300)
Sundry Creditors	(1,239)	(1,270)
<b>Total</b>	<b>(3,072)</b>	<b>(3,096)</b>

**23: Additional voluntary contributions**

	Market value 31 March 2017 £000	Market value 31 March 2018 £000
Prudential	15,772	15,923

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2017/18 some members of the pension scheme paid voluntary contributions and transfers in of £2.618m (£2.053m 2016/17) to Prudential to buy extra pension benefits when they retire. £3.434m was disinvested from the AVC provider in 2017/18 (£2.353m 2016/17). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

## 24: Agency Services

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

	2016/17	2017/18
	£000	£000
East Sussex County Council	4,979	4,891
Brighton & Hove City Council	2,306	2,330
West Sussex County Council*	3	985
Eastbourne Borough Council	349	331
Magistrates	239	240
Wealden District Council	188	183
Hastings Borough Council	180	171
Rother District Council	117	117
Mid-Sussex District Council	55	87
Lewes District Council	79	76
The Eastbourne Academy	6	56
South East Water	70	54
Brighton University	26	26
Westminster (used to be LPFA)	17	17
East Sussex Fire Authority	17	16
Capita Hartshead	15	16
Brighton and Hove City College*	10	-
London Borough of Camden	7	7
London Borough of Southwark	6	6
West Midlands Pension Fund	5	5
Torfaen Borough Council	3	4
Sussex University	-	3
Eastbourne Homes	2	3
Varndean College	2	2
London Borough of Ealing	2	2
Sussex Downs College	1	1
Newhaven TC	1	1
Mears Group PLC	12	-
<b>Total</b>	<b>8,697</b>	<b>9,630</b>

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

## 25: Related party transactions

### East Sussex County Council

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

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

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

The Council incurred costs in administering the fund and charged £1.3m to the fund in 2017/18 (£1.3m in 2016/17). The Council's contribution to the fund was £43.4m in 2017/18 (£43.3m in 2016/17). All amounts due to the fund were paid in the year. At 31 March 2018 the Pension Fund bank account was in debit by £0.003m. The average invested throughout the year was £3.5m (£4.8 in 2016/17) and earned interest of £0.018m in 2017/18 (£0.028m in 2016/17).

### 25a: Key management personnel

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

	31 March 2017	31 March 2018
	£000	£000
Short-term benefits	10	17
Post-employment benefits	1	3
Other long-term benefits	-	-

Termination benefits

9

-

**Total**

**20**

**20**

## 26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £133.1m (31 March 2017: £82.0m).

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

At 31 March 2018 the unfunded commitment was £84.1m for private equity, and £49.0m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2018.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. The Fund received an offer from Liquidator and has been advised by both external and internal legal advisors that the Fund should accept the offer of £144,000.00 made by the Liquidator, with the remainder of the balance being distributed to the other creditors with statutory interest. A report was sent to the Lead Member for Resources recommending the offer be accepted.

## 27: Contingent assets

Seventeen admitted body employers in the Fund hold insurance bonds to guard against the possibility of their being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 14 other admitted bodies are covered by:

- 9 guarantees by local authorities participating in the Fund;
- 3 Parent company guarantee;
- 2 deposits held by East Sussex County Council

At 31 March 2018 the Fund has invested £260.7 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £23.7 million in the infrastructure funds managed by UBS.

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

## 28: Impairment losses

During 2017/18 the fund has not recognised any impairment losses.

## 29: East Sussex Pension Fund – Active Participating Employers

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
<b>Scheduled Bodies - Major Authorities</b>						
Brighton and Hove City Council	17.1	3860	17.1	4635	17.1	5448
East Sussex County Council	17.85	5523	17.85	6369	17.85	7254
East Sussex Fire and Rescue Service	17.75	181	17.75	213	17.75	247
Eastbourne Borough Council	17.65	547	17.65	599	17.65	654
Hastings Borough Council	18.05	489	18.05	540	18.05	594
Lewes District Council	18.0	442	18.0	495	18.0	551

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Rother District Council	18.05	506	18.05	550	18.05	596
University of Brighton	17.50	704	17.50	722	17.50	741
Wealden District Council	17.95	536	17.95	594	17.95	655
Other Scheduled Bodies						
Arlington Parish Council	21.6	-	22.1	-	22.6	-
Battle Town Council	17.4	4	17.4	5	17.4	6
Berwick Parish Council	21.6	-	22.1	-	22.6	-
Buxted Parish Council	21.6	-	22.1	-	22.6	-
Camber Parish council	21.6	-	22.1	-	22.6	-
Chailey Parish Council	21.6	-	22.1	-	22.6	-
Chalvington with Ripe Parish Council	21.6	-	22.1	-	22.6	-
Chiddingly Parish Council	21.6	-	22.1	-	22.6	-
Conservators of Ashdown Forest	17.4	13	17.4	15	17.4	17
Crowborough Town Council	17.4	11	17.4	12	17.4	14
Danehill Parish Council	21.6	-	22.1	-	22.6	-
Ditchling Parish Council	21.6	-	22.1	-	22.6	-
Ewhurst Parish Council	21.6	-	22.1	-	22.6	-
Fletching Parish Council	21.6	-	22.1	-	22.6	-
Forest Row Parish Council	17.4	3	17.4	3	17.4	4
Frant Parish Council	21.6	-	22.1	-	22.6	-
Hadlow Down	21.6	-	22.1	-	22.6	-
Hailsham Town Council	17.4	13	17.4	15	17.4	17
Hartfield Parish Council	21.6	-	22.1	-	22.6	-
Heathfield & Waldron Parish Council	17.4	4	17.4	5	17.4	5
Herstmonceux Parish Council	21.6	-	22.1	-	22.6	-
Hurst Green Parish Council	21.6	-	22.1	-	22.6	-
Icklesham Parish Council	21.6	-	22.1	-	22.6	-
Isfield Parish Council	21.6	-	22.1	-	22.6	-
Lewes Town Council	17.4	14	17.4	16	17.4	19
Maresfield Parish Council	17.4	1	17.4	1	17.4	1
Newhaven Town Council	17.4	5	17.4	6	17.4	6
Newick Parish Council	21.6	-	22.1	-	22.6	-
Peacehaven Town Council	17.4	8	17.4	9	17.4	10
Pett Parish Council	21.6	-	22.1	-	22.6	-
Plumpton Parish Council	21.6	-	22.1	-	22.6	-
Polegate Town Council	21.6	-	22.1	-	22.6	-
Ringmer Parish Council	21.6	-	22.1	-	22.6	-
Rye Town Council	17.4	2	17.4	2	17.4	2
Salehurst & Robertsbridge Parish Council	21.6	-	22.1	-	22.6	-
Seaford Town Council	17.4	6	17.4	7	17.4	8
Sussex Inshore Fisheries & Conservation Authority	21.6	-	22.1	-	22.6	-
Telscombe Town Council	17.4	4	17.4	4	17.4	5
Uckfield Town Council	17.4	13	17.4	15	17.4	17
Wartling Parish Council	21.6	-	22.1	-	22.6	-
Westham Parish Council	17.4	1	17.4	2	17.4	2
Willingdon and Jevington Parish Council	17.4	2	17.4	2	17.4	2
Wivelsfield Parish Council	17.4	1	17.4	1	17.4	2
Academy Schools						
ARK Schools Hastings	20.1	-	20.6	-	21.1	-
ARK William Parker Academy	20.1	-	20.6	-	21.1	-
Aurora Academies Trust	20.9	-	20.9	-	20.9	-
Beacon Academy	22.5	-	23.0	-	23.5	-

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Bexhill Academy	23.4	-	23.4	-	23.4	-
Bilingual Primary School	15.1	-	15.6	-	16.1	-
Breakwater Academy	17.5	-	17.5	-	17.5	-
Brighton Aldridge Community Academy	19.5	-	20.0	-	20.5	-
Burfield Academy (Hailsham Primary)	21.5	-	21.0	-	20.5	-
Cavendish Academy	21.0	-	21.0	-	21.0	-
City Academy Whitehawk	22.1	-	22.6	-	22.8	-
Diocese of Chichester Academy Trust	25.9	-	25.4	-	24.9	-
Eastbourne Academy	20.9	-	21.4	-	21.7	-
Gildredge House Free School	20.1	-	20.1	-	20.1	-
Glyne Gap Academy	22.9	-	22.4	-	21.9	-
Hailsham Academy	19.7	-	20.2	-	20.5	-
Hawkes Farm Academy	16.9	-	16.9	-	16.9	-
High Cliff Academy (Newhaven Primary)	21.5	-	21.0	-	20.5	-
Jarvis Brook Academy	15.0	-	15.0	-	15.0	-
King's Academy Ringmer	20.3	-	20.8	-	21.3	-
King's Church of England Free School	15.7	-	16.2	-	16.7	-
Ore Village Academy	18.7	-	19.0	-	19.0	-
Parkland Infant Academy	15.9	-	15.9	-	15.9	-
Parkland Junior Academy	15.2	-	15.2	-	15.2	-
Pebsham Academy (TKAT)	19.0	-	19.5	-	20.0	-
Phoenix Academy (Marshlands)	20.6	-	20.9	-	20.9	-
Portslade Aldridge Community Academy	20.4	-	20.4	-	20.4	-
Ratton Academy	21.6	-	-	-	-	-
Rye Academy	22.5	-	22.0	-	21.5	-
SABDEN Multi Academy Trust	25.1	-	24.6	-	24.1	-
Seaford Academy	21.9	-	21.6	-	21.6	-
Seahaven Academy	21.0	-	21.5	-	22.0	-
Shinewater Primary Academy	15.3	-	15.3	-	15.3	-
Sir Henry Fermor	15.3	-	15.3	-	15.3	-
The South Downs Learning Trust	12.7	-	12.7	-	12.7	-
The Southfield Trust	14.9	-	14.9	-	14.9	-
Torfield & Saxon Mount Academy Trust	22.1	-	22.6	-	23.1	-
University of Brighton Academies Trust	20.1	-	20.5	-	20.5	-
UTC@Harbourside	21.5	-	21.0	-	20.5	-
White House Academy	17.0	-	17.5	-	18.0	-
Colleges						
Bexhill 6th Form College	16.6	23	16.6	30	16.6	38
Brighton, Hove & Sussex Sixth Form College (BHASVIC)	17.2	21	17.2	29	17.2	38
City College Brighton & Hove	16.2	138	16.2	161	16.2	186
Plumpton College	16.7	44	16.7	58	16.7	73
East Sussex College Group	-	-	17.2	117	17.2	171
Sussex Coast College	17.55	63	-	-	-	-
Sussex Downs College	17.4	3	-	-	-	-
Varndean Sixth Form College	17.5	12	17.5	19	17.5	25
Admission Bodies						
Accent Catering Services Ltd	0.0	-	0.0	-	0.0	-
Amey	0.0	-	0.0	-	0.0	-
Brighton and Hove CAB	28.7	-	28.7	-	28.7	-
Brighton Dome & Festival Limited	44.5	16	44.5	36	44.5	57
Brighton Dome & Festival Limited (BHCC)	20.7	-	20.7	-	20.7	-
Care at Home Services	0.0	-	0.0	-	0.0	-

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Care Outlook Ltd	35.0	-	35.0	-	35.0	-
Care Quality Commission	41.6	59	41.6	143	41.6	231
Churchill Services	18.0	-	18.0	-	18.0	-
Civica ICT	14.3	-	14.3	-	14.3	-
De La Warr Pavilion Charitable Trust	43.7	61	43.7	132	43.7	207
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	21.9	-	23.4	-	24.5	2
Eastbourne Homes - SEILL	21.9	-	21.9	-	21.9	-
Eastbourne Leisure Trust (Serco)	25.8	17	25.8	18	25.8	18
Grace Eyre	27.5	-	27.5	-	27.5	-
Halcrow Group Ltd	23.6	-	23.6	-	23.6	-
Hardings Catering Ltd	0.0	-	0.0	-	0.0	-
Hastings Business Operations Limited (HBOL)	23.6	-	27.1	-	27.6	4
Interserve Catering Services Ltd	0.0	-	0.0	-	0.0	-
ISS Ltd (WDC)	0.0	-	0.0	-	0.0	-
John O'Connor (ESCC)	0.0	-	0.0	-	0.0	-
Kier (WDC)	0.0	-	0.0	-	0.0	-
Mears Ltd (BHCC)	26.3	14	26.3	14	26.3	15
Mears Ltd (LDC)	33.9	-	33.9	-	33.9	-
MyTime	13.8	-	13.8	-	13.8	-
NSL Ltd (ESCC)	0.0	-	0.0	-	0.0	-
Optivo (AmicusHorizon)	39.2	554	39.2	879	39.2	1221
SCDA (Sussex Community Development Association Ltd)	26.4	-	26.4	-	26.4	-
Sopra Steria	31.9	-	31.9	-	31.9	-
Sussex Archaeological Society	38.6	57	38.6	82	38.6	108
Sussex County Sports Partnership	21.0	-	21.0	-	21.0	-
Sussex Housing & Care	35.9	133	35.9	101	35.9	67
Telent Technology Services Ltd	24.9	-	24.9	-	24.9	-
Towner	11.5	-	11.5	-	11.5	-
Wave Leisure Newhaven Fort	18.0	-	18.0	-	18.0	-
Wave Leisure Trust Ltd	9.0	-	9.0	-	9.0	-
Wealden Leisure Ltd - BHCC	21.2	-	21.2	-	21.2	-
Wealden Leisure Ltd - PSC (Portslade Sports Centre)	12.3	-	12.3	-	12.3	-
Wealden Leisure Ltd - WDC	27.1	86	27.1	89	27.1	91
White Rock Theatres Hastings Ltd	6.7	-	6.7	-	6.7	-

### 30: Investment Performance

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

#### Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
<b>Fund</b>	<b>2.4</b>	<b>7.7</b>	<b>8.9</b>	<b>7.5</b>
<b>Benchmark</b>	<b>2.6</b>	<b>7.0</b>	<b>7.7</b>	<b>6.6</b>
<b>Relative</b>	<b>(0.2)</b>	<b>0.8</b>	<b>1.1</b>	<b>0.8</b>

#### Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
<b>Fund</b>	<b>2.4</b>	<b>7.7</b>	<b>8.8</b>	<b>7.5</b>
<b>Local Authority Average</b>	<b>4.5</b>	<b>8.3</b>	<b>8.8</b>	<b>7.7</b>
<b>Relative</b>	<b>(2.0)</b>	<b>(0.6)</b>	<b>0.0</b>	<b>(0.2)</b>

The Fund underperformed the (weighted) average local authority fund over the year by 2.0% (0.9% underperformance 2016/17), ranking the East Sussex Fund in the 86<sup>th</sup> percentile (49<sup>th</sup> 2016/17) in the local authority universe. Over three years the fund underperformed by 0.6% (0.7% outperformance 2016/17) and was placed in the 47<sup>th</sup> percentile (28<sup>th</sup> 2016/17). Over five years the fund performed in line (0.2% outperformance 2016/17) and was placed in the 40<sup>th</sup> percentile (37<sup>th</sup> 2016/17). Over ten years the fund years the fund underperformed by 0.2% (in line in 2016/17) and was placed in the 51<sup>st</sup> percentile (43<sup>rd</sup> 2016/17).

Relative performance is calculated on a geometric basis as follows:

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

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

## 9. Pensions administration strategy report

The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pension Administration Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

The Pensions Administration Strategy document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. In particular it sets out:

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

This administration strategy statement will be reviewed in line with each valuation cycle and the next review will be as at 1 April 2020. All scheme employers will be consulted before any changes are made to this document. The latest version of this administration strategy statement will always be available on the ESCC website:

<https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/> and the ESPF website:  
<http://www.eastsussexpensionfund.org/east-sussex-pension-fund/about-us/forms-and-publications/>

## 10. Funding strategy statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013, CIPFA guidance and in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser. The FSS sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- actuarial factors for valuing individual transfers, early retirement costs and costs of buying added service; and
- the Fund's Investment Strategy Statement

## 11. Investment strategy statement

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment strategy for their Fund they must consult with persons they deem appropriate when drawing up their statement. Any material change in investment strategy must be included in a revised Investment Strategy Statement (ISS). The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments. The East Sussex Pension Fund statement was first published in February 2017 when it replaced the Fund's Statement of Investment Principles. The statement is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund (the latest version is available on the website).

### Social, environmental and ethical considerations

The Fund keeps under review the issues surrounding socially responsible investment and has adopted an 'Active Shareholder Approach' to encourage companies to adopt best ethical and environmental principles without jeopardizing the investment performance of the Fund. When selecting investments for purchase, retention or sale, Fund Managers are able to invest in all companies, subject to their specific restrictions set out in the Fund's Policy Guidelines in order to achieve their performance targets. However they have been encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in all key areas of business. The key areas are:



- Corporate governance
- Employment standards
- Human rights

This Statement can be seen on the East Sussex County Council Website.

## **12. Communications policy statement**

The Local Government Pension Scheme Regulations 2013 (Regulation 61) requires each pension fund administering authority to prepare and publish a policy statement setting out its approach to communicating with scheme members, representatives of members, prospective members and scheme employers.

The East Sussex Pension Fund policy statement sets out our existing communication activities.

This Policy can be seen on the East Sussex County Council Website.

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

## 13. External auditors report

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

TO FOLLOW

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

London

E14 5GL

July 2018