

The logo consists of four green squares arranged in a 2x2 grid. The top-left square contains a white letter 'E', the top-right contains a white letter 'S', the bottom-left contains a white letter 'P', and the bottom-right contains a white letter 'F'.

# East Sussex Pension Fund

2020/21

Business Plan & Budget

## 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 The decision was taken during since the last meeting to bring the East Sussex Pension Administration team into East Sussex County Council this negotiations for this have started and the transition of staff over to East Sussex is expected to begin in the third quarter of the year. The Budget and cost for this move have not been agreed at this point with the

1.5 A budget totalling **£3.730m** (£3.795m February 2020 £4.857m for 2019/20) to support the business plan for 2020/21 is detailed below in Table 1:

Table 1 Pension Fund Management Expenses for Actuals for July 2020

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Actuals to July £000	2020/21 Forecast Outturn £000
	<b>Pension Fund Oversight and Governance</b>			
345	Actuarial Fund Work <sup>1</sup>	250	56	250
97	Actuarial Employer Work <sup>2</sup>	150	8	150
(97)	Employer reimbursement <sup>2</sup>	(150)	(3)	(150)
88	Good Governance Program	47	25	47
75	Data Improvement Program <sup>3</sup>	100	40	40
8	Independent Pension Board Chair	5	4	5
307	Fund Officers <sup>4</sup>	385	13	385
30	External Audit – Grant Thornton	26	(7)	30
17	Internal Audit	19	-	37
119	Legal Fees <sup>5</sup>	115	19	115
11	Subscriptions and other Expenses	70	40	70
<b>1,000</b>	<b>Sub Total</b>	<b>1,017</b>	<b>195</b>	<b>979</b>
	<b>Investment activities</b>			
114	Investment Consultant	120	29	120
-	PIRC ESG Report	11	-	11
-	EIRIS Carbon Report	24	25	24
11	Independent Advisor Basic	12	-	12
5	Independent Advisor Project work	8	4	8
54	Custodian	150	-	150
3,003	Investment Manager Fee Invoices <sup>7</sup>	1,200	104	1,200
<b>3,187</b>	<b>Sub Total</b>	<b>1,525</b>	<b>162</b>	<b>1,525</b>
	<b>ACCESS</b>			
67	ACCESS Support Unit <sup>8</sup>	98	35	98
(3)	Fund Officer Time Rebates <sup>8</sup>	(20)	(2)	(10)
<b>64</b>	<b>Sub Total</b>	<b>78</b>	<b>33</b>	<b>88</b>
	<b>Pension Board/Committee Training:</b>			
-	Training Costs <sup>9</sup>	30	1	30
-	<b>Sub Total</b>	<b>30</b>	<b>1</b>	<b>30</b>
<b>1,106</b>	<b>Pension Administration:</b>	<b>1,080</b>	<b>-</b>	<b>1,080</b>
<b>5,357</b>		<b>3,730</b>	<b>390</b>	<b>3,702</b>

<sup>1</sup>Due 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.

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

<sup>3</sup>This 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.

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

<sup>5</sup>There 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.

<sup>6</sup>New budget items determined after procurement of services.

<sup>7</sup>The 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.

<sup>8</sup>As 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.

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

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

## **Key budget assumptions**

1.6 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.

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

Table 2 Business plan deliverables by key theme

Theme	Tasks	2020/21 activity	Action Update
<b>Fund Oversight and Governance activities</b>	Fund/Employer actuarial work	<p>2019 Valuation close-off/</p> <p>Employer accounting reports/Employer requests/ Bulk Transfers calculations</p> <p>Regular meeting attendance / Officer Support</p> <p>Employer asset tracking (HEAT)</p> <p>Benefits Consultancy and Governance support/Club Vita longevity analysis/</p>	<p>Actuarial Valuation completed by the 31 March 2019 and submitted by the Actuary to MHCLG.</p> <p>SLA between Orbis and Pension Administration awaiting agreement by Orbis.</p> <p>Actuary attendance on 8 June 2020 and 22 June 2020</p> <p>Employer FRS102 and IAS 19 reporting generated through HEAT with returns due by (July 2020)</p> <p>Actuary consultancy undertaken in regard to errors in Pension Increase calculation and to agree the deferral of contributions policy and exit credit policy.</p>
	Fund external legal advice	LGPS specific legal advice provided by external specialist lawyers.	Legal consultancy undertaken in regard to deferral of contributions and exit credit policy and employer admissions and cessations.

Theme	Tasks	2020/21 activity	Action Update
	Pension Fund Annual Report and Accounts	Statutory documents produced once a year providing information on the Pension Fund activities over the past year.	Draft Accounts are with Grant Thornton the Annual report is still outstanding.
	External audit	External Audit: statutory audit of the 2019/20 Pension Fund accounts.	External Audit by Grant Thornton has commenced expected to complete in September 2020.
	Internal audit	Internal Audit: delivery of the 2020/21 Internal Audit Plan	Internal Audit update of management actions expected at November 2020 meeting
	Good Governance	Implementing the Good Governance Project to ensure that the Pension Fund has appropriate governance in place.	The governance project has ended with a report to the board and committee planned to take place at September 2020 meetings.
	Procurements	Strategically important procurement of Investment Consultant and Actuary	The following procurements have commenced under the national frameworks for the: Actuary; Investment Advisor, Benefit Consultancy. There were 3 Bidders for the Investment tender and 2 for the Actuarial evaluations are taking place for decision by Pension Committee in September 2020. The evaluation committee Michelle King, William Bourne, Russell Woods.

Theme	Tasks	2020/21 activity	Action Update
	Ill Health review	At the committee meeting in June an Ill Health review was agreed to be added to the work plan	Hymans have commenced this work stream.
<b>Investment activities</b>	Review and implement agreed changes to the Fund's equity structure	Implement any strategic changes agreed at the Q1 2020 strategy review. Review the Fund's private markets programme. Review Passive/Active investment position. Review the Income generation of the Fund's investments. Once the strategic allocation to equities is agreed, discuss and agree on the equity structure and implement any agreed changes	The review of the asset liability model in May 2020 has lead to a revised passive/active mix; equity structure; private markets; infrastructure, protection and ESG assets. Revised strategic asset allocation. Work has taken place with the Investment Working Group to determine options for the revised equity structure to be presented to the Committee in September 2020.
	Review and implement new investment strategy	Discuss strategy at the annual strategy day.	Due to Covid 19 the strategy day was cancelled and this work passed to the Investment Working Group and incorporates the changes above that will be going to the Committee in September.
	Develop the Fund's ESG credentials	Consider requirements under the UK Stewardship Code and PRI, with a view to the Fund becoming a signatory.	Investment strategy and revision to ISS to be details of the strategy during August will be discussed in September 2020.
		Undertake the transition pathway analysis in respect of the Longview holdings.	This action was combined into the Carbon foot printing analysis that went to the June Committee

Theme	Tasks	2020/21 activity	Action Update
	Assistance with annual accounts completion	<p>Collate quarterly analysis of fossil fuel exposure and voting &amp; engagement records.</p> <p>Prepare the usual information for the Report &amp; Accounts, including performance and private markets summary</p>	<p>Q1 Report to June 2020 Committee</p> <p>Action completed July 2020</p>
<b>ACCESS</b>	ACCESS Support Unit	The size and scope of the ASU will be reviewed during 2020/21.	Work has commenced with reports commenced.
	Actively managed listed assets	The completion of pooling 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>15 sub-funds launched to date</p> <p>End of June values £24.3bn</p> <p>Plans for August sub-fund launches paused due to placement of sufficient insurance Link dialogue underway with FCA on potential for transition sub-funds</p>
	Alternative / non listed assets	The initial implementation of pooled alternative assets.	<p>In June Authority engagement recommences with bfinance at OWG. In July individual Authority discussions were held with bfinance and outline recommendations for each sub-asset class:</p> <ul style="list-style-type: none"> <li>- Private Debt</li> <li>- Private Equity</li> <li>- Infrastructure</li> <li>- Real Estate</li> </ul> <p>Each Authority asked to provide priority order</p> <p>OWG considering results</p>

Theme	Tasks	2020/21 activity	Action Update
	<p>Passive assets</p> <p>Governance</p>	<p>Ongoing monitoring and engagement with UBS.</p> <p>The application of appropriate forms of governance throughout ACCESS.</p>	<p>Workstream not commenced yet.</p> <p>Revised Inter Authority Agreement (IAA) – Circulated to Monitoring Officers (MO) in June 2020 Revisions to Schedule 5 (Cost Sharing) shared at July s151 meeting. Awaiting confirmation from all MOs expected by the end of August note on progress for 7 September Joint Committee</p>
<b>Pension Board/Committee Training</b>	<p>3 joint Training days</p> <p>2 Investment Strategy days</p> <p>Third party 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>	<p>Training strategy presented in June 2020. Annual Training Plan update to be presented in September</p> <p>In place in section on ALM.</p> <p>Training strategy presented June 2020. Annual Training Plan update to be presented in September.</p>
<b>Pension Administration</b>	<p>Performance Management Group</p> <p>Maintaining Member Data / Data /</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. Identifying areas where data within the pension system can be improved and developing plan of redress.</p>	<p>Workstream planned to commence in July 2020</p> <p>Data Improvement Programme underway - report in this agenda</p>

Theme	Tasks	2020/21 activity	Action Update
	Improvement Plan ABS Production	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.	ABS programme underway – report in this agenda.

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

1.9 ACCESS maintains its own risk register and highlights the red and amber risks to the Joint Committee; risks are kept under constant review by Section 151 Officers and the Officer Working Group (OWG) - supported by the ACCESS Support Unit (ASU). Key risks are those with an amber or red rating. An overview of the current (as proposed) and previous quarter's risks is set out below:

	June 20	September 20
<b>Red</b>	2	2
<b>Amber</b>	16	15
<b>Green</b>	5	7

1.10 A List of websites that provide training and useful information are provided below:

- <https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/understanding-your-role/learn-about-managing-public-service-schemes> The Pensions Regulator public service schemes toolkit
- <https://www.cipfa.org/training?tab=date&filters=%7b8ADDC910-A1F1-455D-B8A5-0CBD9725EEAD%7d#filters> Cipfa training courses
- <https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes> The Pensions Regulator Public service schemes
- <https://www.lgpsmember.org/more/Videos.php> The Local Government Pension Scheme Videos - Pensions Made Simple
- <https://www.lgpsmember.org/> The Local Government Pension Scheme members site
- <https://www.local.gov.uk/our-support/workforce-and-hr-support/local-government-pensions/local-government-pension-scheme> LGA website
- <http://www.lgpsregs.org/index.php> LGPS Regulations and Guidance
- <http://lgpsboard.org/> The Local Government Pension Scheme Advisory Board

## **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 Statements<sup>2</sup> ("MHCLG Statutory Governance Guidance")

- The Pensions Regulator's Code 14: Governance and administration of public service pension schemes<sup>3</sup> ("TPR Code of Practice")
- CIPFA's Administration in the LGPS: a guide for pensions authorities<sup>4</sup> ("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.