Report to:	**Pension Board**
Date of meeting:	**30 May 2023**
By:	**Chief Finance Officer**
Title:	**Governance Report**
Purpose:	**To provide an update on governance workstreams and changes effecting Local Government Pension Schemes and the East Sussex Pension Fund**

RECOMMENDATIONS

The Pension Board is recommended to comment and note this report

---

1 Background

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

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

2 Governance updates

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

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

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

3 Privacy Statements

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

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

4 Breaches policy

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

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

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

5 Additional Pension Contributions

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

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

6 Pension Board report to Pension Committee

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

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

7 Governance and Compliance Statement

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

8 Membership of the Pension Board

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

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

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

9 Policy Consultations

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

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

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

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

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

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

Current wording in FSS

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

If there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower *exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future. A minimum risk basis means the discount rate is linked to gilt yields.*

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

Revised wording for FSS

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

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

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

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

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

10 Administering Authority Discretions Policy

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

10.2 The existing policy discretion has been defined as

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

10.3 The proposed policy discretion has been updated to:

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

11 Conclusion

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

IAN GUTSELL
Chief Finance Officer

Contact Officer: Mike Burton, Pensions Manager Governance and Compliance
Email: Michael.Burton@eastsussex.gov.uk