

2020/21

Business Plan & Budget

DRAFT

1. Business Plan

1.1 It is anticipated that 2020/21 will see some key activities within the following themes:

- **Pension Fund Oversight and Governance activities:** Fund/Employer actuarial work, Fund external legal advice, Pension Fund Annual Report and Accounts, External/Internal audit work, Data Improvement and Cleansing, Achievement of the Statutory Annual Benefit Statement, Implementation of McCloud provisions, Revised Asset Liability Modelling and Good governance Programme. Public Sector Exit Payments, Review of Academies, Tier 3 Employers and procurement of new contract for Fund Actuary and Investment Advisors.
- **Investment activities:** Review and implement new investment strategy, develop the Fund's ESG credentials, UK Stewardship Code 2020 Principles of Responsible Investment, review and implement agreed changes to the Fund's equity structure, assistance with annual accounts completion, Investment Government, Investment Pooling, Cost Transparency, Cost Management, Strategic ESG Repositioning.
- **ACCESS activities:** ACCESS support unit (ASU), Actively managed listed assets, ACS sub fund construction, transition activity, alternative / non listed assets, passive assets, Governance.
- **Pension Board/Committee Training:** Provision of 3 joint Committee and Board Training days, Provision of 2 Investment Governance/Strategy days, Attendance at third party provided LGPS related training, Breaches, Good Governance.
- **Pension Administration:** Performance Management Group, Maintaining Member Data, Data Improvement Programme, ABS Compliance and Service Level Agreement Oversight, Orbis Service Improvement Programme and Robust Employer Engagement

1.2 Each theme within the business plan includes activities planned for the year. The strategic nature of East Sussex Pension Fund objectives means that a number of the 2020/21 activities build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

1.3 On a day to day basis the pension function is lead and co-ordinated by the Pension Fund Officers. Pension administration is provided by Orbis Business Operations and reviewed by the Performance Management Group. The Pension Committee and Board will receive updates on the work plan each quarter.

1.4 A budget totalling **£3.795m** (£4.857m) to support the business plan is for 2020/21 is detailed below in Table 1:

Table 1

Item	2020/21 Budget £000		2019/20 Budget £000		Change £000
Pension Fund Oversight and Governance					
Actuarial Fund Work ¹	297		150		147
Actuarial Employer Work ²	150		170		(20)
Employer reimbursement ²	(150)		(170)		20
Data Improvement Program ³	200		-		200
Independent Pension Board Chair	5		5		-
Fund Officers ⁴	385		284		101
External Audit – Grant Thornton	26		26		-
Internal Audit	19		19		-
Legal Fees ⁵	115		45		70
Subscriptions and other Expenses	70		73		(3)
Sub Total		1,117		602	515
Investment activities					
Investment and ESG Consultant ⁶	120		90		30
Independent Advisor Basic	12		10		2
Independent Advisor Project work	8		-		8
Custodian	150		150		-
Investment Manager Fee Invoices ⁷	1,200		2,850		(1,650)
Sub Total		1,490		3,100	(1,610)
ACCESS					
ACCESS Support Unit ⁸	98		120		(22)
Fund Officer Time Rebates ⁸	(20)		-		(20)
Sub Total		78		120	(42)
Pension Board/Committee Training:					
Training Costs ⁹		30		-	30
Pension Administration:					
Deferred Members: Tracing Services ¹⁰	45		-		45
Orbis Business Operations Support Services	935		935		-
Guaranteed Minimum Pension	100		100		-
Sub Total		1,080		1,035	45
Total Budget		3,795		4,857	(1,062)

¹Due to issues raised in internal audit reports we are anticipating the actuary having to carry out additional work in 2020/21 until these are resolved.

²As we are exiting a valuation year we expect the employer queries to decrease in 2020/21

³This is a one of project approved by the Pension Committee to improve the current standard of pensioner data that is held on our pension system.

⁴Due to Vacancies in the current team it is anticipated that more expensive temporary staff will be need until the Good Governance Project is completed.

⁵There is currently a lot of specialist advice that the Fund is seeking in response to the breaches that the Fund has reported to the Pension Regulator this is anticipated to still be required in 2020/21.

⁶Additional ESG work that we are looking to commission to improve our investment governance is expected in 2020/21

⁷The Fund's investment managers that have now transferred into the ACCESS sub-funds are no longer contracted directly to the Fund. The Fund will therefore no longer pay the investment manager fees directly and these will be a charge within the sub-fund structure taken out of the assets of the sub-funds.

⁸As ACCESS is moving from the set-up phase to more business as usual footing it is expected to reduce the contribution to run the Pool. The ASU function is now fully staffed and virtual technical leads time being recharged.

⁹A dedicated training budget has been created to ensure the Board and Committee get the training they require to perform their functions.

¹⁰To ensure of deferred pension data is accurate a tracing services project is being undertaken in 2020/21

Key budget assumptions

1.5 The key budget assumptions are set out below

- Staffing budgets have been left at the same level as the previous year until the implications of the Good Governance Review are understood.
- Training costs are based on three training sessions run by East Sussex Pension Fund at a cost of £5,000 each, two investment governance sessions at £5,000 each and £5,000 for external training events.
- ACCESS cost based on the budget set by the ACCESS Joint Committee.
- Manager fees based on invoiced fees only and these are anticipated to only be payable to UBS and Schroders in 2020/21. Fees are based on the assets under management no movement has been included in this figure.
- The budget excludes estimates for the Service Improvement Programme and Good Governance Programme but these may be considered at a later date.

1.6 This budget will deliver the key themes detail in table 2 below:

Table 2

Theme	Tasks	2020/21 activity
Fund Oversight and Governance activities	Fund/Employer actuarial work	2019 Valuation close-off/ Regular meeting attendance/ Employer asset tracking (HEAT)/General Officer Support/Benefits Consultancy and Governance support/Club Vita longevity analysis/ Employer accounting reports/Employer requests/ Bulk Transfers calculations
	Fund external legal advice	LGPS specific legal advice provided by external specialist lawyers.
	Pension Fund Annual Report and Accounts	Statutory documents produced once a year providing information on the Pension Fund activities over the past year.
	External/Internal audit work	External Audit: statutory audit of the 2019/20 Pension Fund

Theme	Tasks	2020/21 activity
	<p>Good Governance Project</p> <p>Procurements</p>	<p>accounts. Internal Audit: delivery of the 2020/21 Internal Audit Plan</p> <p>Implementing the Good Governance Project to ensure that the Pension Fund has appropriate governance in place.</p> <p>Strategically important procurement of Investment Consultant and Actuary</p>
Investment activities	<p>Review and implement new investment strategy</p> <p>Develop the Fund's ESG credentials</p> <p>Review and implement agreed changes to the Fund's equity structure</p> <p>Assistance with annual accounts completion</p>	<p>Implement any strategic changes agreed at the Q1 2020 strategy review. Discuss strategy at the annual strategy day. Review the Fund's private markets programme. Review Passive/Active investment position. Review the Income generation of the Fund's investments.</p> <p>Consider requirements under the UK Stewardship Code and PRI, with a view to the Fund becoming a signatory. Undertake the transition pathway analysis in respect of the Longview holdings. Collate quarterly analysis of fossil fuel exposure and voting & engagement records.</p> <p>Once the strategic allocation to equities is agreed, discuss and agree on the equity structure and implement any agreed changes</p> <p>Prepare the usual information for the Report & Accounts, including performance and private markets summary</p>
ACCESS	<p>ACCESS Support Unit</p> <p>Actively managed listed assets</p>	<p>The size and scope of the ASU will be reviewed during 2020/21.</p> <p>The completion of pooling</p>

Theme	Tasks	2020/21 activity
	<p>Alternative / non listed assets</p> <p>Passive assets</p> <p>Governance</p>	<p>active listed assets within the Authorised Contractual Scheme (ACS). Ongoing monitoring and engagement with the operator and investment managers of the ACS sub-funds</p> <p>The initial implementation of pooled alternative assets.</p> <p>Ongoing monitoring and engagement with UBS.</p> <p>The application of appropriate forms of governance throughout ACCESS.</p>
Pension Board/Committee Training	<p>Provision of 3 joint Committee and Board Training days</p> <p>Provision of 2 Investment Governance/Strategy days</p> <p>Attendance at third party provided LGPS related training</p>	<p>Provision of speakers to deliver East Sussex Pension Fund lead training.</p> <p>Commissioning work to examine the current investment strategy</p> <p>Identifying useful third party provided session that will be useful for ESPF to attend.</p>
Pension Administration	<p>Performance Management Group</p> <p>Maintaining Member Data</p> <p>Data Improvement Plan</p> <p>ABS Production</p>	<p>Overseeing the activities of the administration service.</p> <p>Day to day imputing of data into the pension system to ensure the records are up to date.</p> <p>Identifying areas where data within the pension system can be improved and developing plan of redress.</p> <p>Annual Benefit Statements need to be produced by statute. Ensuring the data is up to date to be able to provide an accurate statement to Members.</p>

1.7 A separate risk register included measures the risk of the strategic objectives and milestones not being achieved.

2. Significant Workstreams Analysed by Stream

2.1 There are 5 significant work streams against various thematic headings with in the budget these are:

1. Pension Fund Oversight and Governance activities:

- Good Governance Review
- Data Improvement

2. Investment activities:

- Investment Strategy
- UK Stewardship Code 2020
- Principals of Responsible Investment
- Investment Governance

3. ACCESS activities:

- Sub Fund transition management
- Investment Governance

4. Pension Board/Committee Training:

- Relevant Training
- CIPFA Knowledge and Skills Framework

5. Pension Administration:

- Performance Management Group
- McCloud Work Plan

1. Pension Fund Oversight and Governance activities:

Good Governance Review

The Pension Committee commissioned forward looking Good Governance Review, with its primary purpose to support the East Sussex Pension Fund's desire to get ahead of the game and establish the principles of the Scheme Advisory Board's ("SAB") Good Governance Project in the Pension Fund's governance arrangements, in order that it will be compliant with the recommendations expected to follow.

The review is not purely focussed on the SAB project, but also incorporate other areas of best practice, including requirements within other guidance such as from The Pensions Regulator, MHCLG (the legislators for the LGPS) and CIPFA (relating to professional standards) as described in the next section of this report.

The guidance and requirements that are subject to the Good Governance Review are as follows:

- SAB Good Governance Project – phase 2 report ("SAB Good Governance Project Outcomes ")
- MHCLG Statutory Guidance on Governance Compliance Statements² ("MHCLG Statutory Governance Guidance")
- The Pensions Regulator's Code 14: Governance and administration of public service pension schemes³ ("TPR Code of Practice")

- CIPFA's Administration in the LGPS: a guide for pensions authorities⁴ ("CIPFA Administration Guide")

Data Improvement

The recent issues noted by the Pension Administration in delivering the 2019 Annual Benefit Statements has highlighted a number of concerns regarding scheme employer understanding of their responsibilities, as well as their ability to provide accurate and complete data in a timely manner. The Fund Actuary, Hymans Robertson, in undertaking of the Triennial Valuation as at 31 March 2019, similarly identified a high level of validation and critical data error points within scheme employer common and scheme specific data, which highlights the need to undertake an assessment and review of employer data sets.

Given the increased focus of the Pension Committee regarding day-to-day administration, together with the accuracy of member data and its impact on scheme liabilities the purpose of this report is to set out the steps being proposed to undertake a comprehensive review of scheme member data held by scheme employers, reconcile this with that held on scheme member data records and ensure appropriate procedures are in place to support scheme employers for the future.

A workshop was held on 22 October 2019 to gain a common understanding of the challenges and agree priorities to inform the objectives and scope detailed in this document. The project proposals were presented to the East Sussex Pension Board on 11 November 2019 and a recommendation to proceed was made to the Pension Committee, who then approved the project scope and spend on 25 November. The Pension Committee created a delegated approval board, the ABS Working Group, terms of reference are attached as an appendix (where?)

The Pensions Regulator (TPR) has set targets of 100% for both common and scheme specific data, although the exact definition of scheme specific data for the LGPS has still to be confirmed by the Scheme Advisory Board. In measuring scheme specific data, therefore, the ESPF uses measurements set out in the Heywood Altair reporting as benchmarks to measure its data quality.

The key objectives of the data cleanse project are:

- to ensure accuracy of historic active scheme member data records to 31 March 2020, to ensure the correct calculation of pension entitlements and employer liabilities;
- to ensure that the ESPF is compliant with legislation and in particular, with the guidance of TPR. Furthermore, in doing so, to ensure it establishes a robust, reviewable and transparent framework necessary for the acquisition and upkeep of accurate, complete and up-to-date records
- to ensure the ESPF 2020 annual benefit statement exercise is successfully completed in advance of the statutory 31 August deadline;
- to ensure the percentage of Annual Benefit Statement sent on time is as close to 100% as possible;
- to prepare Orbis Business Operations and the participating scheme employers for the introduction of monthly receipt and posting of scheme member pension contributions and member data via the i-Connect module of the administration system Altair;
- to avoid censure from TPR as a consequence of any material breaches of the law directly attributable to poor or missing scheme member data.

Supplementary benefits of the data cleanse project include:

1. ensuring clarity of roles and responsibilities between the ESPF and scheme employers, ensuring all parties are committed to continuing engagement to improve data quality and promote ongoing accurate record keeping;
2. ensuring that all data collection processes are clearly documented and regularly reviewed to check the validity of data.

2. Investment activities:

New Investment Strategy

As the valuation has taken place during the 2019/20 financial year the Fund will need to carry out asset liability modelling exercise. This will help the Fund determine the best investment strategy for the Fund. The expected result from this is a need to change the strategic asset allocation of the Fund. This is due to better Funding position and the likelihood of reduced employer contribution rates affecting the cashflow of the Fund.

This will require a review of all aspects of the Fund's investments such as the Passive/Active position, the private markets programme.

UK Stewardship Code 2020

This sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

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

The investment market has changed significantly since the publication of the first UK Stewardship Code. There has been significant growth in investment in assets other than listed equity, such as fixed income bonds, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities and signatories will need to consider how to exercise stewardship effectively in these circumstances.

Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship. The Code also recognises that asset owners and asset managers play an important role as guardians of market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios.

When applying the Principles, signatories should consider the following, among other issues:

- the effective application of the UK Corporate Governance Code and other governance codes;
- directors' duties, particularly those matters to which they should have regard under section 172 of the Companies Act 2006;
- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;

- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

PRI (Principle of Responsible Investment)

The PRI is the world's leading proponent of responsible investment.

It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI encourages investors to use responsible investment to enhance returns and better manage risks but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

Investment Governance

Our Independent Adviser review the governance of the arrangements under which East Sussex Pension Fund invests its assets. They have not looked at the resources available or value for money achieved, except note that both are important considerations.

The legal and regulatory background has been considered along with the main characteristics of good investment governance and the roles of the main parties involved. This resulted in the following recommendations that are going to be implemented

Recommendation 1: Establish two Working Parties a year in place of the Strategy Day in order to facilitate deeper discussions.

Recommendation 2: Strategic Asset Allocation of the Fund should be the subject of at least an annual discussion at a Working Party, with any changes to be approved at the following PFC meeting.

Recommendation 3: Officers test the current arrangements for implementing changes. When ACCESS is fully up and running, they test the arrangements there too.

Recommendation 4: A review is undertaken of the format of the quarterly monitoring report which Hymans provides for the PFC with the aim of providing the most useful and relevant information clearly.

Recommendation 5: The paper on manager performance benchmarks which Hymans produced in 2018 be subject to discussion and formal approval.

Recommendation 6: When considering a new manager appointment outside the ACCESS pool, Hymans are asked to show a shortlist of at least three managers to the PFC for discussion.

Recommendation 7: The Fund continue to engage with its ACCESS partners to agree possible measures to mitigate concerns over pool governance.

Recommendation 8: The Risk Register's section on investments is reviewed on a regular (i.e. at least every six months) by either the PFC or The IA.

Recommendation 9: The scope of the independent governance review which is likely to be required in the future explicitly include consideration of value for money received from the investment arrangements.

3. ACCESS activities:

Sub Fund transition management

As at the end of December 2019 there is £24.634 billion of investments pooled within ACCESS. The total number of actively managed listed asset sub-funds created by link is currently 13 with another 14 planned to launch over the next year. There are 3 more sub-funds being considered by ACCESS as potentially viable in the pool.

Once this has been completed ACCESS will need to review its sub-fund offering to ensure it enables investing authorities to implement their investment strategies. Consider requests from investing authorities around additional sub-fund offerings.

ACCESS will need to undertake a review of its arrangements for the operator of its ACS to determine how it wants to proceed at the end of the current contract.

The ACCESS Support Unit and Link are continuing to work to find a solution to enable investing authorities to transition investments from one sub-fund to another, within Link's ACS structure. Currently this is not possible within the sub-fund structure as the trading costs associated with investing and dis-investing would be shared by any other investors in the sub-funds.

Discussions have taken place with Link with a view to create a number of specific 'transition' sub-funds, that would enable transitions within the ACS and ensure that the costs of transition remain with the authority moving their investment. Link have provided an initial quote for the cost of 'transition' sub-funds.

It remains an option for authorities invested in a sub-fund to transition in cash – by disinvesting from one sub-fund and using the cash to invest in another, or transition outside the ACS – authorities can disinvest from a sub-fund 'in-specie' and undertake a transition in an account held with their own custodian, using a specialist transition manager, and then invest 'in-specie' to the new sub-fund.

Investment Governance

The governance arrangements around ACCESS is currently being reviewed with updates to the Inter Authority Agreement and Governance manual being updated to reflect current practices. Once these have been agreed the structure of the Officer groups will be reviewed

to ensure that the appropriate decisions are being made at the appropriate level with the necessary level of delegation.

4. Pension Board/Committee Training:

Relevant Training

Relevant training is required to aid the Committee members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities. The Committee and Board are required to improve knowledge and skills in all the relevant areas of activity for the purposes of enabling members and representatives to properly exercise their functions as a member of the ESPF.

The training necessary to achieve the required knowledge and skills is set out in the training plan. The strategic objectives relating to knowledge and skills are to:

- ensure the Fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- ensure the Fund is effectively governed and administered;
- ensure decisions are robust, are well founded and comply with regulatory requirements or guidance from the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government.

To achieve these objectives – Members of the Committee require an understanding of:

- their responsibilities as delegated to them by East Sussex County Council as an administering authority of an LGPS fund;
- the fundamental requirements relating to pension fund investments;
- the operation and administration of the Fund;
- the principles involved in controlling and monitoring the funding level; and
- effective decision making in the management of the Fund.

To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and the Pension Regulator's Code of Practice to meet the skill set required. Attention will also be given to the guidance issued by the Scheme Advisory Board, the Pensions Regulator, Local Government Association and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Board and Committee's activities as set out in the Fund's business plan.

Addressing the ESPF Business Plan

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan. The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

Consideration will be given to various training resources available in delivering training to the Board and Committee. These may include but are not restricted to training delivery:

- In-house
- Self-improvement and familiarisation with regulations and documents
- The Pension Regulator's e-learning programme
- Attending courses, seminars and external events
- Internally developed training days and pre/post meeting sessions
- Regular updates from officers and/or advisers
- Circulated reading material
- Desktop / work-based training
- Attending courses, seminars and external events
- Internally developed sessions
- Shared training with other funds or frameworks
- Circulated reading material

The Fund will commit to providing a minimum of 4 formal training sessions per year, to form part of usual committee and board meetings, plus a separate stand-alone training session.

CIPFA Knowledge and Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on s101 pension committees and non-executives in the public sector within a knowledge and skills framework. The framework covers six areas of knowledge identified as the core requirements:

- pension accounting and auditing standards;
- financial services procurement and relationship development;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skills required for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS funds.

Local Pension Boards: A Technical Knowledge and Skills Framework In August 2015 CIPFA extended the Knowledge and Skills Framework to specifically include members of local pension boards, albeit there exists an overlap with the original framework. The framework identifies the following areas as being key to the understanding of local pension board members;

- Pensions Legislation;
- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial markets and product knowledge;
- Actuarial methods, standards and practices.

Given that the local pension board framework effectively covers the same material as the earlier committee focused one, albeit across 8 modules rather than six, training session for both Committee and Board members will be based around the most recent framework.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice") recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

Guidance from the Scheme Advisory Board

The Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and in January 2015 published Guidance for administering authorities to support them in establishing their local pension board. The Guidance includes a section designed to help local pension board members to understand their knowledge and understanding obligations. While this guidance is aimed at local pension boards, some of the principles and good practice relating to training will be adopted by the Fund in respect of the Committee as well as the Pension Board.

Knowledge and understanding must be considered in the light of the role of a local pension board and East Sussex County Council will make appropriate training available to assist and support Committee and Board members in undertaking their role. The approach, where possible will be to schedule joint training sessions for Board and Committee members.

Degree of Knowledge and Understanding

Committee members should have sufficient knowledge and understanding to make sound decisions in the best interests of the East Sussex Pension Fund. It is the role of the Committee to ensure that the Fund is managed in a way that complies with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

Acquiring, Reviewing and Updating Knowledge and Understanding

Committee members should commit sufficient time in their learning and development and be aware of their responsibilities immediately they take up their position. The Fund will therefore provide induction training for all new Committee members.

Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment when too inflexible to reflect a change in pension law or new responsibilities required of Board members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

The Pensions Regulator E-learning toolkit

The Regulator has developed an on-line tool designed to help those running public service schemes to understand the governance and administration requirements in the public service schemes code of practice. The toolkit is an easy to use resource and covers 7 short modules. These are:

- Conflicts of Interests;
- Managing Risk and Internal Controls;
- Maintaining Accurate Member Data;
- Maintaining Member Contributions;
- Providing Information to Members and Others;

- Resolving Internal Disputes;
- Reporting Breaches of the Law.

These modules are designed to apply to all public service schemes and are not LGPS specific. The toolkit is designed specifically with pension board members in mind, however in the view of Fund the material covered is of equal relevance to members of the Committee. Completion of the toolkit will not in itself provide Committee and Board members with all the information they require to fulfil their knowledge and skills obligations. It does however provide a good grounding in some general areas.

The intention is that the e-learning modules will be completed collectively by the members of the committee as part of their regular meetings. This allows answers to be discussed among the group and ensures that all members present will benefit from the training. As with other training sessions, the e-learning sessions will only be undertaken when the committee is quorate.

Risk

Risk Management

The compliance and delivery of training is at risk in the event of –

- frequent changes in membership of the Committee;
- resources not being available;
- poor standards of training;
- inappropriate training plans.

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

Budget

Training is an essential requirement of a well-run pension fund. A training budget will be agreed as part of the business plan and costs will be met from the Fund.

5. Pension Administration:

Performance Management Group

The Performance Management Group (PMG) has been established to performance manage the new Service Level Agreement with the ORBIS Pensions Administration Service. Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all employers participating in the fund and all past and present members, including their dependants.

The Performance Management Group's (PMG) is a local governance structure, to create a legacy of improvement and transformation. Through PMG, East Sussex Pension Fund will place a greater emphasis on offering coordinated, joined up and holistic support for business as usual delivery and improvement. PMG brings together a wealth of expertise on quality, compliance and operational improvement and draws together well developed links with Pension Administration, Fund Advisors, East Sussex Business Leaders and Benefit Consultants to draw down their specialist advice. PMG will act as a critical friend and offer robust challenge to ensure that participants at every level take the necessary action to the achieve the performance and improvements required.

The PMG will have a key responsibility for ensuring a shared and accurate sense of progress and risks to business as usual, as well as, planned improvement across the pension service to ensure a continuous focus on adding value and building a foundation for ongoing sustainable improvement. Advisors in attendance at PMG will be expected to provide advice to support the successful leadership and delivery of business as usual with a focus on continuous improvement: advising on the continued development, review and monitoring of the administration business plan for East Sussex.

A key function of PMG is to monitor the new Service Level Agreements between the Fund and Orbis and Orbis and the Actuary and to ensure timely oversight on administration matters for seamless service delivery.

McCloud Work plan

This year the Committee and Board will need to agree the actuarial approaches for managing the associated risk and uncertainty within funding strategy until the remedy to McCloud is confirmed, focussing on the 2019 valuation, contributions setting, cessation debts, new employer asset allocations, accounting and bulk transfers.

The Fund is part of the Local Government Pension Scheme (LGPS), a public service scheme for local government and associated workers. Following the Hutton review of public service pension schemes, LGPS benefits accruing from 1 April 2014 were changed from 1/60ths final salary to 1/49ths Career Average Revalued Earnings (CARE). Retirement ages were also increased from age 65 to State Pension Age (SPA), although many members have protected retirement ages lower than 65. CARE benefits effectively lose the link to salary growth and are instead revalued each year in line with Consumer Price Index (CPI) inflation. As part of a package of “transitional protections” accompanying the change, members who were within 10 years of the 60ths scheme normal retirement age at 1 April 2012 were protected by an ‘underpin’. The underpin ensures that the benefit received by eligible members for service from 1 April 2014 was the greater of 1/60ths final salary or 1/49ths CARE.

Two Court of Appeal judgements in December 2018 (which the Supreme Court denied the Government’s leave to appeal against in June 2019), collectively referred to here as the “McCloud” judgement, ruled that similar transitional protections in the Firefighters’ and Judges’ pension schemes amounted to unlawful discrimination against younger members (and indirectly against women and ethnic minorities). A written ministerial statement confirmed that the principle applies to these transitional protections in the LGPS and other public service schemes.

It is, however, very unclear what form the remedy will take in the LGPS i.e. how benefits will change to remove the discriminatory protections and what would be done to compensate members for any adverse impact on service from 2014 to that point. In essence, therefore, McCloud will have a retrospective effect on current active members’ benefits, as well as future service benefit accrual.

Risk Register Risk Scores

The risk scores are calculated using the risk matrix below:



LIKELIHOOD	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

For the **likelihood**, there are four possible scores:

1 HARDLY EVER	2 POSSIBLE	3 PROBABLE	4 ALMOST CERTAIN
Has never happened No more than once in ten years Extremely unlikely to ever happen	Has happened a couple of times in last 10 years Has happened in last 3 years Could happen again in next year	Has happened numerous times in last 10 years Has happened in last year Is likely to happen again in next year	Has happened often in last 10 years Has happened more than once in last year Is expected to happen again in next year

For the **impact**, there are four possible scores, considered across four areas:



	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day- today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comments.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
Pensions Administration (Orbis -Business Operations)												
1	Pension contributions: <ul style="list-style-type: none">• Non-collection• Miscoding• Non-payment If not discovered results inaccurate: <ul style="list-style-type: none">•employer FRS17/IAS19 & Valuation calculations• final accounts• cash flow	3	3	9	<ul style="list-style-type: none">• Employer contribution monitoring• Additional monitoring at specific times• SAP / Altair quarterly reconciliation• Annual year end checks• Fines imposed for late payment and late receipt of remittance advice.	3	2	6		Head of Pensions	On-going	
2	Inadequate delivery of Pensions Administration by service provider <ul style="list-style-type: none">• Members of the pension scheme not serviced• Statutory deadlines not met• Employers dissatisfied with service being provided + formal complaint• Complaints by members against the administration (these can progress to the Pensions Ombudsman)	3	3	9	<ul style="list-style-type: none">• Key Performance Indicators• Internal Audit• Reports to Pension Board / Committee• Service Review meetings with business operations management• Awareness of the Pension Regulator Guidance• Pensions Web• Improved employer contribution forms	3	3	9		Lead Pensions Manager	Management Actions in Internal Audit Report	

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
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3	Loss of key/senior staff and knowledge/skills <ul style="list-style-type: none"> Damaged reputation Inability to deliver and failure to provide efficient pensions administration service; major operational Disruption and inability to provide a high quality pension service to members. Concentration of knowledge in a small number of officers and risk of departure of key and senior staff. The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation. 	3	3	9	<ul style="list-style-type: none"> Diversified staff / team Attendance at pension officers user groups Procedural notes which includes new systems, section meetings / appraisals Succession planning Robust business continuity processes in place around key business processes, including a disaster recovery plan. Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process. 	3	2	6	↔	Lead Pensions Manager	On-going
4	Paying pension benefits incorrectly <ul style="list-style-type: none"> Damaged reputation Financial loss Financial hardship to members 	3	3	9	<ul style="list-style-type: none"> Internal control through audit process Constant monitoring / checking In house risk logs SAP / Altair reconciliation Task management Vita cleansing 	3	2	6	↔	Lead Pensions Manager	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review			
5	Guaranteed Minimum Pension (GMP) reconciliation <ul style="list-style-type: none">Financial lossMembers of pensions scheme exposed to financial lossLegal issuesInaccurate record keepingDamaged reputation	3	3	9	<ul style="list-style-type: none">Awareness of Pension Regulator GuidancePublic Service Pensions Act 2013Internal AuditKey performance indicatorsTask ManagementReports to Pension Board and Committee	3	2	6	↔	Lead Pensions Manager	On-going	
6	Failure to issue Annual Benefit statements 31st August <ul style="list-style-type: none">Reputational risk and complaintsFines and enforcement action by The Pension Regulator	3	3	9	<ul style="list-style-type: none">Project management approachRegular contact with employers to get data.Monthly interfacing to reduce workload at year endStatements to employers in time to allow time for distribution to staff.Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year-end.	3	3	9	↑	Lead Pensions Manager	31 March 2020	

EAST SUSSEX PENSION FUND - RISK REGISTER												
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales	
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7	Data Cleansing – failure to provide timely and accurate member data. <ul style="list-style-type: none">Risk of financial loss and damage to reputation.Incorrect employers contribution calculationsDelays to triennial actuarial valuations process.	3	3	9	<ul style="list-style-type: none">Annual data cleansing carried out by pension administration to highlight gaps;Administration Strategy in place;Employing authorities are contacted for outstanding/accurate information;Regular meeting with administration services re updates, when required.A data cleansing plan is expected to be agreed with Business Operations.Business Operation has been given authority to recruit 3 additional FTE for an initial period of 6 months to focus on data deficiencies.	3	3	9		Lead Pensions Manager	Data Improvement Programme Ongoing to June 2020	
Pensions Investment and Governance												
8	Required returns not met due to poor strategic allocation <ul style="list-style-type: none">Damaged reputationIncrease in employer contributionPay Pensions	4	2	8	<ul style="list-style-type: none">Investment AdvisorsTriennial reviewPerformance monitoringAnnual Investment Strategy ReviewReporting to Pensions Committee and BoardCompliance with the ISSCompliance with the Funding Strategy	3	2	6		Head of Pensions	On-going	

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Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
					Statement						
9	Employers unable to pay increased contributions <ul style="list-style-type: none">• Lower funding level• Increase in employer contributions• Employer forced to sell assets• Employer forced into liquidation• Increase in investment risk taken to access higher returns	2	3	6	<ul style="list-style-type: none">• Valuation• Regular communication with Employers• Monthly monitoring of contribution payments• Meetings with employers where there are concerns	2	3	6	↔	Head of Pensions	On-going
10	Cyber Security of member data - personal employment and financial data <ul style="list-style-type: none">• ESCC may incur penalties• Damaged reputation• Legal issues• Members of the pension scheme exposed to financial loss• Members of the pension scheme exposed to identity theft• Members of the pension scheme data lost or compromised	4	2	8	<ul style="list-style-type: none">• ICT defence-in-depth approach• Utilising firewalls,• Email and content scanners• Using anti-malware.• ICT performs penetration and security tests on regular basis	3	2	6	↔	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER


Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
11	Cyber Security of third party suppliers <ul style="list-style-type: none"> • Damaged reputation • Financial loss • Inability to trade • Lower funding level • Increase in employer contribution • Increase in investment risk taken to access higher returns 	4	2	8	<ul style="list-style-type: none"> • Service level agreement with termination clause • Regular Meetings • Regular reports SAS 70/AAF0106 • Investment Advisors • Global custodian 	3	2	6	↔	Head of Pensions	On-going
12	The decision to leave the European Union results in significant economic instability and slowdown, and as a consequence lower investment returns, resulting in: <ul style="list-style-type: none"> • Financial loss, and/or failure to meet return expectations. • Increased employer contribution costs. • Changes to the regulatory and legislative framework within which the Fund operates. 	4	2	8	<ul style="list-style-type: none"> • Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller. • The long-term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time. • The Govt. is likely to ensure that much of current EU regulation is enshrined in UK law. • Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented 	3	2	6	↔	Head of Pensions	On-going

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13	2019 Triennial actuarial valuation outcome <ul style="list-style-type: none">• An increase in liabilities that is higher than the previous actuarial valuation estimate.• The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.• Significant rises in employer contributions due to increases in liabilities or fall in assets.	3	3	9	<ul style="list-style-type: none">• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases.• The Committee receiving training on understanding liabilities• Hymans Robertson commission to produce an Asset Liabilities Model.• Life expectancy assumptions are reviewed at each valuation.• Reviewing of each triennial valuation assumptions and challenge actuary as required.• Funding Strategy Statement and Investment Strategy Statement updated and approved,• Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations• The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy;	3	2	6	↔	Head of Pensions	On-going	

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14	Accounting - Failure to comply with CIPFA new pension fund accounting regulations. <ul style="list-style-type: none">Risk of the accounts being qualified by the auditors.	3	2	6	<ul style="list-style-type: none">Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures.Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations.Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers.Internal Audits - carried out in line with the Pension Audit strategy.External Audit review the Pension Fund's accounts annually	3	2	6	↔	Head of Pensions	On-going	
LGPS Pooling - ACCESS Pool												
15	Asset transition costs <ul style="list-style-type: none">Asset transition costs are greater than forecast.Failure to control operational risks and	3	3	9	<ul style="list-style-type: none">Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios.	2	2	4	↔	Head of Pensions	On-going	

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	transaction costs during the transition process <ul style="list-style-type: none"> An increase in the initial set-up costs forecast by the pooling proposal. 				<ul style="list-style-type: none"> There may also be the opportunity to transfer securities in 'specie'. A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled. 						
16	LGPS Investment Pooling <ul style="list-style-type: none"> Lower funding level/Damaged reputation Increase in employer contribution Increase in investment risk taken to access higher returns There can be size restrictions on certain investments. 	3	3	9	<ul style="list-style-type: none"> Engagement in ACCESS asset pool group Reporting to Pensions Committee and Board Engagement with third party experts (e.g. Legal and Tax) 	2	2	4	↔	Head of Pensions	On-going
17	ACCESS Pool Governance – Resourcing <ul style="list-style-type: none"> Establishment phase resource - a substantial amount of officer resource will be required to support the project plan work-streams / tasks etc. Increased demand on officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource. 	4	2	8	<ul style="list-style-type: none"> ACCESS Support Unit function to provide support. Gap analysis to be undertaken to identify officer resource requirements. Work-streams to be allocated Officer Sub-groups to co-ordinate work. Increasing the frequency of OWG meetings - fortnightly joint OWG / Link Steering Group meetings and 	2	2	4	↔	Head of Pensions	On-going

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					fortnightly Link Project calls.						
18	Sub-fund implementation- There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.	3	3	9	<ul style="list-style-type: none">The Ruffer transition to sub fund raised a number of internal control issues currently under investigation. The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may need to be considered.	3	3	9		Head of Pensions	September 2019

Risk Score Change Key –



= *Reduced*



= *No Change*



= *Increased*