

East Sussex Pension Fund Annual Report and Accounts

2020-2021

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1. Welcome from Chair of Pension Committee

Welcome to the East Sussex Pension Fund Annual Report for 2020/21

As chair of the East Sussex Pension Fund (the Fund) Pension Committee, I have the pleasure in introducing the Fund's Annual Report and Accounts for 2020/21. The accounts focus on the financial implications of activity in 2020/21 but so much more has been achieved over the past year, including the Fund's resilience to working from home through the pandemic and embedding new ways of working.

The Fund had £4,244m as funds under management at 31 March 2021 to meet the accrued benefits, with a funding position of 107% comparing assets to liabilities, putting the Fund in a very strong position. The investment return for the year to 31 March 2021 was 22%, which was an outperformance of the benchmark by 3%, with returns outperforming the benchmark in each of the 1, 3 and 5 year periods. The membership of the Fund at March 2021 was 78,466 people (active – 25,002, pensioner – 22,230 and deferred – 31,234) and 127 employer organisations.

The Fund has come a long way in 2020/21 with many changes made both internally and externally to respond to challenges faced and with the aspiration of achieving best practice across everything we do. The year started with the country still in lockdown from the COVID-19 pandemic, which meant our staff had to find new ways of working and supporting our members from home. The team got on with everything required of them, using remote access technology, providing a high-quality service, keeping up with performance targets and response times, proving that remote and hybrid working was possible. It was also challenging for the members themselves with changes in the way they could communicate with us and the move to more electronic methods to provide documentation. This has led to the department becoming almost paper free in the year.

The Pension Committee is responsible for managing the Fund, with the assistance of the Pension Board, East Sussex County Council officers, external advisors and fund managers. In responding to the Scheme Advisory Board Good Governance review, the Fund carried out a major review in 2019 and 2020 saw these findings being implemented. This included a major restructure of the team resources in recognition of increasing regulatory environment for LGPS Funds and increased reporting requirements to ensure the Fund has sufficient resources to implement the Fund's strategies and policies. The Project also led to an overhaul of the terms of reference for the Pension Committee, Pension Board and officer delegations. In addition a number of key policies were implemented or refreshed to align with best practice including a new conflicts of interest policy and a complete redesign of the administration strategy.

The Fund made some significant changes in relation to responsible investment, and more specifically climate change risk, in the financial year with more work planned on this in the months and years. The Fund have taken climate strategy as one of the key focuses of its ongoing work, to develop an in depth understanding on the financial risks to the Fund of the climate emergency and focusing on ways in which the Fund can both reduce this risk but also find opportunities to help with the energy transition to find sustainable solutions. As a result of this strategic focus, the Fund implemented a Statement of Responsible Investment Principles that clearly set of the Fund's beliefs on responsible investment and climate risk and how the Fund would manage these risks and commitments from the Fund for implementation. One of the key risks identified during the work in this area was an unconscious exposure to companies that have a significant impact on climate risk and other risks with an ESG focus such as human rights or governance issues, leading the Fund to commit to moving all its investment away from traditional index linked passive fund. Instead the Fund moved this investment into a range of sustainable funds including two active impact funds that have a strong conviction on the companies in which they invest and a move into a smart beta fund which excludes companies that fail to meet its ESG standards and favours companies aligned with the Paris agreement. The climate strategy hasn't ended with equities, which is the easier place to implement these changes, but has also moved into Infrastructure, where the Fund also entered into a new investment which minimises climate risk through modelling of climate change risk scenarios. The Fund continues to favour engagement with companies to have a say in how they are run and influence change, rather than reduce the investable market by excluding industries and this is in line with all guidance to the Fund from governmental bodies and investor advisory groups.

One of the major projects the Fund faced during 2020/21 was the transfer of the Pension Administration Team back into East Sussex from Surrey County Council. The project took seven months to complete by 7 April 2021, with the change ensuring the Fund has increased control and governance of pension benefit payments and records and allows us to quality assure processes and to focus on our East Sussex Fund members. Overall, the project was a success, although

we still have some staff to recruit into new roles as a result of the breadth of work required within Pensions Administration, but we believe this will be so beneficial to the fund and its members.

The Fund has continued to be an active member in the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool, together with 10 partner LGPS Funds. By the end of 2020/21 a total of £20.4bn was invested on the ACCESS platform, with seven new sub funds launched., invested across 22 sub funds. A further £11.1bn is managed via ACCESS for passive equities. In total 57% of ACCESS Fund assets have been pooled.

The Pension Committee and Pension Board have worked tirelessly to transform the East Sussex Pension Fund landscape. I would like to take this opportunity to express my thanks for all the support and input provided by Committee and Board members and officers. I look forward to continuing to work with members and officers in the new financial year as the Fund seeks to meet the challenges of an ever-changing national and global environment. In presenting the Annual Report, I hope you find it helpful in underspending the Fund. The Fund has refreshed its website and is now a ready source of up to date information, please log on to www.eastsussexpensionfund.org for further information.

Councillor Gerard Fox

Chairman of the East Sussex Pension Fund

DRAFT

2. Welcome from Chair of Pension Board

As the Independent chair of the Funds Pension Board, I am happy to highlight some of the key areas of focus of the Board over the 2020/21 financial year.

The past year has seen significant changes made to how the Fund operates. Pension Administration is now provided by an in-house team based in the Lewes council offices, where previously it was provided through the Orbis partnership with Surrey County Council. Additionally, following a review by the Committee, supported by the Pension Board, the resources made available to the Fund for governance, including the number of staff working for the Fund has increased substantially. This has allowed for a review of the internal controls, policies and procedures. As a result, the Fund's officers, with Pension Board members, were able to conduct a review of member data quality and improve the employer admissions and cessations processes.

Pension Board members provided oversight of the changes being made, by sitting on various working groups which reviewed, with Committee members, an improvement of the Fund's Governance standards. The Pension Board and the Committee have been mindful of the good governance review conducted by the Scheme Advisory Board as part of this process to ensure best practice is being implemented.

The Board has supported the Fund in increasing its staff headcount to meet the new governance policy of the Fund. As part of this the Fund has been able to develop several new policies including a more detailed risk register. The new risk register has been reviewed and the Board agreed with the recommendation made to the Committee that it should be adopted. The Board is aware that further improvements will be made to this document, with oversight from the Board.

Members of the Pension Board have participated in the data improvement working group. The related workstream has, working with employers participating in the Fund, led to significant improvements in the quality of member data held. By improving the quality of member data records this reduces the risk that members will not be provided information about their benefits in a timely manner, simultaneously mitigating the risk that beneficiaries do not receive the correct amount owed to them on time.

As part of the review of the admissions and cessations processes, new templates have been created to ensure smoother onboarding of new scheme employers and admitted bodies. The Pension Board has engaged closely with officers and the Committee on this topic.

Other work that the Pensions Board has engaged in during the year is understanding the McCloud judgement on age discrimination, and how this will potentially impact members pension benefits, reviewing how employers manage the cost of ill-health retirement and providing an insurance option for them to use respect, reviewing quarterly the performance of the administration team against the agreed service standards, and, finally, reviewing the communications to members

Looking Forward

Much of the Pension Board's business in 2021-22 will reflect its business in previous years i.e. its scrutiny of the administration team's service to members and employers and its compliance with regulatory standards and expectations of The Pensions Regulator. For example, development of more detailed service performance indicators, efforts to further improve data quality and more detailed and frequent customer surveys. Implementation of the changes because of the "McCloud case", will also feature heavily at the Pension Board's meetings,

In March 2021, The Pensions Regulator launched a consultation on its intention to combine its codes of conduct. The Pension Board responded to that consultation in May 2021, expressing its concern about the lack of clarity in a number of areas, including requiring the use of a new term "Governing Body". The Pension Board will work with the Fund's officers to respond to changes to the regulator's code(s) to assess compliance and assist with changes required to ensure full compliance.

Going forward, the Board has representatives on the McCloud working group and will also have members as part of the communications working group. This will give Pension Board members increased opportunities to use their knowledge and understanding to assist with the development of the Fund's processes and the adoption of best practice.

The Pension Board would like to thank the Fund's administrators, officers and employers for the hard work they have put in, during difficult working conditions with the pandemic, to maintain the service to members, to improve the Fund's governance, and to substantially improve the quality of member data held in the Fund's records.

Ray Martin

Chair of Local Pension Board

3. Introduction to the LGPS

Local Government Pension Scheme

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

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

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

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund's assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund's current and future liabilities against the Fund's assets, and then set the employer contribution to the Fund for each participating employer for the following three-year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The funding level at this at this valuation is 107%.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with East Sussex County Council, as administering authority for the East Sussex Pension Fund. This has been delegated to the East Sussex Pension Committee supported by the East Sussex Pension Board.

4. Scheme Management and Advisers

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

2020/21 PENSION COMMITTEE MEMBERS

EAST SUSSEX COUNTY

COUNCILLORS:

Gerard Fox (Chairman)	Conservative
Simon Elford (to July 2020)	Conservative
Andy Smith (from September 2020)	Conservative
Nigel Enever	Conservative
David Tutt	Liberal Democrats
Trevor Webb	Labour

2020/21 PENSION BOARD MEMBERS

INDEPENDENT CHAIRMAN:

pensionboard@eastsussex.gov.uk

Ray Martin

EMPLOYER REPRESENTATIVES:

Councillor Carmen Appich (to September 2020)	Brighton & Hove City Council
Councillor Tom Druitt (from October 2020)	
Councillor Chris Collier	Districts & Borough Councils
Stephen Osborn	Educational Bodies

MEMBER REPRESENTATIVES:

Niki Palermo	Active & Deferred
Diana Pogson	Pensioners
Lynda Walker	Active & Deferred

SCHEME ADMINISTRATOR:

East Sussex County Council
Pensions@eastsussex.gov.uk

BANKERS TO THE FUND:

NatWest Bank

AUDITOR:

Grant Thornton UK LLP
London

PENSION FUND OFFICERS

escppensionsmanager@eastsussex.gov.uk

TREASURER / S151 OFFICER:

Ian Gutsell

HEAD OF PENSIONS:

Sian Kunert

HEAD OF PENSIONS ADMINISTRATION:

Paul Punter

INVESTMENTS AND ACCOUNTING:

Russell Wood

GOVERNANCE AND COMPLIANCE:

Mike Burton

EMPLOYER ENGAGEMENT:

Tim Hillman

ADVISORS TO THE FUND

ACTUARY:	Until December 2020 Hymans Robertson 20 Waterloo Street Glasgow G2 6DB	From January 2021 Barnet Waddingham 163 West George Street Glasgow G2 2JJ
LEGAL ADVISORS:	Appointed from National LGPS Framework for Legal Services	
INVESTMENT ADVISER:	Until January 2021 Hymans Robertson	From February 2021 Isio
INDEPENDENT ADVISER:	William Bourne	
ASSET POOL:	ACCESS Pool	
ASSET POOL OPERATOR:	Link Funds Solution	
FUND MANAGERS:	Adams Street Partners Harbourvest Longview Partners* M&G** Newton* Pantheon Ruffer* Schroders UBS Wellington WHEB Atlas Storebrand	
CUSTODIAN:	Northern Trust	
AVC PROVIDER:	Prudential	
BODIES TO WHICH THE FUND IS MEMBER, SUBSCRIBER OR SIGNATORY:	Pensions and Lifetime Savings Association (PLSA) Local Authorities Pension Fund Forum (LAPFF) CIPFA Pensions Network Club Vita Local Government Association (LGA) Local Government Pension Scheme National Framework: <ul style="list-style-type: none">• Passive Investments,• Legal Services,• Actuarial Benefits and, Governance• Investment Consultants• Stewardship Advisory Services Principles for Responsible Investing (PRI) Institutional Investors Group on Climate Change (IIGCC) Climate Action 100+	

* Appointed through the ACCESS Pool operator

** Corporate Bonds mandate appointed through ACCESS other mandates directly appointed.

5. Governance

Pension Committee

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

Pension Board

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with its duties. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role, as required by legislation.

ACCESS Pool Joint Committee

The ACCESS Pool operates a Joint Committee which has been set up through an Inter Authority Agreement (IAA) which was formalised and executed by each Individual Authority between May and June 2017 and came into effect on the 31 July 2017 at the first formal Joint Committee meeting. The role of the ACCESS Joint Committee, which has one representative from each Fund is to:

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

Committee membership and attendance

During the year ended 31 March 2021 there were 4 meetings of the Pension Committee, 4 meetings of the Pension Board and one annual employers' forum.

Member attendance at committee meetings during 2020/21

2020/21 Pension Committee Members		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox (Chairman)	4/4
	Simon Elford ¹	1/1
	Nigel Enever	4/4
	Andy Smith	3/3
	David Tutt	4/4
	Trevor Webb	4/4

Member attendance at Board meetings during 2020/21

2020/21 Pension Board Members		Nos. of meetings attended
Independent Chairman:	Ray Martin	4/4
Employer Representative:		
Brighton & Hove City Council	Councillor Carmen Appich ²	1/1
	Councillor Tom Druitt ³	2/2
Districts & Borough Councils	Councillor Chris Collier	4/4
Educational Bodies	Stephen Osborn	4/4
Employee Representative:		
Active & Deferred	Niki Palermo	3/4
Active & Deferred	Lynda Walker	4/4

¹ Councillor Simon Elford was replaced by Councillor Andy Smith in August 2020

² Councillor Carmen Appich was replaced by Councillor Tom Druitt in October 2020, one meeting took place when this post was vacant.

³ Councillor Carmen Appich was replaced by Councillor Tom Druitt in October 2020, one meeting took place when this post was vacant

Pensioners	Diana Pogson	4/4
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Member attendance at ACCESS Pool joint committee meetings during 2020/21

2020/21 Joint Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox	5/5

The Knowledge and Skills Framework

The Fund's objectives relating to knowledge and understanding are to:

- Ensure the Fund is appropriately managed and those individuals responsible for its management and administration have the appropriate knowledge and expertise;
- Ensures that there is the appropriate level of internal challenge and scrutiny on decisions and performance of the Fund
- Ensure the effective governance and administration of the Fund; and
- Ensure decisions taken are robust and based on regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board (SAB) and the Secretary of State for Housing, Communities and Local Government.

CIPFA/Solace Knowledge and Skills Framework – Pension Fund Committees

Although there is currently no legal requirement for knowledge and understanding for members of the Pension Committee, it is the Fund's opinion that members of the Pension Committee should have no less a degree of knowledge and skills than those required in legislation by the Local Pension Board. The SAB's 'good governance' project signals a much stronger requirement on Pension Committee members knowledge and understanding.

The CIPFA framework, that was introduced in 2010, covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- 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.

Under each of the above headings the Framework sets out the knowledge required by those individuals responsible for Fund's management and decision making.

CIPFA Technical Knowledge and Skills Framework – Local Pension Boards

CIPFA extended the Knowledge and Skills Framework in 2015 to specifically include Pension Board members, albeit there is an overlap with the original Framework. The 2015 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.

Links to The Scheme Advisory Board's Good Governance project

In February 2019 the Scheme Advisory Board commissioned Hymans Robertson to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Following extensive consultation and engagement with the LGPS community

the SAB has published 3 reports. The most recent report, published in February 2021, includes recommendations on the following areas:-

- Conflicts of Interest – Funds will be expected to produce and publish a policy covering actual, potential and perceived conflicts of interest
- Representation – Funds will produce and publish a policy on the representation of members and employers, explaining how voting rights work
- Knowledge and Understanding – Highlighting that key individual should have the knowledge and understanding to fulfil their functions, including the s.151 Officer.
- Service delivery – This covers publishing details of decision makers' roles and responsibilities, publishing an administration strategy, reporting on performance and including the Committee in business planning.
- Compliance and Improvement – Undergoing a biannual Independent Governance review

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, the Administering Authority recognises the principles behind the recommendations and seeks to embed them into the culture of the East Sussex Pension Fund.

The Pensions Regulator's E-learning toolkit

The Pensions Regulator has developed an online toolkit to help those running public service schemes understand the governance and administration requirements set out in its code of practice 14 Governance and administration of public service pension schemes.

The toolkit covers 7 short modules, which 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.

The modules of the Regulator's toolkit are by their very nature generic, having to cater for all public service pension schemes. While they give a minimum appreciation of the knowledge and understanding requirements set out in the Code of Practice they do not cater for the specific requirements of the individual public service schemes.

As a result the Regulator's toolkit does not cover knowledge and skills requirements in areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation. The Trustee Toolkit, a separate aid produced by the Pensions Regulator, includes a newly released module of scams. Whilst the Trustee Toolkit is designed for Trustees of private occupational pension schemes, some aspects of it have value for those connected to public service pension schemes.

The Pension Committee under the constitution of East Sussex County Council, has the responsibility "To make arrangements for the investment, administration and management of the Pension Fund".

Members of the Committee must, therefore, have an understanding of all aspects of running the Fund and how to exercise their delegated powers effectively.

Members of the Pension Committee require an understanding of:

- their responsibilities as delegated under the constitution of East Sussex County Council as the administering authority for the fund;
- the requirements relating to pension fund investments;
- the management and administration of the Fund;
- controlling and monitoring the funding level; and
- effective governance and decision making in relation to the management and administration of the Fund.

There also exists a specific requirement under MiFID II, that those making investment decisions, must be able to demonstrate that they have the capacity to be treated as professional investors.

Expectations on Pension Committee Members

The role of Pension Committee member is an important one and there are certain expectations on those undertaking the role. These include;

- A commitment to attend and participate in training events and to adhere to the principles of the Training Strategy
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others
- Judge the information provided in a fair and open minded way that avoids pre-determining outcomes
- Operate within the terms of reference for the Pension Committee and the elected member code of conduct

Local Pension Board

Under the constitution the Local Pension Board is required to provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by The Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

The role of the Local Pension Board is to provide assistance to the administering authority to ensure that the Fund is well run and complies with its legal responsibilities and best practice. The Local Pension Board does not replace the administering authority or make decisions which are the responsibility of the administering authority.

Local Pension Board members must be conversant with:

- the relevant LGPS Regulations and any other regulations governing the LGPS;
- guidance issued by The Pensions Regulator and other competent authorities, relevant to the LGPS;
- any policy or strategy documents as regards the management and administration of the Fund; and
- the law relating to pensions and such other matters as may be prescribed.

6. Report of the Pension Board

Report to: Pension Committee

Date of meeting: 28 September 2021

By: Chair of Local Pension Board

Title: Report of Pension Board to Pension Committee

Purpose: Report to Pension Committee, to consider understand the work completed by the Pension Board

RECOMMENDATIONS: The Pension Committee is recommended to:

1) Note the report from the Pension Board which covers the work completed in year

1. Background

1.1 This document outlines the actions taken by the Local Pension Board of the East Sussex Pension Fund (ESPF). It also details the training undertaken in the past 12 months to enable individual Pension Board members to develop and maintain the required level of knowledge and understanding to enable them to fulfil their function of supporting the Administering Authority, which is also known as the Scheme Manager.

1.2 This document will allow the Pension Committee to build a more detailed understanding of the work being done by the Pension Board to improve the operation of ESPF.

2. Membership and attendance

2.1 The membership of the Local Pension Board is

Employer Representatives

- Stephen Osborn - Deputy Director of Finance, University of Brighton
- Cllr. Chris Collier - East Sussex District and Borough Councils (until July 2021)
- Cllr. Tom Druitt - Brighton & Hove City Council (from October 2020)
- Cllr. Toby Illingworth- East Sussex District and Borough Councils (from July 2021)

Member Representatives

- Lynda Walker – UNISON
- Niki Palermo – GMB
- Diana Pogson – Pensioners' representative

Independent Chair

- Ray Martin

2.2 Cllr Appich stepped down from the Board in September 2020 and was replaced by Cllr Druitt in October 2020. Cllr Collier stepped down from the Board in June 2021 and has been replaced by Cllr Illingworth in July 2021.

2.3 Attendance at meetings has been high in the past year

	7 September 2020	16 November 2020	15 February 2021	1 June 2021
Stephen Osborn	Y	Y	Y	Y
Cllr Chris Collier	Y	Y	Y	N
Cllr. Tom Druitt		Y	Y	Y
Lynda Walker	Y	Y	Y	Y
Niki Palermo	N	Y	Y	Y
Diana Pogson	Y	Y	Y	Y

Ray Martin	Y	Y	Y	Y
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3. Work of the Pensions Board

3.1 Meetings are held shortly before each Pension Committee meeting, where all papers relating to administration, governance, policy, audit and communications are first considered by the Board prior to final versions being presented at Committee for approval. This allows the Board to feed in on matters of governance and represent the views of members and employers in the documents that are then taken for approval.

3.2 Members of the Pension Board sit upon, and have attended meetings of, the Communications Working Group, the Data Improvement Working Group and the McCloud Working Group. By sitting on the working groups members of the Pension Board are able to use their knowledge and experience to support officers of ESPF during the development of new policies and procedures. One example of the input of Pension Board members is the creation of a new way Fund members can contact Pension Board members.

3.3 The Pension Board considers its work programme at each meeting taking into account the regular items it sees and what is planned for upcoming committee meetings and are able to request areas of focus to be added to the Board work plan. An example of this working is the request of Board in 2020 to see a regular paper on employer contributions to have transparency on late payments by employers; this report is now a standing item for Board as part of the employer engagement report.

4. Actions

4.1 The Pension Board has supported the Pension Committee with its review and oversight of the disaggregation of ESPF from the Orbis partnership. This has seen ESPF administration services become an in-house operation providing more control to the ESPF to manage its operations and ensure transparency of quality of service provided to the ESPF members. Going forward the Pension Board will continue to work with the Administration Team to develop an updated approach to measuring service standards for the Fund.

4.2 The Board has also been a strong advocate, alongside the Committee, for the Good Governance project which completed in November 2020. Throughout this the Pension Board supported requests for extending the staffing budget at the Fund, which resulted in the number of officers increasing substantially to reflect the workload and responsibility of the Pension Fund across four work streams of Governance, Employer Engagement, Administration and Accounts and Investments. The changes made have led to significant improvements in the overall governance of the Fund and further improvements are in hand.

4.3 At its quarterly meetings members of the Pension Board have reviewed new policies and procedures being developed. This has ensured that the approach being taken by the Administering Authority is consistent with the recommendations made as part of the Scheme Advisory Board's good governance project along with statutory and regulatory requirements.

4.4 The independent chair represented the Board at the Employer forum in November 2020 with an overview of the work of the Board, updating the employers of the Fund on the key data quality work that has been achieved through the data improvement working group projects and implementation of the new administration strategy.

5. Training

5.1 In the past year members of the Pension Board took part in a survey conducted by Hymans Robertson to help understand their level of knowledge and understanding. The report received is broken down into the key areas, such as administration, and also measures the Pension Board against its peers in the other Funds that took part. This survey identified that particular focus should be given to pension administration and actuarial methods. It also showed that the ESPF's Pension Board members' knowledge and understanding scored 6th highest out of the 21 boards that took part.

5.2 Since the Hymans report was produced there has been a change of membership of the Pension Board. The Chair of the Pension Board is currently working with the Fund's Training Co-ordinator to develop a new method of tracking individual Pension Board member's knowledge and understanding which will allow for a more in-depth analysis of areas of focus.

5.3 When the new members of the Pension Committee were appointed members of the Pension Board were invited to attend the induction session, which included an introduction to the role of the Fund's lawyer, actuary and investment consultant.

5.4 All Board members are working towards ensuring they have completed the Pension Regulators Toolkit modules and will shortly be invited to carry out a self-assessment on their training needs.

5.5 Members of the Pension Board have attended a range of webinars covering topics ranging from governance to investment. In addition, Board members have attended training provided in house on McCloud, Covenant strength and outsourcing implications for employers within the LGPS. Members of the board regularly attend the CIPFA Pension Board member seminars that are run in the Spring and Autumn to update on all key regulatory changes and areas the Board may wish to ask questions on of their Funds.

Ray Martin
Chair of ESPF Local Pension Board

DRAFT

7. Scheme Administration

Service Delivery

During 2020/21, East Sussex County Council as Administering Authority for the East Sussex Pension Fund undertook the day to day pensions administration through Orbis, which is a shared services partnership covering the three councils of East Sussex, Surrey and Brighton and Hove. The Administration of the Fund has moved back in house to be managed by East Sussex County Council from 6 April 2021.

During the 2020/21 year, the Orbis Pensions Administration team, with oversight from the East Sussex Head of Pensions Administration, were responsible for

- administering the LGPS Scheme on behalf of the ESPF scheme employers in accordance with relevant legislation and Pension Committee decisions, also provision of services in connection with the uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the LGPS and provision of early retirement estimates;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- administration of new starters, including transfers in;
- administration and calculations relating to leavers;
- payment of pensions and other entitlements.

Communication to employers and members of administration is carried out where possible through access to the MyPensionsPortal for members to view their Annual benefit statements, nominations, personal details and carry out benefit calculations. The Orbis team also sent annual newsletters to scheme member and employers.

The Pension Fund website www.eastsussexpensionfund.org provides scheme members and employers access to up to date information on the LGPS and the East Sussex Pension Fund.

Administration of the Fund is discussed quarterly at Pension Committee to ensure the service is managed and governed well with key performance indicators reviewed at each meeting. In addition, Pension Board consider the activities of the Pensions Administration team at each meeting. During 2019/20 the Fund set up an annual benefit working group as part of its Data Improvement Programme to deliver cleansing of employer common and specific data to ensure complete and accurate membership records. The Fund looks to achieve value for money in the administration of the Fund by providing the service in a cost effective and efficient manner utilising technology appropriately. Achievement of KPIs and high services levels helps the fund monitor the effectiveness of the fund.

Internal Dispute Resolution Procedure

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

Where complaints cannot be resolved informally, there is access to a two-stage dispute resolution procedure. The first stage of this process is for the complainant to ask the Adjudicator appointed by the East Sussex Pension Fund to consider the matter under dispute. If the complainant is not satisfied with the response they can ask for a further review of the decision, along with any new evidence they might provide. The person responsible for reviewing stage 2 complaints is the Assistant Chief Executive. Ultimately the complainant has the right to refer their complaint to The Pension Ombudsman and seek assistance from the Pension Advice Service.

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

	2020/21
First Stage	6
Upheld	0
Declined	1
Ongoing	5
Second Stage	1
Upheld	0
Declined	0
Ongoing	1

This table reflects the position for the 2020/21 financial year and is not the current position. The complaint at stage 2 was received in stage 1 of the same time period.

Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Death notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	100
Award dependent benefits (Death Grants)	High	within 5 days	95%	97
Retirement notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	91
Payment of lump sum made	High	within 5 days	95%	95
Calculation of spouses' benefits	Medium	within 5 days	90%	99
Transfers In - Quote (Values)	Low	within 10 days	90%	89
Transfers In - Payments	Low	within 10 days	90%	91
Transfers Out - Quote	Low	within 25 days	90%	95
Transfers Out - Payments	Low	within 25 days	90%	94
Employer estimates provided	Medium	within 7 days	95%	74
Employee projections provided	Low	within 10 days	95%	93
Refunds	Low	within 10 days	95%	100
Deferred benefit notifications	Low	within 25 days	95%	100

	2019/20	2020/21
Number Of Complaints	5	18

Financial indicators of administrative efficiency

The table below shows management expenses by members. The benchmark used is the average fund costs in 2019/20 from the SF3 returns.

Unit Costs Per Member	East Sussex Pension Fund		Benchmark Unit Costs £
	2019/20 £	2020/21 £	
Excluding investment management expenses	30.07	44.75	33.23
Including investment management expenses	225.65	220.43	232.31

Key staffing indicators

At 31 March 2021, staffing numbers within Pension Administration were 18.9 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,155.

With average reportable KPI cases per member of staff ratio of 1:316

Membership

During 2020/21 the number of contributing members within the Pension Fund increased by 4.9% from 23,835 to 25,002. In summary, the number of members contributing to the Scheme is:

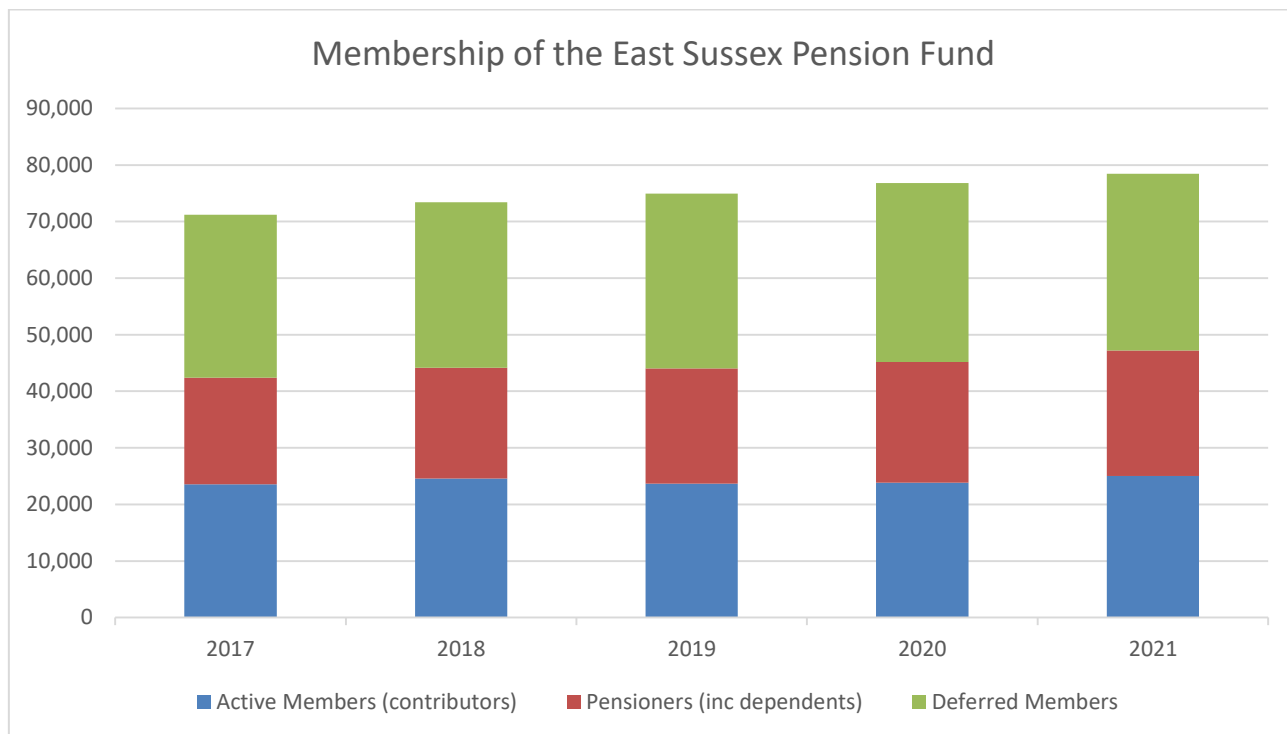
	2019/20	2020/21
East Sussex County Council	7,980	8,163
Scheduled Bodies	15,561	16,360
Admitted Bodies	294	479
Total	23,835	25,002

The number of pensioners in receipt of payments from the Fund increased from 21,335 to 22,230 (or 4.2%).

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

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Active Members (contributors)	23,567	24,570	23,646	23,835	25,002

Pensioners (inc dependents)	18,812	19,597	20,403	21,335	22,230
Deferred Members	28,853	29,253	30,916	31,622	31,234
Total	71,232	73,420	74,965	76,792	78,466



Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 78,000 individuals employed by 127 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

New pensioners by pensioner type

New pensioner type	
Normal Retirements	259
Redundancies	129
Ill Health	23
Employee's Choice of Early Pension	779
Total New Pensioners	1,190

2020 Annual Benefit Statement

The Fund is required to produce an Annual Benefit Statement (ABS) before the 31st of August each year for all active and deferred members. In 2020 due to Covid this deadline was extended to 31 October.

At 31 March 2020, the number of active members in the scheme requiring a statement was 22,262 and 29,727 deferred members. The number of members who were due to receive an ABS but we failed to issue prior to the deadline was 623 Active members and 67 deferred members. The Fund achieved a completion rate of 97.2% for active members and 99.8% for deferred members. After the Fund reporting itself to the regulator after the 2019 ABS process, 2020 was a great improvement and success for the Fund.

8. Actuarial report

East Sussex County Council Pension Fund

Actuary's statement as at 31 March 2021

Barnett Waddingham LLP

29 June 2021

Introduction

The last full triennial valuation of the East Sussex County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.
- The Fund had a funding level of 107% i.e., the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions used for the 2019 valuation

Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
<i>Base tables</i>	Based on Club Vita analysis
<i>Projection model</i>	CMI 2018
<i>Long-term rate of improvement</i>	1.25% p.a.
<i>Smoothing parameter</i>	7.0
<i>Initial addition to improvements</i>	
<i>Males</i>	0.5% p.a.
<i>Females</i>	0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics

Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. We have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, we estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process. The Fund could opt to monitor the funding level using LGPS Monitor on a regular basis.

Barry McKay FFA
Partner, Barnett Waddingham LLP

9. Employers

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

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

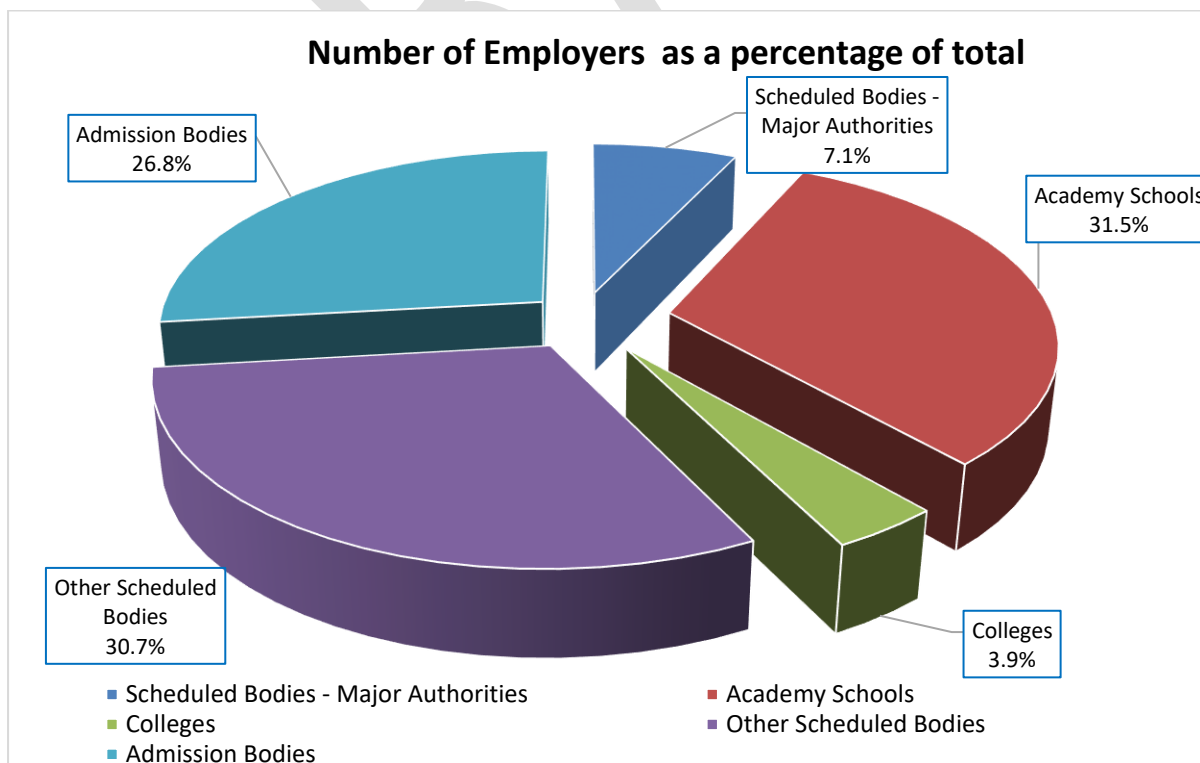
Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

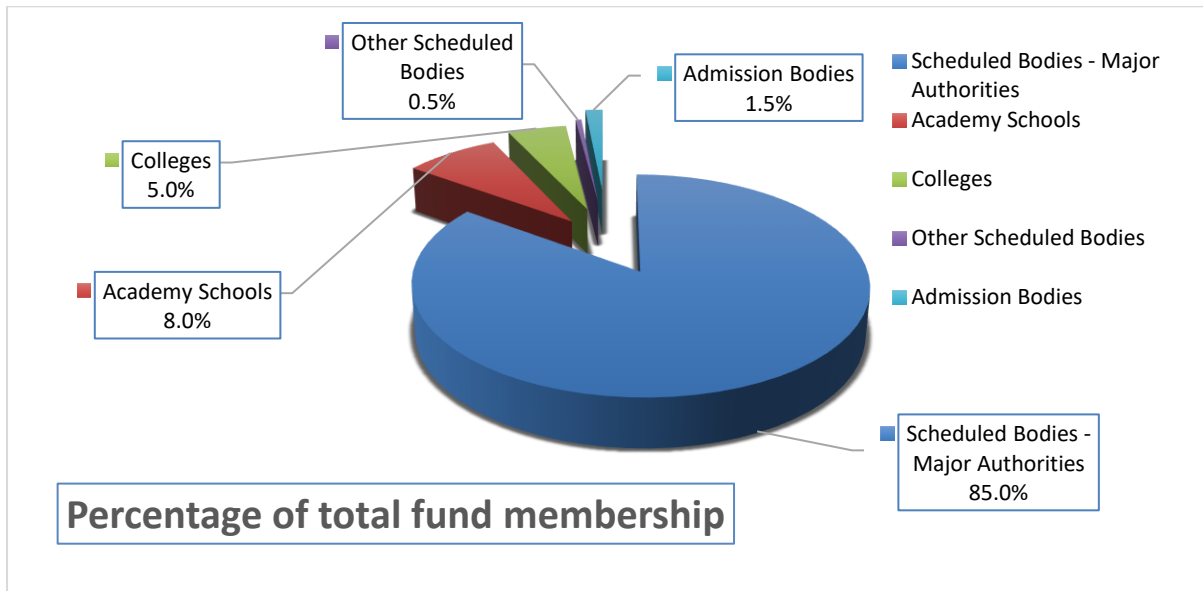
	Active	Ceased	Total
Scheduled body	93	24	117
Admitted body	34	30	64
Total	127	54	181

Employer statistics by Employer type

Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies - Major Authorities	7.1%	85.0%	9
Academy Schools	31.5%	8.0%	40
Colleges	3.9%	5.0%	5
Other Scheduled Bodies	30.7%	0.5%	39
Admission Bodies	26.8%	1.5%	34

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





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

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

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

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

Employers are able to contact the Pension Fund directly depending on the type of request. The Employer Engagement Team will deal with employers directly on day to day questions and queries. The Pensions Admin team will deal with any employee requests that come via the employer. The employers have been informed of direct contact details for all requests and questions to the pension Fund.

The Local Government Pension Scheme regulations require employers who participate in the Local Government Pension Scheme (LGPS) to draw up and publish a discretions policy and to keep it under review. Discretions are powers that enable employers to choose how to apply the scheme in respect of certain provisions. All new employer admissions to the Scheme will complete a discretions policy on joining and discretion policies will be reviewed every 3 years in line with each valuation cycle.

All new admissions to the LGPS will be provided with a guide to outsourcing and admissions. This guide will provide information to all new potential admissions to the Fund and will lay out the necessary process that will need to be adhered to before admissions can be undertaken. All new admissions will be sent the relevant legal agreements and documentation that will require signing before proceeding.

Any employer with a potential TUPE or outsourcing must contact the employer engagement team where support and advice will be provided on the necessary steps that will need to be undertaken. Relevant information, timings and paperwork will need to be completed before any TUPE/outsourcing can commence. Employers will be provided a direct contact throughout the whole project to answer questions and provide support.

A reminder is sent to all employers annually to provide details of the employers responsibilities and obligations to the Fund. The admin strategy also provides details for employers of their responsibilities.

Employers have a responsibility that they must meet as part of the East Sussex Pension Fund. The table below provides details on monthly/annual deadlines that must be met.

Employer Deadlines	
Employer Responsibility	Deadline
Complete and submit LGPS31 forms (contribution forms)	18th day of the month following that to which the payment relates
Payment of correct contributions	19th day of the month following that to which the payment relates
Provide end of year data requirements	By 30th April following the year end (unless already onboarded to i-Connect)

If the above deadlines are not met then warnings are issued. If an employer breaches the above deadlines on more than 1 occasion in a 12 month period then administration charges can be levied.

Employer contribution amounts are provided to all employers at the Employer Forum following the valuation. A reminder of the new rates are also annually sent to employers in March. The new amounts are sent in March in preparation for the new rates to be applicable from the April contribution payment

10. Risk management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. The Fund has an active risk management programme in place, which is subject to periodic review. The Fund's approach is to manage risk rather than eliminate it entirely.

Risk is identified and managed as follows:

Separation from Orbis risk – The administration of the Fund has been brought in-house. This has involved setting up a new database so member data can be hosted by the Fund, as opposed to Surrey County Council (Surrey CC) under the terms of the previous agreement. Extensive testing was carried out to ensure the smooth transfer of data, helped by the Fund using the same technology for the database as Surrey CC. Data is securely hosted and backed up daily. There is a testing data set to allow for upgrades to be checked without risk to member data and the Fund's ability to calculate and pay benefits.

Other services previously provided to the Fund through the agreements with Surrey and the Orbis collective have been identified. New agreements have been created to ensure the ongoing provision of these services and short term support with outstanding projects. An agreement has also been reached to ensure the effective deletion of member data relating to members of the East Sussex Fund that was held by Surrey CC.

Management Risk - A significant risk is the potential insolvency of scheme employers, leaving outstanding liabilities in the Fund. This risk is increased due to the ongoing impact of the Covid-19 pandemic. To this end the Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. In the monitoring of employers, consideration is given to the Funding Strategy Statement (FSS), which outlines the Fund's approach to how employer liabilities are measured, and one of the aims of the FSS is to reduce the risk from employers defaulting on its pension obligations. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise. Some funding risks can be mitigated by the Investment Strategy and the funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

This risk can manifest itself in several ways:

- Failure to process pensions
- Failure to collect contributions
- Failure to have proper business continuity plans in place
- Fraud or misappropriation
- Failure to maintain up-to-date and accurate data and hold it securely
- Failure to maintain expertise or over-reliance on key staff
- Failure to communicate effectively with members and employers
- Failure to provide the service in accordance with sound equality principles

To aid the pace of onboarding new admission bodies, work has been undertaken to streamline the process and develop bond templates.

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

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

Internal Control Framework - Internal controls and processes are in place to manage administration, financial and other operational risks. The East Sussex County Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place. The Fund is committed to using best practice and will account for recommendations made as part of audits.

Financial/Funding Risk - This is the risk that the funding level drops and/or contribution rates must rise due to one or more of the following factors:

- Investment Risk – This is the risk that the investment assets underperform the level assumed in the Triennial Actuarial Valuation. This can occur due to poor economic/market conditions, the wrong investment strategy or

poor selection of investment managers. Investment risk is regularly considered by Members and Officers, advised by the Fund's Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility.

- **Liability Risk** – This is the risk that there is a fall in the so-called “risk free” returns on Government bonds, which form the basis of assumptions about future investment returns. The assumed future investment return is used to “discount” future liabilities (i.e. over the next 0-80 years) back to today's values (net present value). Therefore, falling bond yields means higher liabilities.
- **Inflation Risk** – Notwithstanding other factors, Pension Fund liabilities increase in line with inflation, because the CPI is applied to pensions annually. Therefore, rising inflation causes the liabilities to increase.
- **Insufficient Funds Risk** - This is the risk that there is insufficient money in the Fund to pay out pensions as they become due.

The ESPF Investment Strategy Statement (Appendix 2), sets out the governance requirements for the ESPF and it is reviewed annually by the Administering Authority. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12-month period under review.

Demographic/Mortality Risk - This is the risk of that the pensioners live longer and therefore the liabilities of the Fund increase. Frequent interactions with the Fund Actuary mitigate this risk as the Fund can be informed of changes to mortality tables where this may impact the assumptions previously made.

Regulatory Risk - This risk could manifest itself in several ways. For example, it could be the risk that the liabilities will increase due to the introduction of an improved benefits package, or that investment returns will fall due to tighter regulation being placed on what can be invested in. It could also arise through a failure to comply with LGPS or other regulations. Changes in the Regulatory environment are routinely reviewed by Fund Officers.

Governance Risk - This is the risk that governance arrangements of the Fund are sub-optimal. For example, this could arise through a lack of expertise on the Committee arising from insufficient training. Another possibility is that potential conflicts of interest between the Fund and the Council are not managed sufficiently well. Over the past year steps have been taken to update the Fund's internal controls following a review of compliance with TPR's Code 14 and the relevant legislation; this includes:-

- Improving the risk register;
- creating a new risk management policy; and
- updating the Internal Dispute Resolution Procedure

Employer Risk - This is the risk that an employer is unable to meet its financial obligations to the Fund, either during its membership of the Fund, or at its ceasing when the last contributing member leaves. Where a guarantor is in place they will pick up the cost of any default, but where there is not one, the cost must be spread across all employers in the Fund.

The Fund has developed a Pension Administration Strategy, outlining the responsibilities of both the Fund and employers. This includes a framework for escalating concerns and ensuring compliance with Admission Agreements.

Third Party Risk - Contribution payments are monitored closely for accuracy and timeliness. A reporting process is in place to escalate any late/inaccurate payments to ensure all payments are received.

A Risk Register has been formally adopted by the East Sussex Pension Committee and a report of the key highlights is reported to the Pension Board at each quarterly meeting. The full risk register can be seen within the quarterly Pensions Committee papers.

11. Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report from page 30.

	2019/20 £000	2020/21 £000
Fund Account		
Net (Contributions)/withdrawals	(4,453)	(3,253)
Management Expenses	17,333	17,296
Return on Investments	140,238	(778,984)
Net Increase in Fund	153,118	(764,941)

	2019/20 £000	2020/21 £000
Net Asset Statement		
Bonds	212,331	128,765
Equities	-	-
Pooled Funds	3,189,335	4,045,225
Cash	63,715	56,736
Other	(135)	(418)
Total Investment Assets	3,465,246	4,230,308
Non-Investment Assets	13,848	13,727
Net assets of the fund available to fund benefits at the year end.	3,479,094	4,244,035

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2020/21.

Month	Payments Due	Payments Received Late
April	120	8
May	120	3
June	120	3
July	120	2
August	120	4
September	122	3
October	123	3
November	125	3
December	126	8
January	126	3
February	128	3
March	128	7

No interest was charged on any of the late payments.

Forecasts

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

Fund Account	2019/20		2020/21		2021/22
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Contributions	(141,600)	(138,719)	(118,600)	(137,521)	(120,000)
Payments	137,600	134,266	134,700	134,268	135,000
Administration expenses	940	1,106	1,080	1,680	2,644
Oversight and governance costs	709	1,208	1,365	1,831	813
Investment expenses:					
fees invoiced to the fund	5,100	4,370	1,350	3,409	3,698
fees deduced at source	-	10,649	-	10,376	-
Net investment income	(27,000)	(26,487)	(27,200)	(39,070)	(39,900)
Change in market value	(206,300)	166,725	(134,600)	(739,914)	(153,200)
Net increase in the Fund	(230,551)	153,118	(141,953)	(764,941)	(170,940)

Contributions and payments are based on amounts provided by the actuary used the strategy of the Fund; the administration and investment management expenses are based on current budgets; and the net investment income and change in market value are based on the long-term forecast returns for each asset class.

Net Asset Statement	2019/20		2020/21		2021/22
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	2,273,600	1,332,597	1,403,200	1,864,834	1,958,100
Bonds	781,100	595,691	611,600	572,345	577,000
Property	356,400	318,129	329,600	319,533	326,900
Alternatives	265,200	321,996	341,000	414,980	439,900
Cash	195,200	63,715	43,900	56,736	40,600
Other	3,800	833,118	869,700	1,001,880	1,041,000
Total Investment Assets	3,875,300	3,465,246	3,599,000	4,230,308	4,383,500

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

Management Expenses

	2019/20		2020/21		2021/22
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Pension Fund Staff Costs					
ESCC Recharge	279	307	385	739	1,768
Staff costs total	279	307	385	739	1,768
ESCC Support Services	-	-	-	-	237
Orbis Business Operations Support Services	854	952	935	894	-
Supplies and Services	41	114	145	555	689
Administration total	895	1,066	1,080	1,449	926
Oversight and governance costs					
ESCC Support Services	-	-	-	28	286
Supplies and Services	475	941	980	1,273	527
Third Party Payments	130	97	150	87	100
Other Income	(130)	(97)	(150)	(65)	(100)
Oversight and governance total	475	941	980	1,323	813
Investment Management					
Investment expenses:					
fees invoiced to the fund	5,100	4,370	1,350	2,416	3,698
fees deducted at source*	-	10,649	-	11,369	-
Investment Management Total	5,100	15,019	1,350	13,785	3,698
Management Expenses Total	6,749	17,333	3,795	17,296	7,205

* During the year, the Pension Fund incurred management fees which were deducted at source for 2020/21 of £2.2m (£3.7m in 2019/20) on its private equity investments, fees of £1.1m (£1.3m in 2019/20) on its infrastructure investments, fees of £5.1m (£2.6m in 2019/20) on investments in the ACCESS Pool and fees of £1.9m (£3.0m in 2019/20) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

Pension overpayments

When an overpayment of pension benefits has been identified the recovery of this debt needs to be pursued. The details of the debt is collated and an invoice is raised to the relevant party for payment. The Fund follows the East Sussex County Councils procedure for recovering income which has escalation points set if the debt remains unpaid with the final stage this is passed on to the East Sussex legal team to pursue. The table below shows the pension overpayments and recoveries for the past 5 years:

Year		Overpaid Pensioners	Recoveries	Write Off	Outstanding
2020/21	Number	19	4	0	15
	Value £000	9	1	0	8
2019/20	Number	10	8	0	2
	Value £000	6	4	0	2
2018/19	Number	30	21	1	8
	Value £000	70	59	6	5
2017/18	Number	52	41	3	8
	Value £000	52	42	1	9
2016/17	Number	73	45	2	26
	Value £000	61	30	4	27

The Fund's administrator introduced mortality screening of the active pensioners each month in 2020 and this has reduced the number of overpayments. The tell us once initiative has also been implemented with the aim to further reduce the overpayments made by the Fund.

12. Investment policy and performance

The Fund's strategic asset allocation was revised following decisions taken at the June 2020 Committee meeting, with a number of changes implemented over the 2020/2021 financial year.

The changes to the strategic asset allocation involved restructuring the Fund's equity allocation whilst maintaining the 40% overall weighting. This 40% allocation was to be retained through the addition of active impact equity, as well as smart beta passive equity with an Environmental, Social and Governance (ESG) tilt, to replace the Fund's 'Climate Aware' and 'Fundamentally Weighted' allocations. These changes were made in line with the Fund's ESG objectives. In addition, the Fund's strategic allocation to infrastructure increased from 2% to 8%, with this being partial achieved over the period through a 2% allocation to unlisted infrastructure. The remainder will be considered further and built up over time.

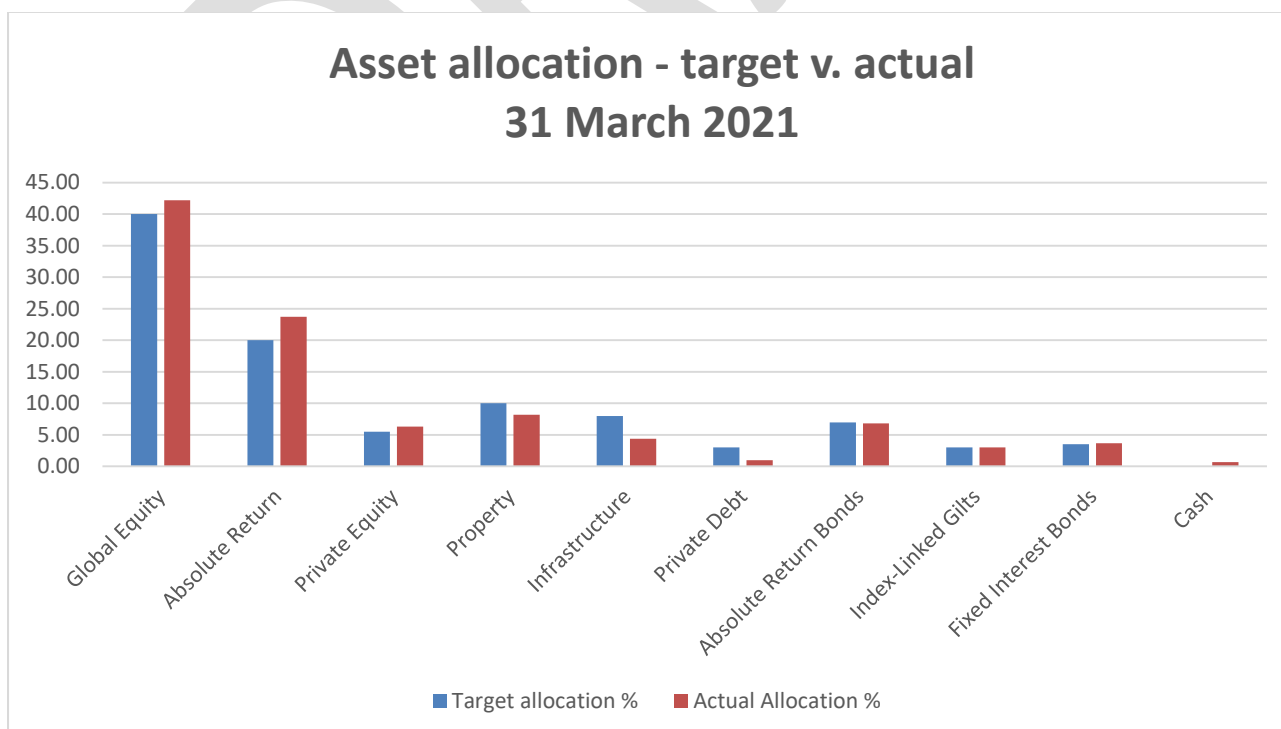
In order to achieve the strategic allocations mentioned above, the Fund made allocations of 5% (c. £200m) to Wellington Global Impact Fund and WHEB Sustainability Fund respectively, as well as a 10% (c. £400m) allocation to Storebrand Global ESG Plus Fund. These allocations were funded through termination of the Fund's Fundamentally Weighted Equity Index Fund, and the Climate Aware Equity Fund, as well as a reduction in the UK equities allocation held with UBS, in order to align more broadly to a global market cap index. The residual excess funds were rolled into the Fund's allocation in Longview Global Equity, increasing its strategic allocation from 7% to 10%. In addition, the Fund made a 2% (c. £80m) investment to the ATLAS Global Infrastructure Fund to meet the 2% strategic allocation to listed infrastructure, funded by modest reductions to the absolute return and index linked gilt target allocations.

The Committee demonstrate their consideration of ESG and climate related issues through the abovementioned equity restructuring. Similarly, the Fund's fossil fuel exposure is estimated on a quarterly basis, with this estimated as c.2% of total Fund assets as at 31 March 2021.

Asset Allocation

The Fund's asset allocation maintains a significant allocation to equities, which are expected to be a core driver of returns over the long term, but typically the most volatile. However, the equity portfolio is diversified across regions and styles to target a balanced exposure. The increase to the Fund's infrastructure allocation provides additional diversification to the portfolio, as well as contractual type returns, which are expected to provide a more certain return once fully deployed. Infrastructure is also expected to provide an inflation-linked source of income. The Fund also maintains a significant allocation to property, providing further diversification from traditional investment markets such as equities and bonds.

Credit mandates such as corporate bonds, index-linked gilts and absolute return credit also provide diversification, due to differing return drivers than equities, while also offering source of liquidity. The absolute return mandates combine a number of asset classes in order to provide a smoother path of returns, offering the manager flexibility to alter allocations to benefit from varying market conditions.



Investment Managers

The Fund employs a number of investment managers across the various mandates, with differing approaches or styles, as well as sectoral and geographic focus, and benchmarks. This is in order to ensure sufficient diversification, limiting downside risk during periods of market volatility. The Fund's investment manager structure is broadly as follows:

- The Fund's equity mandate is split across a number of managers, having previously been largely allocated to UBS. The allocation is broadly split 50/50 in terms of active and passive, with the active sleeve allocated half to a global equity mandate with Longview, and half to active impact equity strategies split equally between Wellington and WHEB. The passive sleeve is split 50/50 passive regional funds, weighted broadly in line with global market capitalisation, and ESG systematic/smart beta, with the regional fund allocation held with UBS, and the Smart Beta ESG invested in Storebrand. At the March 2021 meeting, the Committee indicated a slight preference for active management and a continued focus on ESG with the intention of investing in a new 'core' active manager as well as an allocation to Osmosis Resource Efficiency, which is likely to be implemented in H2 2021.
- Absolute return mandates are held with Newton and Ruffer and allow managers to flexibly alter allocations to a variety of underlying asset classes based on specific market conditions.
- The Fund's property mandate is held with Schroders, with a 'fund of funds' approach adopted, adding an additional layer of diversification to the mandate.
- Corporate bonds, absolute return credit and commercial real estate debt mandates are managed by M&G, while the Fund's passive index-linked gilts mandate is held with UBS.
- The Fund's infrastructure holdings are split between M&G, UBS, Pantheon (all unlisted) and ATLAS (listed), who adopt varying styles and focus areas.
- Private equity mandates are split between Adams Street and HarbourVest with new allocations due to be made with each manager over the course of 2021.

The Committee intend to undergo a full strategy review in H2 2021 and will potentially implement new mandates and additional investment managers to achieve a more efficient portfolio towards the end of 2021.

The Fund has the following objectives for its investment managers:

- Each (active) manager delivers on its objective, net of fees.
- Each mandate adds a layer of diversification and offers different qualities to the Fund, be that through varying approaches, and focus areas (geographic and sectoral).
- Consider all financial and non-financial risks and considerations including Environmental, Social and Governance (ESG) factors (including but not limited to climate change). The Fund's strategic asset allocation was unchanged during the year to 31 March 2020, set out below, strategic target and actual allocations, at the end of the 2020/21 financial year.

Custodian

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

The responsibilities of the Custodian are:

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

Investment Allocations pooled and unpooled

Mandate	Q1 2020 (£m)	Actual (%)	Target (%)	Q1 2021 (£m)	Actual (%)	Target (%)
ACCESS - Global Equity (Longview)	238.8	6.90%	7.00%	458.8	10.80%	10.00%
ACCESS - Absolute Return (Ruffer)	418.5	12.00%	10.50%	510.0	12.10%	10.00%
ACCESS - Real Return (Newton)	414.8	11.90%	10.50%	492.3	11.70%	10.00%
ACCESS - Sterling Corporate Bond (M&G)	144.3	4.10%	3.50%	158.4	3.70%	3.50%
Total Investments held in ACCESS	1,216.4	34.90%	31.50%	1,619.5	38.30%	33.50%
Equities (passive):						
UBS - Fundamental Indexation	363.2	10.40%	11.50%	-	-	-
UBS - Global Emerging Markets	36.2	1.00%	1.50%	62.2	1.50%	1.50%
UBS - Regional Equities	312.4	9.00%	8.00%	299.9	7.10%	7.00%
UBS - UK Equities	220.9	6.30%	7.00%	66.7	1.60%	1.50%
UBS - Climate Aware	160.0	4.60%	5.00%	-	-	-
Equities (active):						
Storebrand - Global ESG Plus	-	-	-	454.5	10.70%	10.00%
Wellington - Global Impact	-	-	-	222.8	5.30%	5.00%
WHEB- Sustainability	-	-	-	222.7	5.30%	5.00%
Total Equities	1,092.7	31.3%	33.0%	1,328.8	31.5%	30.0%
Bonds:						
UBS - 5yr ILG	212.3	6.10%	5.00%	128.8	3.00%	3.00%
M&G - Alpha Opportunities	239.1	6.90%	8.00%	285.1	6.70%	7.00%
Total Bonds	451.4	13.00%	13.00%	413.9	9.70%	10.00%
Other Investments:						
Schroder - Property	351.8	10.10%	10.00%	347.8	8.20%	10.00%
M&G - Infrastructure	20.7	0.60%	1.00%	32.7	0.80%	2.00%
Pantheon - Infrastructure	30.1	0.90%	2.00%	38.1	0.90%	2.00%
UBS - Infrastructure	16.7	0.50%	1.00%	37.7	0.90%	2.00%
Atlas - Infrastructure	-	-	-	77.3	1.80%	2.00%
Adams Street - Private Equity	135.6	3.90%	2.80%	154.5	3.60%	2.75%
HarbourVest - Private Equity	109.5	3.10%	2.80%	110.5	2.60%	2.75%
M&G Real Estate Debt VI	38.8	1.10%	3.00%	42.4	1.00%	3.00%
Cash account	23.9	0.70%	0.00%	31.4	0.70%	0.00%
Total Other Investments	727.1	20.90%	22.60%	872.4	20.50%	26.50%
Total	3,487.60	100%	100%	4,234.60	100%	100%

An analysis of fund assets, by geography, as at the reporting date of 31 March 2021

	UK £m	Non-UK £m	Global £m	Total £m
Equities	67	300	1,498	1,865
Bonds	287	-	285	572
Property (direct holdings)	-	-	-	-
Alternatives	362	-	373	735
Cash and cash equivalents	21	35	-	56
Other	-	-	1,002	1,002
Total	737	335	3,158	4,230

An analysis of investment income accrued during the reporting period 2020/21

	UK £000	Non-UK £000	Global £000	Total £000
Equities	3,522	565	1,570	5,657
Bonds	2,784	-	10,640	13,424
Property (direct holdings)	-	-	-	-
Alternatives	9,583	-	1,458	11,041
Cash and cash equivalents	1,851	18	-	1,869
Other	-	-	7,098	7,098
Total	17,740	583	20,766	39,089

In the above tables:

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

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

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

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

Investment Performance

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

Mandate	1 year			3 year (p.a.)			5 year (p.a.)		
	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*
Access Pool Equities									
Longview – Global	35.50%	38.90%	-3.40%	-	-	-	-	-	-
Access Pool Absolute Return									
Newton Real Return	18.70%	2.90%	15.80%	-	-	-	-	-	-
Ruffer Absolute Return	25.10%	2.90%	22.20%	-	-	-	-	-	-
Access Pool Bonds									
M&G – Corporate	9.80%	8.20%	1.60%	-	-	-	-	-	-
Equities									
UBS – UK Equity	26.40%	26.70%	-0.30%	3.00%	3.20%	-0.20%	-	-	-
UBS – All World Equity	38.80%	39.50%	-0.70%	12.30%	12.50%	-0.20%	-	-	-
Bonds									
UBS - 5yr ILG	0.80%	2.60%	-1.80%	2.90%	3.60%	-0.70%	-	-	-
M&G - Alpha Opportunities	19.30%	3.40%	15.90%	4.30%	3.40%	0.90%	4.80%	2.20%	2.60%
Other Investments									
Schroder – Property	2.70%	2.50%	0.20%	2.10%	2.40%	-0.30%	3.90%	4.20%	-0.30%
M&G – Infrastructure	9.50%	2.70%	6.80%	-	-	-	-	-	-
Pantheon – Infrastructure	0.70%	2.70%	-2.00%	-	-	-	-	-	-
UBS – Infrastructure	-	2.70%	-23.50%	-2.40%	2.80%	-5.20%	0.60%	1.90%	-1.30%
Adams Street - Private Equity	20.80%	40.70%	-4.40%	22.30%	14.00%	8.30%	18.90%	14.90%	4.00%
HarbourVest - Private Equity	36.30%	40.70%	-31.40%	14.80%	14.00%	0.80%	13.70%	14.90%	-1.20%
M&G – Real Estate Debt VI	9.30%	4.40%	-3.10%	-	-	-	-	-	-
M&G – Real Estate Debt VI	1.30%	4.40%	-3.10%	-	-	-	-	-	-

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

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

Responsible Investment

Responsible Investment (RI) is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board created TCFD to improve and increase reporting of climate-related financial information in 2015. The Fund committed to reporting under TCFD in its Statement of Responsible Investment Principles which was approved in September 2020. TCFD is structured around four thematic areas of Governance, Strategy, Risk Management and metrics and targets.



The Fund support the TCFD recommendations to provide a framework to communicate the steps the Fund is taking to manage climate related risks. Below the Fund try to report against these core elements in its first attempt to report against these disclosure requirements. Where the Fund has gaps in reportable data, this is highlighted in the sections, with a plan on how this will be progressed in future years reporting.

Governance

East Sussex County Council (ESCC) is the administering authority for the Fund, under the Constitution the Pension Committee has delegated authority to exercise the powers in respect of the management of the Fund. The Fund is neither owned nor controlled by ESCC, Fund assets are earmarked for pension payments and ringfenced from 'Council Money'. There are around 130 employers and more than 78,000 members, whose pension payments are funded by through the assets of the Fund, employer and member contributions and investment returns. The Pension Committee (the Committee), comprising elected councillors, is responsible for fund oversight and policy setting.

The Committee has focused a substantial amount of time to develop its understanding and response to the ESG impacts that it is facing. This work has driven the Fund into codifying its beliefs in this area. The Fund believe that RI supports the purpose of the LGPS and that climate risk does pose a material financial risk to the Fund. Responsible investment is therefore a substantial factor driving returns alongside other investment considerations.

As RI and climate risk is a driving factor in the value of the Fund's assets and long term return expectations in line with the Funds Investment Strategy Statement and Funding Strategy Statement to keep the Fund in surplus, the Committee set out a Statement of Responsible Investment Principles (SRIP) which is published within the Fund's Investment Strategy Statement (ISS) available on the Fund website www.eastsussexpensionfund.org/resources.

The SRIP explains the Funds approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment (RI) and Stewardship perspective.

The Principles that are set out in detail within the SRIP are:

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5	We will work together to enhance our effectiveness in implementing the Principles.
Principle 6	We will each report on our activities and progress towards implementing the Principles.

In 2019 the Pension Committee set up an ESG working group to take forward research and build up the Funds principles, however in 2020 this working group was absorbed into the Investment Implementation Working group to ensure all investment decisions have ESG and climate risk embedded at the outset, rather than a secondary consideration.

Knowledge and skills of Officers and the Committee are integral to the governance and effective oversight of climate risk within the Fund. As a result, training is provided to the Committee and officers throughout the year and one meeting a year is held to focus on Investment strategy this meeting has a strong emphasis on EGS and climate.

The Committee review and discuss its risk register quarterly where climate risk is a separately identified risk with mitigations through the Funds climate strategy and every agenda has an aspect of ESG for consideration and discussion within the Investment programme workplan.

A priority for the Fund is to ensure our investments can withstand climate risks, including both transition and physical climate risks, and to invest for the future with confidence. As a result of this the Fund has conducted 3 years of carbon foot printing and integrated energy transition plans into a key metric along with annually assessing the ESG impact of each investment manager. In addition, the Fund reviews the exposure to specific Fossil Fuel companies engaging with the Investment managers where these positions are held to understand the engagement activities with those companies and the rationale for positioning those companies in the portfolio. Whilst acknowledging that Fossil Fuel companies have intense carbon emissions, the Fund believe they have a part in the energy transition pathway; also recognising that emissions can be intense in other sectors, and climate change risks effects all sectors and geographical regions. The Fund will be carrying out climate scenario analysis of various warming scenarios in 2021/22 to further understand the climate risks of the investment strategy.

The Fund is guided by the legal principle of fiduciary duty in creation and implementation of the investment strategy and has stated that it recognises climate risk as a material financial risk to the Fund. Guidance on our fiduciary responsibilities is provided by the Scheme Advisory Board, which took legal advice on this matter (<https://lgpsab.scot/fiduciary-duty-guidance/>).

A holistic whole portfolio approach to overall climate risks has been taken by the Fund which is backed up by set of ESG beliefs and robust Statement of Responsible Investment Principles. As well as mitigating risks through the changes to the investment strategy the Fund has also identified that there are also many investment opportunities to be found from new technology and solutions to climate change. In addition, the Fund recognises companies that effectively manage resources and have strong ESG approaches are often well managed high performing companies.

Strategy

Climate risks that the Fund has exposure to will the impact on the Fund's investments most significantly. As a result, the work the Fund has put into understanding climate related risks has been focused on its specific investment strategy. The Fund is also considering how this will impact its liabilities and will form a central part of the work around its next valuation in 2022.

The investment risks identified to date around the climate impacts on the Fund have been around the structure of the Fund's investments, namely the use of passive investments and the transition from a fossil fuel based global economy to a carbon free economy. This conclusion was based on the construction of the Fund's investment strategy and the unconscious exposure to climate risk inherent within its large traditional passive investments. There is limited scope to mitigate this via the Funds implementation method of allocating to traditional market capitalisation, factor based and carbon tilted passive investments.

The analysis also identified that the Fund could benefit from increasing its exposure to sustainable investments designed to benefit from or contribute to the transition from a fossil fuel economy to a carbon free economy. This work helps to solidify the Fund's belief that ESG opportunities may be found in impact funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic, and social challenges e.g., cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water, and sanitation etc. Where successful, such companies would be expected to exhibit above average long-term growth characteristics.

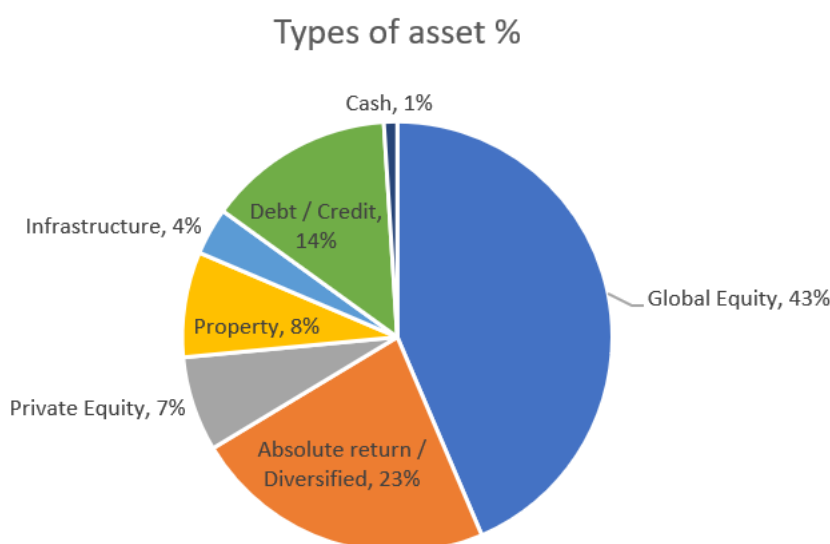
The Fund does not directly invest in any specific company; instead, it invests through a combination of holdings in passive index funds and in pooled funds through active investment managers who take considered choices over the underlying companies it invests in with a looking at the financial resilience and return possibilities as well as the ESG credentials of a company.

Climate Risk

The Funds investment strategy crosses a wide range of types of investment each of which will have different climate risks. Climate risk to the fund is through both physical risk and transition risk.

Physical Risk	More frequent or severe weather events – flooding, storms, droughts, wildfires, chronic heatwaves, sea level rise
Transition Risk	Changes to less polluting greener economy – loss of asset value in hard to abate industries or as a result of policy constraints on activities of a business, increased costs of business supply chains, loss of access to materials, regulatory tax penalties

The Funds investment strategy showing the types of assets is shown in the chart below.



Climate risk can impact on all these asset types. For example, in the property allocation there may be physical risk with buildings in areas that may have an increased chance of flooding with extreme rainfall or sea level rises; or transition risks through the cost of retrofitting buildings with heat pumps or hydrogen boilers to replace gas heating systems. Or for example, a port within an Infrastructure portfolio would be affected by atmospheric and marine hazards leading to operational shutdowns and subsequent financial losses. A Global equities portfolio for example could include shares in

an agricultural company, a technology company or even an energy provider. Each company would face different climate risks; either to their physical geographical location, to supply chain costs and failures or regulatory or policy risk imposing penalties or restrictions to operations.

As a result of the wide-reaching climate risks, the Fund takes a holistic view of its investments rather than focusing on a single company sector and focuses on the quality and ability of the investment manager teams who carry out the detailed research and selected the underlying companies in the portfolio. To do this the Fund undergo due diligence on the selection of a manager; meet and communicate with managers throughout the year to discuss company holdings, decisions, performance and team structures; carry out annual carbon foot printing which also considers companies energy transition plans; carry out an annual ESG assessment of all Investment managers within the portfolio and we are due to start climate scenario analysis of the portfolio.

The Committee were clear of the inevitability that the transition from a fossil fuel to a carbon free economy will occur and the traditional market capitalisation indexes the Fund was holding are designed to succeed if the old fossil fuel economy persists. The need to be able to access and provide capital to those companies that were looking to benefit to and from the transition was regarded as a priority for the Fund.

To address these risks and opportunities the Fund restructured its equity positions by removing most of its passive investments leaving around 10% in traditional passive market capitalisation indexes. Investing 10% into a Paris aligned smart beta and resource efficient index fund and 13% into more active management by increasing its current active manager to 10% of its investments from 7% and by investing 10% into active impact and sustainability managers investing in energy transition solutions and green revenues.

This restructure took place in the third quarter of 2020/21 and once this transition had been completed the committee agreed to review its remaining passive exposure as there was still concerns around the risks inherent with this method of investment and this will be completed during 2021/22

Also, the Fund consider engagement with companies to align their businesses to aspects such as corporate governance standards, ensure best practice in labour force policies or alignment with the Paris agreement on climate related emissions. A list of the Funds collaborative engagement partners is listed further below and the Fund publishes reports on engagements and voting carried out by managers where we are able to publish this information.

Climate Opportunities

There are also climate opportunities. For example, companies which improve resource efficiency in relation to energy usage, water and waste management can result in better run business with cost savings and competitive advantages. Or investment into innovation in technology can assist the energy transition such as development of electric vehicles, advances in LED technology, geothermal power. Other opportunities can include investment in renewable energy sources such as solar, wind, biofuels as to meet global reduction targets energy generation source needs to move to clean energy sources and away from burning of fossil fuels.

The Fund has taken substantial measures in the past 18 months to better align itself with the challenges of climate change and the energy transition and is considered one of the leaders in this space in its actions. These actions include investing 25% of the equity funds, or £480m, in Impact Managers who select companies whose core products or services achieve a positive impact on the environment or socially, or those companies that provide solutions to sustainability challenges. In addition, the Fund agreed to remove traditional passive index equity exposure (where there is unconscious exposure to fossil fuels) moving half of this to a fossil-free smart beta equity strategy that aims for long-term alignment with the Paris Agreement goals and exhibits lower carbon risk with climate solutions and higher ESG scores than the world index. The other half has been committed to a resource efficient index that focuses on companies that more effectively manage carbon, water and waste while excluding fossil fuel companies.

Future actions

The Fund is looking to further develop its understanding of climate risk and opportunity within the portfolio. During 2021/22 the Fund has committed to developing Climate Scenario stress tests to layer up our understanding of climate risk and allow us to assess our investment strategy against these. Whilst bearing in mind that scenario testing also depends on the quality of the underlying data and this is still evolving.

The Fund has made allocations to deploy future commitments to infrastructure that minimises climate risk whilst taking appropriate investment risk and suitable returns or looking at opportunities from renewable and other new technologies.

The Fund will continue to use engagement as our primary tool to our climate strategy, via membership of PRI, LAPFF, a seat on IIGCC Corporate Programme Advisory Group. The Fund also encourages all its managers to be members of these organisations. The Fund utilise the Transition Pathway Initiative data and third party ESG reports to focus the

engagement with managers. Along with this there will be an annual review of the ESG credentials of our managers to strengthen the understanding of their processes and ensuring these align with the Fund.

Risk Management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. The Fund's general approach is to manage risk rather than eliminate it entirely. The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

As part of the risk register the Pension Fund have specifically recognised Climate risk and details the risk and mitigations in place to manage this in the quarterly report. The identified aspects of climate risk are outlined below including mitigations in place. Once climate scenario modelling has been completed by the Fund the risks will be updated with any additional findings.

Possible triggers of climate risk to the Fund

Uncertainty in energy transition impacts and timing
Risk of stranded assets were invested in fossil fuel companies
Lack of reliable carbon measurement data for investment pooled funds and or underlying holdings of those pooled funds.
Risk of natural disasters on underlying investments
Risk of changes in oil prices
Increased capital costs of underlying investment companies to transition to greener energy solutions or lower carbon emitting supply chain models and production methods
Fines or penalties incurred by underlying holdings by company or sector
Increased global temperature and or erratic climate events causing devastation to underlying holdings
Social consequence on members welfare and longevity within the fund

Possible consequences of climate risk on the Fund

Unconscious exposure to high carbon emitters or companies without climate considerations
Reputation issues around how the Fund is progressing the move to a decarbonised global economy.
Volatile investment returns
Reputational risk where Climate risks, reporting, mitigations, and strategies are not aligned with member views or poorly communicated
Loss of income to the fund from missed opportunities in oil price rally to accommodate the infrastructure to enable to the world to comply with the energy transition
Loss of market value to the portfolio
Major ecological disaster in the UK could lead to increased mortality quicker than anticipated within the funding models impacting on cash outflows and increased workloads for lump sum payments.
Possible increase to ill health retirement cases leading to a change in cash flows and possible enhancements beyond those anticipated

Mitigations the Fund has put in place to try to reduce impact of the climate risk

Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors and has a strong focus on climate change
Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions
Restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020
Trim unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through agreed removal of traditional index funds
Member of Institutional Investors group on climate change
The fund carries out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio
Signatory to UN PRI with first planned submission in 2022 and commitment to report TCFD's with a first attempt in the Annual Report for 2020/21
The Fund has planned for climate scenario modelling in late 2021 which will help better understand this risk and allow further consider approaches in tackling these risks.
The Fund continue to have some occasional exposure to high carbon emitting or fossil fuel sector companies from a tactical perspective to use its vote to help drive the sector forward through engagement and voting using the power of a collective voice. A number of Fund managers are Climate 100+ engagement partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action
Very small outstanding percentage exposure with fossil fuel companies that extract oil and gas or coal, which if the sector falls to zero value, the impact of the Fund would be negligible in market movement perspectives.

Metrics and targets

The Fund has used a third-party provider Vigeo Eiris to undertake comparative analysis of the Fund's equity and fixed income managers carbon foot printing (carbon footprint is the measure of the volume of carbon dioxide (CO₂ eq.) emitted by issuers) and energy transition (the shift from a carbon-based economic model to a green and sustainable one) metrics. For the purpose of the analysis performed by Vigeo Eiris this only take into consideration Scope 1 and 2 emissions not Scope 3 where these are defined as:

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.

Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.

Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. The table below details the high-level scores that the Fund's managers achieved.

Manager	Mandate	Carbon footprint			Energy transition		
		2021	2020	Evolution	2021	2020	Evolution
UBS	Climate Aware	x	High	x	x	40	x
UBS	Fundamental Indexation	x	Intense	x	x	40	x
UBS	UK	High	Intense	↘	47	45	↗
UBS	Europe Ex-UK	High	High	↘	53	52	↗
UBS	North America	High	High	↘	37	36	↗
UBS	Rest of World	High	High	↘	32	30	↗
M&G	Absolute Return	High	High	↘	45	42	↗
M&G	Corporate Bonds	High	High	↘	53	51	↗
Newton	Absolute Return	High	High	↗	44	45	↘
Ruffer	Absolute Return	High	Intense	↘	44	42	↗
Longview	Global Equity	Significant	Significant	↗	39	33	↗
Atlas	Infrastructure Fund	High	x	x	41	x	x
Storebrand	Climate Passive	High	x	x	44	x	x
Wheb	Impact Fund	High	x	x	31	x	x
Wellington	Impact Fund	Significant	x	x	38	x	x

The scores have been classified by the bandings in the table below the carbon footprint is calculated using the weighted average carbon footprint (the sum of the portfolio's companies' emissions weighted by their weight in the portfolio) or it can be view as the emissions of an average company in the portfolio. This is used as it is providing a figure that is genuinely comparable between different managers. The energy transition score is a combination of the Vigeo Eiris' scores for each company in a portfolio's energy transition strategy based on specific criteria tied to climate change such as commitments made, information being disclosed and the meeting of commitments. This is a subjective score of issuers' energy transition strategy based on Vigeo Eiris' Research.

Scale	Emissions (t CO2 eq)	Categories	Scale	Energy Transition Score	Categories
A	<100 000	Moderate	++	60-100	Advanced
B	>=100 000 & <1 000 000	Significant	+	50-59	Robust
C	>=1 000 000 & <10 000 000	High	-	30-49	Limited
D	>=10 000 000	Intense	--	0-29	Weak

In addition to these high-level indicators each mandate has its own bespoke to report which also looks the following metrics.

- Total financed emissions
- Financed emissions per £m invested
- Weighted average carbon footprint
- Carbon intensity per sales (millions of £)
- Weighted average carbon intensity
- Energy Transition Strategy score
- Sector allocation effect on performance attribution
- Issuer selection effect on performance attribution

The carbon footprinting report identifies how much each mandate has invested in positive impact factors such as green bonds, green good and green services as well as negative impact factors such as exposure to fossil fuels and coal.

The Fund does recognise that Carbon footprinting does need to be considered with some caveats in that there is no hard and fast method to carry to monitor and assess carbon emissions of underlying investments portfolios, this is a relatively new data source and is measured differently by different suppliers. In addition, carbon footprinting is often reliant on information publicly available provided by the underlying company themselves. Over time as carbon emission data and monitoring improves it may be the position of the Fund looks worse, as a result understanding of the model and quality of data is important when assessing the Fund's portfolio.

Carbon footprint reports take no consideration of engagement activity of investment managers. All of the Funds listed managers are Institutional Investor Group for Climate Change (IIGCC) members and some of the managers have engaged intensively with high carbon emitting companies as part of Climate Action 100+. The Fund believes alongside many of its managers that it is essential as an active investor to influence companies through voting and engagement to drive the energy transition forward.

Unlike the carbon footprint, which is an expression of past performance, the energy transition score looks to express a company's forward-looking strategic approach to mitigate its carbon footprint through visible commitments and concrete measures. A company's ET score is to be put in perspective with its carbon footprint, it would be expected for a high emitting company to consider their energy transition strategy more and would look to have a robust/advanced score in this area, which would show that they have implemented concrete measures towards energy transition, to mitigate their carbon footprint. Some low-emitting companies are less transparent on their transition plans, as they might consider the issue to be less material to them and it is expensive to measure and report on the transition.

RI implementation

Below we show how the Fund has implemented the RI policies it set itself in the ISS.

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third-party provider Vigeo Eiris for the second year.	Develop understanding of the different metrics. Continue using a third-party provider to evaluate carbon emissions of equities and develop other asset classes
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC research into the Fund's strategy.
To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy	Invested 10% of the Equity program into impact managers 10% into climate risk passive product.	Looking to work with ACCESS to develop suitable solutions within the Pool
To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022 reporting cycle, supported by external managers and GPs	The Fund has only considered the carbon intensity of the liquid holdings and is working with managers and other advisors in how to calculate this for the alternative space.	The Fund is considering which metrics it wishes to monitor and ensure that this is in line with TCFD reporting requirements. Once established we will be approaching all managers to provide this information.
Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt	The Fund considered a passive investment that combined the TPI data to provide exclusions however concerns around the	The Fund has been improving its information on its underlying holdings with the aim to get quarterly information to further

business models and strategies that are in line with the aims of the Paris agreements.	<p>completeness of data and being constrained on future developments lead the Fund to invest in other passive options.</p> <p>The Fund actively review the TPI scoring of underlying holdings to understand positions within managers portfolios and use as a base to challenge external managers.</p>	analyse on different criteria including TPI analysis.
Implement processes that adhere to Taskforce for Climate-related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS.	The Fund is using its new resources to get more clarity on its investments at least quarterly, this allows us to better understand the areas that we need to focus our attention to bring us up to the required standard for TCFD reporting.	The Fund is conducting a gap analysis of the current documentation of the Fund to support embedding processes
To report annually in accordance with TCFD recommendations.	The Fund will provide a TCFD section within the 2020/21 Annual Report covering all elements where sufficient data.	We are awaiting the consultation from MHCLG on TCFD reporting to clarify the final requirements and include a fully compliant report within the Annual Report for 2021/22
Signatory to the United Nations Principles for Responsible Investment (PRI)	The Fund has signed up to the PRI as this is the first year of being a signatory it was not requirement to provide information.	During Q4 2021 and Q1 2022 to prepare the necessary information to maintain our signatory status to the PRI
Encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.	We have been requesting quarterly information from the managers on engagement and voting and have been monitoring the managers commitments. The Fund ensure all new managers are PRI and IIGCC signatories.	We will be maintaining the engagement and voting information capture to allow greater understanding of how this is working with our managers and in conversations will be pushing the managers to sign up to relevant commitments with TCFD and UK stewardship code 2020 being priorities.
Working collaboratively to increase the reach, efficiency, and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards.	<p>ACCESS has set up a ESG task and finish group to improve their ESG guidelines. The Fund has been fully involved in this process.</p> <p>We have been working with the National LGPS Framework on</p>	<p>We shall be looking to continue to explore opportunities with ACCESS to improve the RI opportunities.</p> <p>Increase the involvement in collaborative RI initiatives and look to be signatories to shareholder resolutions.</p>

	<p>the replacement Stewardship framework.</p> <p>We have been engaged with IIGCC and have signed up to some of the initiatives coming from this collaboration.</p>	
<p>Report annually in accordance with the UK Stewardship Code requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.</p>	<p>The Fund has been establishing the gaps within the current documentation and the requirements for the UK Stewardship code 2020 requirements to enable a complete report.</p>	<p>As the first signatories have been released, we are now able to review those reports that have been accepted to help to assess the Funds responses for submission in April 2022.</p>

Collaboration

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We're an active member and supporter of several Global and Industry ESG Initiatives



<https://www.unpri.org/>

Principles for Responsible Investment (PRI) We've been a signatory to the PRI since 2020 and are working on our first submission on how we implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation



<https://www.iigcc.org>

Institutional Investors Group on Climate Change (IIGCC), has the collective weight of over €35 trillion from 275 members and is leading the way on a global stage for investors to help realise a low carbon future. IIGCC helps shape sustainable finance policy and regulation for key sectors of the economy and supports members in adopting active ownership and better integrated climate risks and opportunities into investment processes. The Fund's Pension Committee Chair is currently a representative on the IIGCC Corporate Programme Advisory Group. The corporate programme focuses on supporting investors to engage with companies to align portfolios with the goal of net zero by 2050. In addition to the Fund's own membership of IIGCC, the Fund asks its managers to also be members providing a double lock on engagement.



[LAPFF | The leading voice for local authority pension funds across the UK \(lapffforum.org\)](https://lapffforum.org)

As a member of LAPFF the Fund works together with the majority of LGPS funds and pools across the UK, through the forum, to promote high corporate governance standards to protect the long-term value of local authority pensions. With member fund assets exceeding £300bn, the forum engages with companies and regulators to deliver reforms advancing

corporate responsibility and responsible investment. In October 2021 the Funds Head of Pensions was appointed to the executive committee as an LAPFF Officer Member.



[Home](#) | [Pensions For Purpose](#)

Pensions For Purpose is a bridge between asset managers, pension funds and advisers, to encourage the flow of capital towards impact investment. Pensions For Purpose provide high quality expertise and training to Funds on ESG issues. The Fund joined as an affiliate member in September 2021 .

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13. Independent adviser's report

East Sussex Pension Fund - Independent Advisor's report 2021

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is primarily to act as a separate source of advice and expertise to Officers and Committee members. Our collective objective is, of course, to invest the Fund's assets to pay members' pensions in full and on time. I am additionally able to provide stakeholders with some independent assurance that the Fund is being appropriately and properly managed.

When I wrote last year's report, the COVID pandemic had just caused authorities to impose the first national lockdown. I said that the future course of markets was unclear, but that investment income was highly likely to decline and good cashflow planning would be increasingly important. I also mentioned two governance reviews in the process of being implemented.

Twelve months later we find ourselves still in a form of lockdown with some uncertainty what the future holds. Massive government response in the form of monetary easing and fiscal support has failed to avert the steepest economic decline in 300 years. However, it has benefited the value of the Fund's assets and, from a financial perspective, the Fund remains in a healthy position with a funding level above 100%.

The Fund has seen significant change in several areas during the year. Officers initiated a major initiative looking at how best to mitigate the financial effects of a transition to a lower carbon economy. It is still work in progress but the first step of moving 20% of the assets from a traditional passive equity strategy to a number of better aligned active ones has been implemented. The immediate impact is to reduce the carbon footprint by about 50% but, in my view, the more important one is that the portfolio is now better positioned for the lower carbon economy which is surely on the way. This in my view justifies the higher costs of actively managed strategies.

This journey the Fund is taking in this respect still has some way to go. Not only are there the remaining passive assets to review, but other asset classes such as private equity and private credit will also need to be considered. All pension funds will quite soon be required to consider different climate change scenarios and LGPS funds will have to comply with new climate change risk disclosure requirements by 2023. I also emphasise that climate change science is evolving rapidly: data in the future may be more reliable, for example by virtue of being audited, and there is always the possibility that it leads to different conclusions to those being drawn today.

The other major change has been in the Fund's actuarial advisor and investment consultant. After a full OJEU procurement process, contracts for both these roles were signed with new service providers. There is always a balance to be struck between the benefits of continuity and those of change, but the investment consultant's role in particular is changing and reducing with the advent of pooling. The new arrangements should save the Fund considerable money as well as providing some fresh input into the investment process.

A degree of economic recovery is almost certain following both the deep falls and also the level of government stimulus provided. Even if the headline data do not yet show it, global indicators such as shipping rates and volumes, and the back-up in bond yields over the past six months, show that it is in progress. China is likely to be first in the queue, while Europe looks like being near the back. The UK may also be a laggard as a result of the extra friction and costs involved with BREXIT.

The prospect of recovery is not bad for equities but it is often the case that they do better in anticipation rather than the actual event. Equity indices may therefore go sideways rather than continuing to rise, particularly if there is a reduction in the valuations of the tech stocks which now comprise so much of the indices.

The Fund has a substantial weighting in alternative investments of various sorts. These have, with the exception of real estate, weathered the pandemic well. The two Diversified Growth Funds provide both some ballast in the place of bonds and also some mitigation of inflation risk, and have performed well, in Ruffer's case spectacularly so. The infrastructure weighting serves a similar purpose, with longer duration but less flexibility, and has been increased during the year. The private equity programme has remained on course and private credit has been more resilient than I had expected after the March 2020 wobble.

Investment income generated by the portfolio declined as companies cut dividends. However, as much of this has historically been reinvested, the impact on the Fund's cashflow has been limited. An exercise in cashflow planning took place during the year and, under the new arrangements, the Fund is able to increase the level of investment received if required. As the Fund matures, pension pay-outs will gradually exceed contributions and investment income will become increasingly important.

In the longer term, an increase in inflation remains a major risk for the Fund. Investing in assets which have some correlation with inflation is the best way of mitigating this. Infrastructure, inflation linked bonds and - to a lesser extent - real estate, equities and diversified growth funds form part of the Fund's defence. I do not believe that it is an immediate risk but it is almost inevitable that inflation will rise eventually.

Turning to administration, the Fund has taken the decision to end the shared service arrangements with Orbis and build back its own dedicated resources in order to provide a better level of service to members. I know this has not been an easy decision to take, but I also see that committee and pension board members are keeping a careful eye on the process to ensure that the Fund is providing good value for money.

My final duty in this report is to provide some assurance as to the overall governance arrangements for the Fund. Over the past two years the Fund has spent considerable time and resources on this area, against a background of ever increasing complexity and regulatory requirements. For example, the Pensions Regulator is reviewing and combining its Codes of Practice, new statutory guidance is expected which will both implement the Scheme Advisory Board's Good Governance recommendations (mentioned last year) and update requirements on pooling, and the Taskforce for Climate Disclosure's recommendations are expected to cover LGPS funds by 2023. On top of that are the administrative complications resulting from a number of legal test cases such as McCloud.

While the Fund can never be complacent against such a changing background, I believe its governance processes and structures are of a good standard, and that the increase in resourcing being planned will allow them to operate as intended. There is every prospect that the Fund will continue to pay pensions on time and in full in accordance with its ultimate purpose. I view that as a tribute to the hard work put in by Officers, Committee and Local Pension Board members past and present over the past two years in particular.

William Bourne

Independent Advisor

8th April 2021

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14. Asset pools

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities:

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

Collectively the pool has assets of £44 billion (of which 49% has been pooled) serving 3,534 employers with over 1.1 million members including 288,248 pensioners.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Objectives

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

Principles



Governance

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Joint Committee (JC) has been appointed by the eleven Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool-aligned asset providers (for passive asset management), to the Administering Authorities. The Joint Committee also reviews ongoing performance.

The Section 151 Officers of ACCESS Authorities provide advice to the Joint Committee in response to its decisions to ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

The Joint Committee is further supported by the Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group consists of officers with specialist LGPS investment skills, identified by each of the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

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

services. 2020/21 saw the approval of two additional roles to increase support capacity of the ASU which is hosted by Essex County

Council. Appointments were made to these positions in March 2021 and July 2021. These roles are also supplemented with additional technical support from Officers within the ACCESS Authorities.

The diagram below is an extract from the ACCESS governance model below:



The Operator

Appointed in 2018 Link Fund Solutions Ltd (Link) provide the pooled operator service, overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies

Pool Aligned Assets: UBS

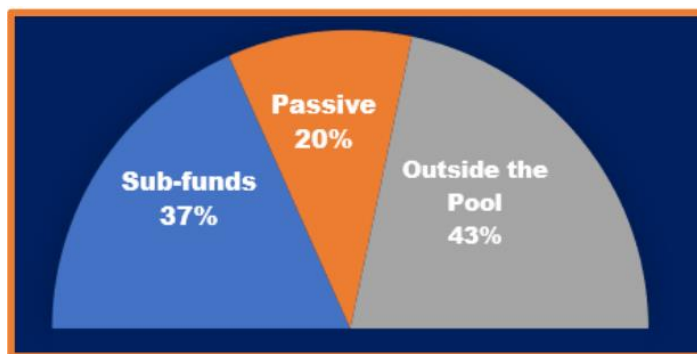
Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing the pool and moving assets into the pool and regularly submitted progress reports to Government. These are all published on the pool's website (www.accesspool.org).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the first milestone of having £27.2 billion assets pooled with estimated savings of £13.6 million by March 2021. ACCESS has to exceed these milestones with an additional £4 billion of assets pooled and greater savings of £8 million

.As at 31 March 2021, 57% of assets have been pooled:



Pooled Assets

As at 31 March 2021, ACCESS has pooled the following assets:

	£ billion
Passive investments*	11.1
UK Equity Funds	2.2
Global Equity Funds	14.6
UK Fixed Income	2.1
Diversified Growth	1.5
Total Pooled Investments	31.5

*The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2020/21

- Approval and launch of a range of sub-funds reflecting the strategic asset allocation needs of the ACCESS Funds.
- Provision of updates of progress of pooling to Government.
- Appointment of Engine MHP to review and advise in the further development of the Communications Policy.
- Appointment of Minerva to provide advice and guidance to develop Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the second investor day for Elected members and officers of the individual Authorities. There were presentations by Link Fund Solutions as the ACS operator and Northern Trust as the depositary.
- Determined an approach to pooling and managing the illiquid assets covering private equity, private debt, infrastructure and property.
- Additional resources appointed to the ASU to support the activities of the ACCESS Pool.

Objectives for 2021/22

ACCESS is well placed to continue to develop the pool and progress will continue unabated despite the restrictions imposed by the COVID-19 lockdown. Virtual meetings are well established and productive. It is anticipated that 2021/22 will see key activities within the following themes:

- Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).
- Alternative / non listed assets: the initial implementation of pooled alternative assets.
- Passively managed assets: ongoing monitoring and engagement with UBS.
- Finalise and implement the Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- ACCESS Support Unit (ASU): the size and scope of the ASU will be kept under review

Financial Management Expected v Actual Costs and Savings

The table below summarises the financial position for 2020/21 along with the cumulative position since the commencement of ACCESS activity in early 2016.

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the 11 Authorities. 2020/21 saw an underspend primarily due to lower than anticipated costs of external advice combined with the establishment of the ACCESS Support Unit reducing the reliance on external project management support.

	2020/21		2020/21	
	Actual	Budget	Actual	Budget
	In Year	In Year	Cumulative to date	Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	-	-	1,824	1,400
Transition Costs	-	-	674	2,499
Ongoing Operational Costs	863	1,079	3,071	3,548
Operator & Depository Costs	3,672	4,077	7,304	6,577
Total Costs	4,535	5,156	12,873	14,024
Pool Fee Savings	(21,747)	(13,600)	(42,262)	(32,050)
Net (Savings Realised)/Costs	(17,212)	(8,444)	(29,389)	(18,026)

Operator and depository fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator.

The 2020/21 fee savings have been calculated using the CIPFA price variance methodology and based on the average asset values over the year. This approach highlights the combined level of investment fee savings, across all ACCESS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the MHCLG submission whilst delivering an enhanced level of savings ahead of the timeline contained in the original proposal.

Investment management costs split between pooled and non-pooled assets

	ACCESS Pool*		Non-ACCESS Pool		Total
	Direct	Indirect	Direct	Indirect	
Management Fee £000	248	3,711	1,006	6,666	11,631
Transaction Costs £000	64	-	928	-	992
Custody £000	-	-	61	-	61
Other Costs £000	-	-	1,101	-	1,101
Total £000	312	3,711	3,096	6,666	13,785

* This includes pool aligned assets such as the jointly procured passive manager for ACCESS authorities.

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

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environmental and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long-term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS has reviewed its own ESG/RI guidelines to reflect both the requirements of the Authorities and the expectations associated with this fundamental aspect of institutional investment. Minerva have been appointed as part of this review to provide advice on guidelines and implementing these in a pooling environment.

Minerva will also provide advice on future appropriate reporting requirements to provide transparency to stakeholders, monitor adherence to the Guidelines and inform discussion on ESG/RI matters.

The ACCESS pool has a set of voting guidelines which seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies.

The voting guidelines sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies. During the year ACCESS voted at 868 meetings on 11,351 resolutions.

15. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

2019/20			2020/21	
£000	£000	Notes	£000	£000
		Dealings with members, employers and others directly involved in the fund		
		Contributions		
(99,018)		From Employers	(100,042)	
(31,403)		From Members	(31,435)	
	(130,421)			(131,477)
	(8,298)	Transfers in from other pension funds		(6,044)
	(138,719)			(137,521)
	125,670	Benefits		128,707
	8,596	Payments to and on account of leavers		5,561
	134,266			134,268
	(4,453)	Net (additions)/withdrawals from dealings with members		(3,253)
	17,333	Management expenses		17,296
	12,880	Net (additions)/withdrawals including fund management expenses		14,043
		Returns on investments		
(26,546)		Investment income		(39,089)
59		Taxes on income		19
166,725		Profit and losses on disposal of investments and changes in the value of investments		(739,914)
	140,238	Net return on investments		(778,984)
	153,118	Net (increase)/decrease in net assets available for benefits during the year		(764,941)
(3,632,212)		Opening net assets of the scheme		(3,479,094)
(3,479,094)		Closing net assets of the scheme		(4,244,035)

b. Net Assets Statement for the year ended 31 March 2020

31 March 2020 £000		Notes	31 March 2021 £000
3,401,666	Investment assets	14	4,173,990
340	Other Investment balances	21	357
(475)	Investment liabilities	22	(775)
63,715	Cash deposits	14	56,736
3,465,246	Total net investments		4,230,308
16,622	Current assets	21	15,675
(2,774)	Current liabilities	22	(1,948)
3,479,094	Net assets of the fund available to fund benefits at the year end.		4,244,035

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

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2021 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

18 October 2021

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2021

1: Description of fund

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

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2020/21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

The Fund is a contributory defined benefit pension scheme administered by East Sussex County Council to provide pensions and other benefits for pensionable employees of East Sussex County Council, the district councils in East Sussex County and a range of other scheduled and admitted bodies within the county area.

The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The role of the Board is to assist the East Sussex Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in illiquid investments such as private equity, infrastructure and private debt. The Committee oversees the management of these investments and the Fund and its advisers meet regularly with the investment managers to monitor their performance against agreed benchmarks.

b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

There are 127 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2020	31 March 2021
Number of employers with active members	128	127
Number of employees		
County Council	7,980	8,163
Other employers	15,855	16,839
Total	23,835	25,002
Number of pensioners		
County Council	9,500	9,805
Other employers	11,835	12,425
Total	21,335	22,230
Deferred pensioners		
County Council	13,860	13,805
Other employers	17,762	17,429
Total	31,622	31,234
Total number of members in pension scheme	76,792	78,466

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions, which are set, based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 0.0% to 49.2% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

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

2: Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector. The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

There were no amendments for 2020/21 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance and Compliance Policy Statement and Communications Policy Statement. Copies can be obtained by contacting the Council's Pensions team or alternatively are available from <https://www.eastsussexpensionfund.org/>

ACCESS Pool – There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The formal decision-making body

within the ACCESS Pool is the ACCESS Joint Committee, which has let the management of the asset pool to Link Fund Solutions Ltd, appointed to provide a pooled operator service. There is no direct investment in the third party, only a contractual arrangement to provide services, so there is no investment balance to carry forward in the net asset statement.

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

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

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

i) **Administrative expenses**

All staff costs of the Pensions Administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) **Oversight and governance costs**

All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

iii) **Investment management expenses**

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments.

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

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2020/21, £0.8m of fees is based on such estimates (2019/20: £0.3m).

Net assets statement

g) Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Foreign currency transactions

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

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

j) Cash and cash equivalents

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

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

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement are the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis.

l) Actuarial present value of promised retirement benefits

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

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

m) Additional voluntary contributions

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

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

n) Contingent assets and contingent liabilities

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

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

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

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2015. The value of unquoted private equities at 31 March 2021 was £265 million (£229 million at 31 March 2020).

Pension fund liability

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

Use of Financial Instruments

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made take into account historical experience, current trends and other relevant factors. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. As a result of Coronavirus pandemic there is an increase in the uncertainty around the mortality provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: <ul style="list-style-type: none"> • A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). • A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). • A 0.25% change in mortality rates would increase the liability by approximately £25 million (0.7%).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £265.0 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Illiquid investments including Infrastructure and Pooled investments	These investments are valued at fair value utilising market data from comparable debt, Commercial mortgage-backed securities (CMBS) market and sector curves to appropriately benchmark the investments. Due to volatility in the market with COVID-19 CMBS have been excluded at 31 March 2021 due to limited market data being available. This affects investments valued at 31 March 2021 of £42.4m. The total value of the fund assets at 31 March 2021 is £4,244.0m, so this investment type represents just under 1.0% of total assets.	The total pooled investments affected in the financial statements is £42.2 million. There is a risk that this investment may be under or overstated in the accounts due to the use of the estimates applied in the valuation by the fund manager. The sensitivity of this figure is discussed further in Note 16.

6: Events after the balance sheet date

There have been no events since 31 March 2021, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2019/20 £000	2020/21 £000
By category		
Employee's contributions	31,403	31,435
Employer's contributions		
Normal contributions	80,302	83,643
Deficit recovery contributions	17,662	15,336
Augmentation contributions	1,054	1,063
Total	130,421	131,477
By authority		
Scheduled bodies	83,613	84,803
Admitted bodies	4,303	3,653
Administrative Authority	42,505	43,021

Total	130,421	131,477
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8: Transfers in from other pension funds

	2019/20 £000	2020/21 £000
Group transfers	-	-
Individual transfers	8,298	6,044
Total	8,298	6,044

9: Benefits payable

	2019/20 £000	2020/21 £000
By category		
Pensions	104,544	108,927
Commutation and lump sum retirement benefits	18,555	17,194
Lump sum death benefits	2,571	2,586
Total	125,670	128,707
By authority		
Scheduled bodies	73,625	76,492
Admitted bodies	3,690	3,781
Administrative Authority	48,355	48,434
Total	125,670	128,707

10: Payments to and on account of leavers

	2019/20 £000	2020/21 £000
Refunds to members leaving service	389	242
Group transfers	-	-
Individual transfers	8,207	5,319
Total	8,596	5,561

11: Management expenses

	2019/20 £000	2020/21 £000
Administrative costs	1,106	1,680
Investment management expenses	15,019	13,785
Oversight and governance costs	1,208	1,831
Total	17,333	17,296

11a: Investment management expenses

	2020/21	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Bonds		38	14	-	24
Equities		802	113	-	689
Pooled investments					
Fixed Income		1,769	1,769	-	-
Equity		2,872	2,593	-	279
Diversified growth funds		3,373	3,373	-	-
Pooled property investments		1,307	1,307	-	-
Private equity / infrastructure		3,563	3,563	-	-
		13,724	12,732	-	992
Custody		61			

Total 13,785

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

	2019/20	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Bonds		18	18	-	-
Equities		-	-	-	-
Diversified growth		2,131	1,942	-	189
Pooled investments		-	-	-	-
Fixed Income		1,298	1,298	-	-
Equity		1,843	1,843	-	-
Diversified growth funds		2,876	2,846	-	30
Pooled property investments		1,652	1,652	-	-
Private equity / infrastructure		5,147	5,147	-	-
		<u>14,965</u>	<u>14,746</u>	-	<u>219</u>
Custody		<u>54</u>			
Total		<u>15,019</u>			

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

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

During the year, the Pension Fund incurred management fees which were deducted at source for 2020/21 of £2.2m (£3.7m in 2019/20) on its private equity investments, fees of £1.1m (£1.3m in 2019/20) on its infrastructure investments, fees of £5.1m (£2.6m in 2019/20) on investments in the ACCESS Pool and fees of £1.9m (£3.0m in 2019/20) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2019/20 £000	2020/21 £000
Income from bonds	154	122
Income from equities	1,507	654
Private equity/Infrastructure income	1,531	1,458
Pooled property investments	11,972	9,584
Pooled investments - unit trusts and other managed funds	10,705	25,402
Interest on cash deposits	673	1,869
Class Actions	4	-
Total	<u>26,546</u>	<u>39,089</u>

13: Other fund account disclosures

13a: Taxes on income

	2019/20 £000	2020/21 £000
Withholding tax – equities	(59)	(19)
Total	<u>(59)</u>	<u>(19)</u>

13b: External audit costs

	2019/20 £000	2020/21 £000
Payable in respect of external audit for 2018/19	3*	-
Payable in respect of external audit for 2019/20	27	5**
Payable in respect of external audit for 2020/21	-	35
Payable in respect of other services	5	5
Total	<u>35</u>	<u>45</u>

*The final fee for 2018/19 was agreed after the audit opinion was received for 2018/19.

** The final fee for 2019/20 was agreed after the audit opinion was received for 2019/20

14: Investments

	2019/20 £000	2020/21 £000
Investment assets		
Bonds	212,331	128,765
Pooled Investments		
Fixed Income	413,943	485,996
Equity	1,332,597	1,864,834
Diversified growth funds	833,253	1,002,298
Pooled property investments	318,129	319,533
Private equity/infrastructure	291,413	372,564
Derivative contracts:		
Forward Currency Contracts	-	-
	3,401,666	4,173,990
Cash deposits with Custodian	63,715	56,736
Other Investment balances (Note 21)	340	357
Total investment assets	3,465,721	4,231,083
Investment Liabilities (Note 22)	(475)	(775)
Derivative contracts:		
Forward Currency Contracts	-	-
Total Investment Liabilities	(475)	(775)
Net investment assets	3,465,246	4,230,308

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2020 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2021 £000
Bonds	212,331	-	(92,246)	8,680	128,765
Equities	-	618,587	(534,059)	(84,528)	-
Pooled investments	2,579,793	253,354	(246,139)	766,120	3,353,128
Pooled property investments	318,129	11,928	(9,059)	(1,465)	319,533
Private equity/infrastructure	291,413	77,295	(47,943)	51,799	372,564
	3,401,666	961,164	(929,446)	740,606	4,173,990
Derivative contracts					
■ Forward currency contracts	-	575	(162)	(413)	-
	3,401,666	961,739	(929,608)	740,193	4,173,990
Other investment balances:					
■ Cash deposits	63,715			(279)	56,736
■ Other Investment Balances	340				357
■ Investment Liabilities	(475)				(775)
Net investment assets	3,465,246			739,914	4,230,308

	Market value 1 April 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2020
	£000	£000	£000	£000	£000
Bonds	499,750	68,143	(379,592)	24,030	212,331
Equities	153,695	81,336	(244,125)	9,094	-
Pooled investments	2,232,435	1,055,608	(493,067)	(215,183)	2,579,793
Pooled property investments	339,442	10,551	(15,342)	(16,522)	318,129
Private equity/infrastructure	245,135	57,631	(41,228)	29,875	291,413
Commodities	6,125	992	(7,925)	808	-
Multi Asset	2,342	6,030	(7,534)	(838)	-
	3,478,924	1,280,291	(1,188,813)	(168,736)	3,401,666
Derivative contracts					
■ Forward currency contracts	(415)	12,995	(12,095)	(485)	-
	3,478,509	1,293,286	(1,200,908)	(169,221)	3,401,666
Other investment balances:					
■ Cash deposits	149,156			2,496	63,715
■ Other Investment Balances	4,937				340
■ Investment Liabilities	(9,392)				(475)
Net investment assets	3,623,210			(166,725)	3,465,246

14b: Investments analysed by fund manager

	Market value 31 March 2020		Market value 31 March 2021	
	£000	£000	£000	%
Investments in the ACCESS Pool				
ACCESS - Global Equity (Longview)	238,840	6.9%	458,786	10.8%
ACCESS - Absolute Return (Ruffer)	418,469	12.1%	510,048	12.1%
ACCESS - Real Return (Newton)	414,784	12.0%	492,250	11.6%
ACCESS - Corporate Debt (M&G)	144,259	4.2%	158,430	3.7%
	1,216,352	35.2%	1,619,514	38.2%
Investments held directly by the Fund				
East Sussex Pension Fund Cash	24,736	0.7%	30,674	0.7%
UBS Infrastructure Fund	16,720	0.5%	37,697	0.9%
Prudential Infracapital	20,676	0.6%	32,707	0.8%
Pantheon	30,109	0.9%	38,120	0.9%
Schroders Property*	343,707	9.9%	344,204	8.1%
Harbourvest Strategies	106,192	3.1%	110,515	2.6%
Adams St Partners	122,874	3.5%	154,497	3.7%
M&G Absolute Return Bonds	239,101	6.9%	285,150	6.7%
UBS Passive Funds	1,305,987	37.6%	557,483	13.3%
M&G Real Estate Debt VI	38,793	1.1%	42,416	1.0%
Atlas Infrastructure	-	-	77,324	1.8%
Storebrand Smart Beta & ESG	-	-	454,529	10.7%
Wellington Active Impact Equity	-	-	222,751	5.3%
WHEB Active Impact Equity	-	-	222,727	5.3%
	2,248,894	64.8%	2,610,794	61.8%
	3,465,246		4,230,308	

* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.

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

Security	Market Value 31 March 2020	% of total fund	Market value 31 March 2021	% of total fund
	£000		£000	
ACCESS - Absolute Return (Ruffer)	418,469	12.1%	510,048	12.1%
ACCESS - Global Equity (Longview)	238,840	6.9%	492,250	11.6%
ACCESS - Real Return (Newton)	414,784	12.0%	458,786	10.8%
Storebrand Smart Beta & ESG Fund	-	-	454,529	10.7%
M&G Absolute Return Bonds	239,101	6.9%	285,150	6.7%
Wellington Active Impact Equity Fund	-	-	222,751	5.3%
WHEBActive Impact Equity Fund	-	-	222,727	5.3%
UBS Over 5 year Index Gilt Linked	212,331	6.1%	128,765	3.0%
UBS UK Equity	221,992	6.4%	66,680	1.6%
UBS Fundamental Index	363,155	10.4%	-	-

14c: Stock lending

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

15: Analysis of derivatives

Objectives and policies for holding derivatives

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

a) Futures

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

b) Forward foreign currency

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

c) Options

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

The East Sussex Pension Fund did not hold any derivatives as at 31st March 2021 (nil as at 31 March 2020).

16: Fair value – basis of valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not Required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not Required	Not Required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not Required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not Required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required
Pooled investments – Equity and bonds Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.	Not Required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments – Property Funds	Level 3	<p>Closing bid price where bid and offer prices are published</p> <p>Closing single price where single price published</p> <p>Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.</p>	The significant inputs and assumptions are developed by the respective fund manager.	Valuations could be affected by the frequency of the independent valuations between the funds.
Unquoted equity – Private Equity / Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	<p>Observable inputs are subject to judgment by the respective manager, but are applied in accordance with the appropriate industry guidelines.</p> <p>Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.</p>	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequential potential impact on the closing value of investments held at 31 March 2021 and 31 March 2020.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Pooled Investment (a)	9%	42,416	46,233	38,599
Pooled property investments (b)	13%	319,533	361,072	277,994
Private Equity/Infrastructure (c)	25%	372,564	464,960	280,168
Total		734,513	872,265	596,761

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Pooled Investment (a)	7%	30,583	32,759	28,407
Pooled property investments (b)	14%	318,129	362,031	274,227
Private Equity/Infrastructure (c)	27%	291,413	370,095	212,731
Total		640,125	764,884	515,366

- (a) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 9% is caused by how this value is measured.
- (b) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 13% is caused by how this value is measured.
- (c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 25% is caused by how this profitability is measured.

16a: Fair value hierarchy

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

Values at 31 March 2021	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets at fair value through profit and loss	357	3,439,477	734,513	4,174,347
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(775)	-	(775)
Net investment assets	357	3,438,702	734,513	4,173,572

Values at 31 March 2020	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets at fair value through profit and loss	222,079	2,539,802	640,125	3,402,006
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(475)	-	(475)
Net investment assets	222,079	2,539,327	640,125	3,401,531

16b: Transfers between levels 1 and 2

During 2020/21 the Fund has transferred 1 financial assets between levels 1 and 2. This was the Fund's UK Passive Fund with UBS (£66.7m) which was moved to level 2 from level 1 as the Fund assessment was that this was more aligned to the Pooled investments – Equity and bonds Fund's category and as the valuation is advised as a unit price.

16c: Reconciliation of fair value measurements within level 3

	Market value 1 April 2020	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2021
Period 2020/21	£000	£000	£000	£000	£000	£000	£000	£000
Pooled investments	30,583	-	-	18,074	(6,715)	474	-	42,416
Pooled property investments	318,129	-	-	11,928	(9,274)	(4,459)	3,209	319,533
Private Equity/Infrastructure	291,413	-	-	77,295	(47,943)	24,207	27,592	372,564
Total	640,125	-	-	107,297	(63,932)	20,222*	30,801*	734,513

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
1 and 2	566,319	122,572	688,891
3	20,222	30,801	51,023
Total	586,541	153,373	739,914

	Market value 1 April 2019	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2020
Period 2019/20	£000	£000	£000	£000	£000	£000	£000	£000
Equities	33,670	-	-	4,344	(31,669)	8,716	(15,061)	-
Pooled investments	-	-	-	44,179	(14,239)	643	-	30,583
Pooled property investments	339,442	-	-	10,551	(15,342)	(22,256)	5,734	318,129
Private Equity/Infrastructure	245,135	-	-	57,631	(35,970)	1,863	22,754	291,413
Total	618,247	-	-	116,705	(97,220)	(11,034)*	13,427*	640,125

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
1 and 2	(269,121)	100,003	(169,118)
3	(11,034)	13,427	2,393
Total	(280,155)	113,430	(166,725)

17: Classification of financial instruments

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

31 March 2020			31 March 2021		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial Assets					
212,331	-	-	128,765	-	-
-	-	-	-	-	-
2,579,793	-	-	3,353,128	-	-
318,129	-	-	319,533	-	-
291,413	-	-	372,564	-	-
-	-	-	-	-	-
-	63,715	-	-	56,736	-
-	1,746	-	-	1,560	-
340	-	-	357	-	-
-	14,876	-	-	14,115	-
3,402,006	80,337	-	4,174,347	72,411	-
Financial liabilities					
-	-	-	-	-	-
(475)	-	-	(775)	-	-
-	-	-	-	-	-
-	-	(2,774)	-	-	(1,948)
(475)	-	(2,774)	(775)	-	(1,948)
3,401,531	80,337	(2,774)	4,173,572	72,411	(1,948)

*Reconciliation to Current Assets Note 21

	2019/20	2020/21
	£000	£000
Cash held by ESCC	1,746	1,560
Debtors	14,876	14,115
Current Assets	16,622	15,675

17a: Net gains and losses on financial instruments

	31 March 2020	31 March 2021
	£000	£000
Financial assets		
Fair value through profit and loss	(167,355)	740,512
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	665	(598)
Financial liabilities		
Fair value through profit and loss	(35)	-
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	(166,725)	739,914

Risk and risk management

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	12%
Other Bonds	5%
UK Equities	20%
Global Equities	21%
Absolute Return	13%
Pooled Property Investments	13%
Private Equity	30%
Infrastructure Funds	12%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most

recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Asset Type	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Index Linked	128,765	143,573	113,957
Other Bonds	485,996	512,310	459,682
UK Equities	825,342	990,410	660,274
Global Equities	1,039,492	1,257,785	821,199
Absolute Return	1,002,298	1,127,585	877,011
Pooled Property Investments	319,533	361,072	277,994
Private Equity	264,039	343,251	184,827
Infrastructure Funds	108,525	121,548	95,502
Net Derivative Assets	-	-	-
Total assets available to pay benefits	4,173,990	4,857,534	3,490,446

Asset Type	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Index Linked	212,331	231,441	193,221
Other Bonds	413,943	443,397	384,489
UK Equities	221,992	284,150	159,834
Global Equities	1,110,605	1,421,574	799,636
Absolute Return	833,253	949,908	716,598
Pooled Property Investments	318,129	362,031	274,227
Private Equity	228,472	292,444	164,500
Infrastructure Funds	62,941	75,529	50,353
Net Derivative Assets	-	-	-
Total assets available to pay benefits	3,401,666	4,060,474	2,742,858

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2021	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	56,736	56,736	56,736
Cash balances	1,560	1,560	1,560
Fixed interest securities	485,996	490,856	481,136
Index linked securities	128,765	128,765	128,765
Total change in assets available	673,057	677,917	668,197

Asset type	Carrying amount as at 31 March 2020	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	63,715	63,715	63,715
Cash balances	1,746	1,746	1,746
Fixed interest securities	413,943	418,082	409,804
Index linked securities	212,331	212,331	212,331
Total change in assets available	691,735	695,874	687,596

Income Source	Interest receivable 2020/21	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	1,869	2,452	1,286
Fixed interest securities	14,072	14,072	14,072
Index linked securities	122	1,410	(1,166)
Total change in assets available	16,063	17,934	14,192

Income Source	Interest receivable 2019/20	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	673	1,328	18
Fixed interest securities	6,665	6,665	6,665
Index linked securities	169	2,292	(1,954)
Total change in assets available	7,507	10,285	4,729

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

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in pound sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2021	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unit trusts	2,326,940	225,713	2,552,653	2,101,227
Total change in assets available	2,326,940	225,713	2,552,653	2,101,227

Currency exposure - asset type	Values at 31 March 2020 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas unit trusts	2,182,959	218,296	2,401,255	1,964,663
Total change in assets available	2,182,959	218,296	2,401,255	1,964,663

b) Credit risk

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

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

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

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

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

Summary	Asset value as at 31 March 2020 £000	Asset value as at 31 March 2021 £000
UK Treasury bills	86	-
Overseas Treasury bills		23,531
Bank current accounts		
NT custody cash accounts	63,629	33,205
Total overseas assets	63,715	56,736

c) Liquidity risk

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

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

All financial liabilities at 31 March 2021 are due within one year.

Refinancing risk

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

19: Funding arrangements

Introduction

The last full triennial valuation of the East Sussex County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.
- The Fund had a funding level of 107% i.e. the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
<i>Base tables</i>	Based on Club Vita analysis
<i>Projection model</i>	CMI 2018
<i>Long-term rate of improvement</i>	1.25% p.a.
<i>Smoothing parameter</i>	7.0
<i>Initial addition to improvements</i>	
<i>Males</i>	0.5% p.a.
<i>Females</i>	0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a.

below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. We have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, we estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The Fund could opt to monitor the funding level using LGPS Monitor on a regular basis.

20: Actuarial present value of promised retirement benefits

Introduction

We have been instructed by East Sussex County Council, the administering authority to the East Sussex County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2021. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

This is the first accounting period for which the report has been prepared by Barnett Waddingham LLP; previous disclosures were prepared by Hymans Robertson LLP and we have relied on those disclosures as being accurate in the preparation of this report.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

An allowance was made for the potential impact of the McCloud & Sargeant judgement in the results provided to the Fund at the last accounting date and therefore is already included in the starting position for this report. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from East Sussex County Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes and the results of the 31 March 2020 IAS26 report which was prepared for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2021;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2019, 31 March 2020 and 31 March 2021; and
- Details of any new early retirements for the period to 31 March 2021 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Fund membership statistics

The table below summarises the membership data, as at 31 March 2019.

Member data summary	Number	Salaries/Pensions £000	Average age
Active members	22,718	414,051	52
Deferred pensions	36,094	43,738	51
Pensioners	20,328	102,766	69

The average ages shown are weighted by liability.

Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2021.

We have been notified of 105 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £1,012,200.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2021 is estimated to be 22.56%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for East Sussex County Council Pension Fund as at 31 March 2021 is as follows:

Asset breakdown	31 Mar 2021		31 Mar 2020	
	£000s	%	£000s	%
Equities	3,227,118	76%	2,460,325	71%
Bonds	627,339	15%	589,092	17%
Property	319,533	8%	346,525	10%
Cash	70,882	2%	69,305	2%
Total	4,244,872	100%	3,465,247	100%

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2021 may be different from that shown due to estimation techniques.

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2021, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

A full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums)

that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2021 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2021 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

This has been updated since the last accounting date when the results were based on a continuation of the roll forward from the 31 March 2016 funding valuation.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. We have allowed for actual pension increase experience for the period from 2019-2021. This assumes that pension increases are in line with the annual pension increases set by HM Treasury Revaluation Order.

As a result of allowing for actual experience, an experience item is observed in the reconciliation to 31 March 2021, as shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here [Consultation on indexation and equalisation of GMP in public service pension schemes - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/equalisation-of-gmp-in-public-service-pension-schemes)

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here [Indexation of public service pensions - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/indexation-of-public-service-pensions).

The valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables have been constructed based on Club Vita analysis. These base tables are projected using the CMI_2020 Model, with a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.0, an initial addition parameter of 0.5% p.a. for males and 0.25% p.a. for females, and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

Our view is that placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. Therefore we have updated to use the CMI_2020 Model with a 2020 weight parameter of 25%. At the last accounting date, the CMI_2018 Model was adopted. The effect on the Employer's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below, and the effect on the assumed life expectancies is demonstrated in the table below.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2021 (after CMI 2020 update)	31 Mar 2021 (before CMI 2020 update)
Retiring today		
Males	21.1	21.4
Females	23.7	23.9
Retiring in 20 years		
Males	21.9	22.4
Females	25.0	25.2

We have also assumed that:

- Members will exchange half of their commutable pension in respect of pre-April 2008 service and 75% of their commutable pension in respect of their post 2008 service, for cash at retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;
- Members retire following the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators.; and
- 1% of active members will take up the option to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Year ended	31 Mar 2021 % p.a.	31 Mar 2020 % p.a.
Discount Rate	1.95%	2.30%
Pension Increase Rate	2.85%	1.90%
Salary Increase rate	2.85%	1.90%

These assumptions are set with reference to market conditions at 31 March 2021.

Our estimate of the Fund's past service liability duration is 17 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). At the previous accounting date a "Hymans Robertson" corporate bond yield curve was constructed based on the constituents of the iBoxx AA corporate bond index.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. At the previous accounting date cashflow weighted single RPI rates were derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined in the accounting disclosure.

The BoE implied inflation curve may suggest a higher rate of inflation, over longer terms, than actually expected by market participants due to a willingness to accept a lower return on investments to ensure inflation linked returns. To reflect this, we include an Inflation Risk Premium (IRP) adjustment such that our assumed level of future annual RPI increase is 0.25% p.a. lower than the SEIR calculated using the BoE inflation curve alone. This differs from the previous accounting date. The impact of this change in derivation on the liability value is shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.40% p.a. below RPI i.e. 2.85% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Fund's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from

the Chancellor on the issue. The impact of this change in derivation on the liability value is shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

Salaries are assumed to increase at 0.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.

Results and disclosures

We estimate that the net liability as at 31 March 2021 is a liability of £1,364,741,000.

The results of our calculations for the year ended 31 March 2021 are set out below.

The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Statement of financial position as at 31 March 2021

Net pension asset as at	31 Mar 2021 £000s
Present value of defined benefit obligation	5,609,613
Fair value of Fund assets (bid value)	4,244,872
Deficit / (Surplus)	1,364,741
Present value of unfunded obligation	-
Unrecognised past service cost	-
Impact of asset ceiling	-
Net defined benefit liability / (asset)	1,364,741

*Present value of funded obligation consists of £5,607,717,000 in respect of vested obligation and £0 in respect of non-vested obligation.

Asset and benefit obligation reconciliation for the year to 31 March 2021

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	31 Mar 2021 £000s
Opening defined benefit obligation	4,378,000
Current service cost	151,881
Interest cost	99,610
Change in financial assumptions	1,202,783
Change in demographic assumptions	(71,775)
Experience loss/(gain) on defined benefit obligation	(55,900)
Liabilities assumed / (extinguished) on settlements	-
Estimated benefits paid net of transfers in	(128,225)
Past service costs, including curtailments	3,809
Contributions by Scheme participants	29,430
Unfunded pension payments	-
Closing defined benefit obligation	5,609,613

The change in financial assumptions item includes the change in derivation of future assumed RPI and CPI inflation as noted above. These changes have resulted in a gain of £3,382,820,000 on the defined benefit obligation; comprising a gain of £410,211,000 from the change in assumed IRP and a gain of £2,972,609,000 from the change in the assumed gap between RPI and CPI inflation.

Reconciliation of opening & closing balances of the fair value of Fund assets	31 Mar 2021 £000s
Opening fair value of Fund assets	3,465,246
Interest on assets	79,719
Return on assets less interest	701,817
Other actuarial gains/(losses)	-
Administration expenses	(3,496)
Contributions by employer including unfunded	100,381
Contributions by Scheme participants	29,430
Estimated benefits paid plus unfunded net of transfers in	(128,225)
Settlement prices received / (paid)	-
Closing Fair value of Fund assets	4,244,872

The total return on the Fund's assets for the year to 31 March 2021 is £781,536,000.

Sensitivity Analysis

Sensitivity Analysis	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	5,609,613	
Sensitivity to	+0.1%	-0.1%
Discount rate	5,514,731	5,706,223
Long term salary increase	5,618,061	5,601,211
Pension increases and deferred revaluation	5,696,828	5,523,865
Sensitivity to	+1 Year	- 1 Year
Life expectancy assumptions	5,879,433	5,352,534

21: Current assets

	31 March 2020 £000	31 March 2021 £000
Other Investment Balances		
Sales including Currency	-	-
Investment Income Due	193	82
Recoverable Taxes	147	275
Total	340	357

	31 March 2020 £000	31 March 2021 £000
Current Assets		
Contributions receivable from employers and employees	13,436	10,870
Sundry Debtors	1,440	3,245
Cash	1,746	1,560
Total	16,622	15,675

22: Current liabilities

	31 March 2020 £000	31 March 2021 £000
Investment Liabilities		
Purchases including currency	-	-
Managers Fees	(475)	(775)
Total	(475)	(775)

	31 March 2020 £000	31 March 2021 £000
Current Liabilities		
Pension Payments (including Lump Sums)	(264)	(184)
Cash	-	-
Professional Fees	(434)	(64)
Administration Recharge	(1,194)	(51)
Sundry Creditors	(882)	(1,649)
Total	(2,774)	(1,948)

23: Additional voluntary contributions

	Market value 31 March 2020 £000	Market value 31 March 2021 £000
Prudential	21,221	17,696

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2020/21 the AVC provider changed some back office systems which have caused them unforeseen complications and have therefore been unable to provide the Pension Fund with a complete statement for the 2020/21 financial year. The AVC provider has released an estimate of the value of the Funds whilst they are ensuring the back office system is operating as expected.

Information relating to the values at the 31 March 2020 are provided here. Some members of the pension scheme paid voluntary contributions and transfers in of £2.277m to Prudential to buy extra pension benefits when they retire. £3.050m was disinvested from the AVC provider in 2019/20. Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

24: Agency Services

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

	2019/20 £000	2020/21 £000
East Sussex County Council	4,899	4,793
Brighton & Hove City Council	2,291	2,261
Eastbourne Borough Council	304	308
Magistrates	209	212
Hastings Borough Council	174	175
Wealden District Council	176	174
Rother District Council	115	111
Lewes District Council	73	71
South East Water	35	29
Brighton University	26	24
Mid-Sussex District Council	19	19
Westminster (used to be LPFA)	18	18
East Sussex Fire Authority	17	17
Capita Hartshead	16	14
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	6	6
West Midlands Pension Fund	5	5
West Sussex County Council	4	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
East Sussex College Group	1	1
Plumpton College	1	1
Eastbourne Homes*	6	-
Newhaven TC	1	-
Total	8,420	8,267

* Eastbourne Homes liabilities have been included in the Eastbourne Borough Council figures for 2020/21.

25: Related party transactions

East Sussex County Council

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

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

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

The Council incurred costs in administering the Fund and charged £1.9m to the Fund in 2020/21 (£1.2m in 2019/20). The Council's contribution to the Fund was £43.0m in 2020/21 (£42.5 in 2019/20). All amounts due to the Fund were paid in the year. At 31 March 2021 the Pension Fund bank account held £1.6m in cash (£1.7m at 31 March 2020). The average throughout the year was £8.4m (£6.0 in 2019/20).

25a: Key management personnel

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

	31 March 2020	31 March 2021
	£000	£000
Short-term benefits	18	26
Post-employment benefits	3	5
Total	21	31

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2021 totalled £232.3m (31 March 2020: £322.0m).

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

At 31 March 2021, the unfunded commitment was £122.0m for private equity, £91.6m for infrastructure and £18.7 for private debt. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2021.

Exit Payments

There were 6 employers whose contracts were due to end by the 31 March 2021 where an exit credit may need to be paid out. The Fund needs to obtain final information from the employers and then will need to commission the final cessation report from the actuaries to ascertain if an exit payment is due for these employers.

GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has completed the discovery and GMP reconciliation phases, which reviewed data inconsistencies, raised issues with HMRC and agreed outcomes. GMP elements of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3% p.a. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3% p.a.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. The next stage which is GMP Rectification, will amend LGPS pensions in line with the reconciled GMP information. Rectification will also involve a significant member communication exercise to explain the changes taking place.

HMRC have only recently provided the final reports required to complete the reconciliation so this means that the rectification stage has been delayed until now. The contracted provider Mercer are currently commencing the rectification project with the aim of completing the project by the 31st October 2021 at the latest. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2021

27: Contingent assets

There are 9 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 12 other admitted bodies are covered by:

- 9 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantees;
- 1 deposit held by East Sussex County Council

At 31 March 2021, the Fund has invested £354.5 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £41.3 million in the M&G real estate debt fund VI and £116.8 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

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

28: Impairment losses

During 2020/21, the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	20.8	-	20.3	-	19.8	-
East Sussex County Council	17.6	6,141	17.6	5,568	17.6	4,966
East Sussex Fire and Rescue Service	17.9	164	17.9	137	17.9	109
Eastbourne Borough Council	19.9	-	19.4	-	18.9	-
Hastings Borough Council	17.6	538	17.6	508	17.6	476
Lewes District Council	24.1	-	23.6	-	23.1	-
Rother District Council	26.1	-	25.6	-	25.1	-
University of Brighton	18.2	-	17.7	-	17.2	-
Wealden District Council	17.6	576	17.6	538	17.6	499
Other Scheduled Bodies						
Arlington Parish Council	22.1	-	21.6	-	21.1	-
Battle Town Council	22.1	-	21.6	-	21.1	-
Berwick Parish Council	22.1	-	21.6	-	21.1	-
Buxted Parish Council	22.1	-	21.6	-	21.1	-
Camber Parish council	22.1	-	21.6	-	21.1	-
Chailey Parish Council	22.1	-	21.6	-	21.1	-
Chiddingly Parish Council	22.2	-	21.6	-	21.1	-
Conservators of Ashdown Forest	22.1	-	21.6	-	21.1	-
Crowborough Town Council	22.1	-	21.6	-	21.1	-
Danehill Parish Council	22.1	-	21.6	-	21.1	-
Ditchling Parish Council	22.1	-	21.6	-	21.1	-
Fletching Parish Council	22.1	-	21.6	-	21.1	-
Forest Row Parish Council	22.1	-	21.6	-	21.1	-
Frant Parish Council	22.1	-	21.6	-	21.1	-
Hadlow Down Parish Council	22.1	-	21.6	-	21.1	-
Hailsham Town Council	22.1	-	21.6	-	21.1	-
Hartfield Parish Council	22.1	-	21.6	-	21.1	-
Heathfield & Waldron Parish Council	22.1	-	21.6	-	21.1	-
Herstmonceux Parish Council	22.1	-	21.6	-	21.1	-
Hurst Green Parish Council	22.1	-	21.6	-	21.1	-
Icklesham Parish Council	22.1	-	21.6	-	21.1	-
Isfield Parish Council	22.1	-	21.6	-	21.1	-
Lewes Town Council	22.1	-	21.6	-	21.1	-
Maresfield Parish Council	22.1	-	21.6	-	21.1	-

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Newhaven Town Council	22.1	-	21.6	-	21.1	-
Newick Parish Council	22.1	-	21.6	-	21.1	-
Peacehaven Town Council	22.1	-	21.6	-	21.1	-
Pett Parish Council	22.1	-	21.6	-	21.1	-
Plumpton Parish Council	22.1	-	21.6	-	21.1	-
Ringmer Parish Council	22.1	-	21.6	-	21.1	-
Rye Town Council	22.1	-	21.6	-	21.1	-
Salehurst & Robertsbridge Parish Council	22.1	-	21.6	-	21.1	-
Seaford Town Council	22.1	-	21.6	-	21.1	-
Telscombe Town Council	22.1	-	21.6	-	21.1	-
Uckfield Town Council	22.1	-	21.6	-	21.1	-
Wartling Parish Council	22.1	-	21.6	-	21.1	-
Willingdon and Jevington Parish Council	22.1	-	21.6	-	21.1	-
Wivelsfield Parish Council	22.1	-	21.6	-	21.1	-
Academy Schools						
Annecey Catholic Primary Academy	15.5	-	15.0	-	14.5	-
Aquinas Trust	21.0	-	20.5	-	20.0	-
ARK Schools Hastings	20.6	-	20.1	-	19.6	-
Aurora Academies Trust	20.4	-	19.9	-	19.4	-
Beacon Academy	23.0	-	22.5	-	22.0	-
Beckmead Ropemakers Academy	16.3	-	16.3	-	16.3	-
Bexhill Academy	22.9	-	22.4	-	21.9	-
Bilingual Primary School	15.6	-	15.1	-	14.6	-
Breakwater Academy	17.0	-	16.5	-	16.0	-
Burfield Academy (Hailsham Primary)	20.0	-	19.5	-	19.0	-
Cavendish Academy	20.5	-	20.0	-	19.5	-
Diocese of Chichester Academy Trust	24.4	-	23.9	-	23.4	-
Eastbourne Academy	21.2	-	20.7	-	20.2	-
Falmer (Brighton Aldridge Community Academy)	20.0	-	19.5	-	19.0	-
Gildredge House Free School	19.6	-	19.1	-	18.6	-
Glyne Gap Academy	21.4	-	20.9	-	20.4	-
Hailsham Academy	20.0	-	19.5	-	19.0	-
Hawkes Farm Academy	16.4	-	15.9	-	15.4	-
High Cliff Academy	20.0	-	19.5	-	19.0	-
Jarvis Brook Academy	14.5	-	14.0	-	13.5	-
King's Church of England Free School	16.2	-	15.7	-	15.2	-
Langney Primary Academy	13.4	-	12.9	-	12.4	-
Ore Village Academy	18.5	-	18.0	-	17.5	-
Parkland Infant Academy	14.8	-	14.3	-	13.8	-
Parkland Junior Academy	14.4	-	13.9	-	13.4	-
Peacehaven Academy	13.0	-	12.5	-	12.0	-
Pebsham Academy	19.5	-	19.0	-	18.5	-
Phoenix Academy	20.4	-	19.9	-	19.4	-
Portslade Aldridge Community Academy	19.9	-	19.4	-	18.9	-
King's Academy Ringmer	20.8	-	20.3	-	19.8	-
SABDEN Multi Academy Trust	23.6	-	23.1	-	22.6	-
Saxon Shore Academy	22.7	-	22.7	-	22.7	-
Seaford Academy	21.1	-	20.6	-	20.1	-
Seahaven Academy	21.5	-	21.0	-	20.5	-
Shinewater Primary Academy	14.5	-	14.0	-	13.5	-
Sir Henry Fermor Academy	14.8	-	14.3	-	13.8	-
The South Downs Learning Trust	12.2	-	11.7	-	11.2	-
The Southfield Trust	14.4	-	13.9	-	13.4	-

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Torfield & Saxon Mount Academy Trust	22.6	-	22.1	-	21.6	-
University of Brighton Academies Trust	20.0	-	19.5	-	19.0	-
White House Academy	17.5	-	17.0	-	16.5	-
Colleges						
Bexhill College	21.2	-	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	19.8	-	19.8	-	19.8	-
East Sussex College Group	20.7	-	20.7	-	20.7	-
Plumpton College	18.9	-	18.9	-	18.9	-
Varndean Sixth Form College	19.8	-	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	33.0	11	33.0	-	33.0	-
Biffa Muncipal Ltd	28.8	-	28.8	-	28.8	-
Brighton and Hove CAB	0.00	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	0.0	-	0.0	-	0.0	-
Care Quality Commission	49.2	92	49.2	92	49.2	92
Churchill St Leonards	29.7	-	29.7	-	29.7	-
Churchill St Pauls	34.1	-	34.1	-	34.1	-
De La Warr Pavilion Charitable Trust	4.8	-	4.8	-	4.8	-
Eastbourne Homes - SEILL	19.2	-	19.2	-	19.2	-
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	29.2	13	29.2	13	29.2	13
EBC - Towner	31.0	7	31.0	7	31.0	7
ESCC - NSL Ltd	3.6	-	3.6	-	3.6	-
Glendale Grounds Management Ltd	29.4	-	29.4	-	29.4	-
Grace Eyre	0.0	-	0.0	-	0.0	-
Halcrow Group Ltd	5.4	-	5.4	-	5.4	-
Just Ask Estates Ltd	32.6	3	32.6	-	32.6	-
Nviro Ltd	35.3	-	35.3	-	35.3	-
Optivo	45.8	920	45.8	920	45.8	920
Royal Pavilion & Museums Trust	17.8	-	17.8	-	17.8	-
Sussex County Sports Partnership	18.2	-	17.7	-	17.2	-
Sussex Housing & Care	0.0	-	0.0	-	0.0	-
Telent Technology Services Ltd	20.8	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	0.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	0.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	33.0	-	33.0	-	33.0	-
Wealden Leisure Ltd - Portslade Sports Centre	0.0	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	0.0	-	0.0	-	0.0	-

30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC), which measures the performance of the Fund compared with 62 other local authority pension funds. Pension Fund investment is a long-term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	22.1	7.8	9.0	8.2
Benchmark	19.5	6.5	8.1	7.0
Relative*	2.6	1.3	1.0	1.2

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	22.1	7.8	9.0	8.2
Local Authority Average	22.8	7.6	9.5	8.3
Relative*	(0.6)	0.2	(0.5)	(0.1)

The Fund underperformed the (weighted) average local authority fund over the year by 0.6% (1.3% outperformance 2019/20), ranking the East Sussex Fund in the 69 percentile (48th 2019/20) in the local authority universe. Over three years the fund outperformed by 0.2% (inline 2019/20) and was placed in the 56 percentile (55th 2019/20). Over five years the fund underperformed by 0.5% (0.1% outperformance in 2019/20) and was placed in the 67 percentile (37th 2019/20). Over ten years the fund years, the fund underperformed by 0.1% (0.1% underperformance 2019/20) and was placed in the 54 percentile (45th 2019/20).

*Relative performance is calculated on a geometric basis as follows:

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

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

16. External auditor's report

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

Opinion

We have audited the financial statements of East Sussex Pension Fund (the 'Pension Fund') administered by East Sussex County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and Notes to the Pension Fund Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial

statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Chief Finance Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:

the identification, evaluation and compliance with laws and regulations;

the detection and response to the risks of fraud; and

the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk: fraudulent revenue and expenditure recognition; management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:

Large and unusual manual journal entries

Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.

Our audit procedures involved:

evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

journal entry testing, with a focus on large and unusual and high risk journals particularly manual journals, made during the year and the accounts production stage

challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments;

testing the valuation of investments, particularly focussed on Level 3 investments;

testing contributions received, benefits paid and member data changes;

assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The audit team discussed the risk of the Authority's potential non-compliance with relevant laws and regulations, the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to level 3 investments valuations.

Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

knowledge of the local government pensions sector

understanding of the legal and regulatory requirements specific to the Pension Fund including:

the provisions of the applicable legislation

guidance issued by CIPFA, LASAAC and SOLACE

the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Darren Wells

Darren Wells, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

19 October 2021

17. Pensions administration strategy report

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

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

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

The administration strategy statement will be reviewed in line with each valuation cycle, the last revision was approved in September 2020 with the strategy coming into effect 1 January 2021. All scheme employers are be consulted before any changes are made to this document. The latest version of this administration strategy statement is available on the Funds website www.eastsussexpensionfund.org/resources/

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Appendix 1. Funding strategy statement

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

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

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

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

The Funding Strategy Statement was reviewed during the year to reflect funding principles agreed for the 2019 actuarial valuation, with the new version signed off in March 2020. The FSS can be found in full at www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/. The new funding principles applied to employer contributions payable from 1 April 2020.

Contribution rates payable by participating employers over the year to 31 March 2019 were set at the 2016 valuation in line with the principles summarised in the Funding Strategy Statement dated February 2019. Similarly, the approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers has been in line with that Funding Strategy Statement.

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

The next review of the Funding Strategy Statement will take place over the 2022/23 year as part of the 2022 valuation exercise.

The FSS that was in place in relation to 2020/21 is included as an appendix to this report.

East Sussex Pension Fund

Funding Strategy Statement

February 2019

Policy not replicated in this copy

Appendix 2. Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment strategy for their Fund.

They must consult with persons they deem appropriate when drawing up their statement. Any material change in investment strategy must be included in a revised Investment Strategy Statement (ISS). The statement must cover:

- The Requirement to invest Fund money is a wide variety of investments
- The Authority's assessment of the suitability of particular investments and types of investments
- The Authority's approach to risk, including the ways in which risks are to be assess and managed
- The Authority's approach to pooling investments, including the use of collect investment vehicles and shared services
- The Authorities policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- The Authorities policy on the exercise of the rights (including voting rights) attaching to investments

The East Sussex Pension Fund ISS was first published in February 2017 when it replaced the Fund's Statement of Investment Principles. The statement is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund (the latest version is available on the website). www.eastsussexpensionfund.org/resources/

The Committee of the East Sussex Pension Fund has an overriding statutory and fiduciary duty to ensure it has sufficient funds available to pay pensions. In light of that obligation, and in order to maximise investment return, the Fund has a diverse range of investments and does not restrict investment managers from choosing certain stocks taking into consideration that the Fund's investment strategy is regularly monitored.

Responsible Investment

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in its ISS as a Statement of Responsible Investment Principles. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

Appendix 3. Communications policy statement

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

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

This Policy can be seen on the East Sussex County Council Website. www.eastsussexpensionfund.org/resources/

Appendix 4. Governance policy statement

EAST SUSSEX PENSION FUND

GOVERNANCE AND COMPLIANCE STATEMENT

Approved 22 June 2021

Policy not replicated in this copy