

East Sussex Pension Fund Annual Report and Accounts

2015/2016

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1. Introduction

Local Government Pension Scheme

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

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

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

Currently within the East Sussex Pension Fund there are 109 participating employers. A full list of participating employers is given at note 27.

Administering Authority Responsibilities

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

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

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

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

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2013. In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS102 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

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

Changes affecting the LGPS, and future developments

In line with the Public Service Pensions Act 2013, the East Sussex Pension Fund set up a Pensions Board. The Board consists of 3 Employer representatives, 3 Scheme member representatives and an independent chair. The Board met for the first time in July 2015 and meets four times a year:

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

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

LGPS Investment Pooling

In the July 2015 budget the government announced that they wanted the 89 Local Government Pension Scheme funds to pool their investments into larger pools in order to achieve savings in investment management costs. Following this in the Autumn Statement, the government published the criteria for the pooling of LGPS investment assets. Alongside the guidance, the Government published a consultation on the LGPS - Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, i.e., on "backstop" legislation that would allow the Secretary of State to determine the pooling arrangements for those administering authorities that do not come forward with sufficiently ambitious proposals to pool their assets with others.

The objective of pooling the assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce whilst local accountability will be maintained as each individual fund will remain responsible for strategic decisions, including asset allocation. The pooling of assets will only affect the implementation of the investment strategy in terms of manager appointments.

In response to the government agenda, the East Sussex Pension Fund Committee formally ratified the option of joining the ACCESS (i.e., 'A Collection of Central, Eastern and Southern Shires') Pool. This decision was to work with the other funds in the ACCESS Pool to submit proposals to Government.

The ACCESS group has been established to form a multi asset pool which will help authorities to achieve the benefits of scale and execute their responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible whilst maintaining the desired level of local decision making and control. In order to achieve this, the ACCESS group has agreed principles that participating authorities will work collaboratively and will have an equitable voice in governance. Decisions will continue to be made objectively and evidence based. Once operational, the pool will evolve its approach to meet the changing needs and objectives of participating funds and be open to innovation that will enable it to better serve the pool's participants.

The ACCESS final refined submission, demonstrating how the criteria will be met, is due to be submitted on 15 July 2016. This submission will fully address the detailed criteria set out in the consultation. DCLG states that the process for establishing the pools will take around 18 months, with liquid assets transferring to the pools from April 2018. This implies pools will be finally approved by government by October 2016.

2. Management and financial performance report

Scheme management and advisers

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

2015/16 Pension Committee Members

East Sussex County Councillors:

Richard Stogdon (Chairman)
Frank Carstairs
Godfrey Daniel

Bob Standley
David Tutt

2015/16 Pension Board Members

Independent Chairman:

Richard Harbord

Employer Representative:

Councillor Kevin Allen
Councillor Brian Redman

Brighton & Hove City Council
Districts & Borough Councils

Member Representative:

Sue McHugh
Angie Embury
David Zwirek
Tony Watson

Educational Bodies
Active & Deferred
Active & Deferred
Pensioners

FUND MANAGERS:

Legal and General
Prudential M&G
State Street Global Advisers

Adams Street Partners
Longview Partners
Ruffer
UBS Infrastructure

Harbourvest
Newton
Schroders

CUSTODIAN:

Northern Trust

AVC PROVIDER:

Prudential

ACTUARY:

Hymans Robertson
20 Waterloo Street
Glasgow
G2 6DB

LEGAL ADVISORS:

Appointed from National LGPS Framework for Legal Services

BANKERS TO THE FUND:

Natwest

TREASURER:

Marion Kelly
Chief Finance Officer
East Sussex County Council

AUDITOR:

KPMG

SCHEME ADMINISTRATOR:

Orbis Business Operations

INVESTMENT ADVISER:

Hymans Robertson

INDEPENDENT ADVISER:

William Bourne

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Investments

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LGPS policy or statutory requirements

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Day-to-Day Matters

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St Anne's Crescent
Lewes, BN7 1UE

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Risk management

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

Risk is identified and managed as follows:

Management Risk:

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

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

Benefits Administration Risk:

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

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

Internal Control Framework:

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

Investment risk:

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

The ESPF Statement of Investment Principles (see [page 55](#)) sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12 months period under review.

Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on [pages 10 to 14](#).

Fund Account

Net (Contributions)/withdrawals (*note 1*)
 Management Expenses
 Return on Investments
Net Increase in Fund

2014/15 £000	2015/16 £000
90,586	(411)
10,037	13,465
(367,632)	(37,871)
(267,009)	(24,817)

Net Asset Statement

Bonds (*note 2*)
 Equities (*note 3*)
 Pooled Funds (*note 2 & 3*)
 Cash
 Other
Total Investment Assets
 Non-Investment Assets
Net assets of the fund available to fund benefits at the year end.

2014/15 £000	2015/16 £000
426,154	429,154
846,310	290,442
1,388,116	1,961,280
81,220	79,059
10,600	6,644
2,752,400	2,766,579
(5,851)	4,787
2,746,549	2,771,366

Notes:

1. £95m transfer of assets to the Greater Manchester Pension Fund as part of the Ministry of Justice consolidation of probation funds
2. £135m transfer of assets from passive equity to passive bonds
3. The Lazard mandate was terminated in the third quarter of the year with the assets reinvested equally between the pre-existing Legal and General and State Street passive mandates

Analysis of pension contributions

The table below shows the value of primary pension contributions received late.

Month	Employers	Number of Payments Received Late
April	104	3
May	104	4
June	105	1
July	104	2
August	105	1
September	110	5
October	109	1
November	109	2
December	109	3
January	109	3
February	109	2
March	109	1

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	2014/15		2015/16		2016/17
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Contributions	(125,500)	(119,590)	(124,200)	(123,820)	(131,600)
Payments	200,600	210,176	118,900	123,409	122,400
Administration expenses	1,140	1,085	1,620	1,065	1,450
Oversight and governance costs	640	572	590	741	680
Investment expenses	8,180	8,380	9,010	11,659	8,850
Net investment income	(24,900)	(26,235)	(27,300)	(41,590)	(30,500)
Change in market value	(99,800)	(341,397)	(198,000)	3,719	(203,200)
Net increase in the Fund	(39,640)	(267,009)	(219,380)	(24,817)	(231,920)

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

Net Asset Statement	2014/15		2015/16		2016/17
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,764,000	1,715,256	1,845,600	1,701,964	1,831,300
Bonds	236,200	426,154	454,300	429,154	457,500
Property	262,800	287,569	309,100	322,775	347,000
Alternatives	215,000	231,601	251,500	226,983	246,500
Cash	89,000	81,220	78,500	79,059	80,400
Other	9,800	10,600	11,400	6,644	7,100
Total Investment Assets	2,576,800	2,752,400	2,950,400	2,766,579	2,969,800

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

Asset Class	Long Term Forecast Return
Equities	7.6%
Bonds	6.6%
Property	7.5%
Alternatives	8.6%
Cash	3.9%
Total	7.4%

These historic long term returns are taken from State Street Investment Analytics.

Management Expenses

	2013/14		2014/15		2015/16
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Orbis Finance Support Services	20	46	50	54	40
Orbis Business Operations Support Services	820	750	770	712	770
Supplies and Services	300	289	800	299	440
Administration total	1,140	1,085	1,620	1,065	1,250
Oversight and governance costs					
Orbis Finance Support Services	220	232	240	182	200
Supplies and Services	430	348	360	555	480
Third Party Payments	110	154	160	118	180
Other Income	(120)	(162)	(170)	(114)	(180)
Oversight and governance total	640	572	590	741	680
Investment Management					
Supplies and Services	8,180	8,380	9,010	11,659	8,850
Investment Management Total	8,180	8,380	9,010	11,659	8,850
Management Expenses Total	9,960	10,037	11,220	13,465	10,780

Pension overpayments

	2014/15		2015/16	
	Number	Value £000	Number	Value £000
Overpaid Pensioners	40	22	44	34
Recoveries	31	14	38	23
Outstanding	-	-	6	11
Write Off	1	1	-	-

4. Investment policy and performance

Bodies which the fund is member, subscriber or signatory

National Association of Pension Funds

Local Authorities Pension Fund Forum

CIPFA Pensions Network

Club Vita

Local Government Association (LGPC)

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

Current Investment Arrangements

The Pension Committee made slight changes to the Fund's investment manager structure over the course of the financial year to 31 March 2016. The overall asset allocation was unchanged.

One of the Fund's active equity managers was terminated during the year. The holdings were transferred equally between the existing Legal & General global equity allocation and the State Street fundamental indexation global equity allocation, both passively managed. As a result, the Fund's overall equity allocation remained unaltered.

When considering the investment portfolio, diversification is one of the most important issues that the Committee considers. Rather than relying on a single investment decision, making a larger number of smaller decisions can reduce risk. For example, any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If a particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

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

1. Asset Allocation

Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property and infrastructure, most notably the former ("real" assets with a different performance cycle to equities) and a small exposure to bonds (which tend to act as form of protection at times of market stress). The Fund's allocation to absolute return mandates provides further diversification, uniquely, within these mandates, the managers have the flexibility to alter asset allocation between asset classes.

Within equities, diversification is achieved by investing in different markets across the world, which provides exposure to many different stocks and sectors. The Fund is further diversifying some of the equity exposure by making annual allocations to unquoted equity. This allocation is expected to lead to higher returns over the longer term, without adding significantly to overall risk (which is consistent with the objectives of the Fund).

2. Manager Structure

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

- Legal & General Investment Management remains the Fund's largest single equity manager; all of the assets are managed passively against UK and Global equity market benchmarks. The Fund has one active global equity manager (Longview) which employs an approach which differs in terms of style and the inherent risk. The Fund's remaining equity manager State Street offers additional diversification from Legal & General's market capitalisation based passive management approach, through the fundamental indexation mandate. The Investment Panel maintains the belief that global equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers (Ruffer and Newton) are expected to add diversification away from the Fund's other mandates due to their flexible and unconstrained management approach.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.

- Corporate bonds and absolute return bonds are managed by M&G. Index-linked bonds are managed by Legal & General.
- The Fund's allocations to infrastructure and unquoted equities are split into four portfolios, each managed by separate managers.

The objective is to seek to ensure:

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

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

Custodian

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

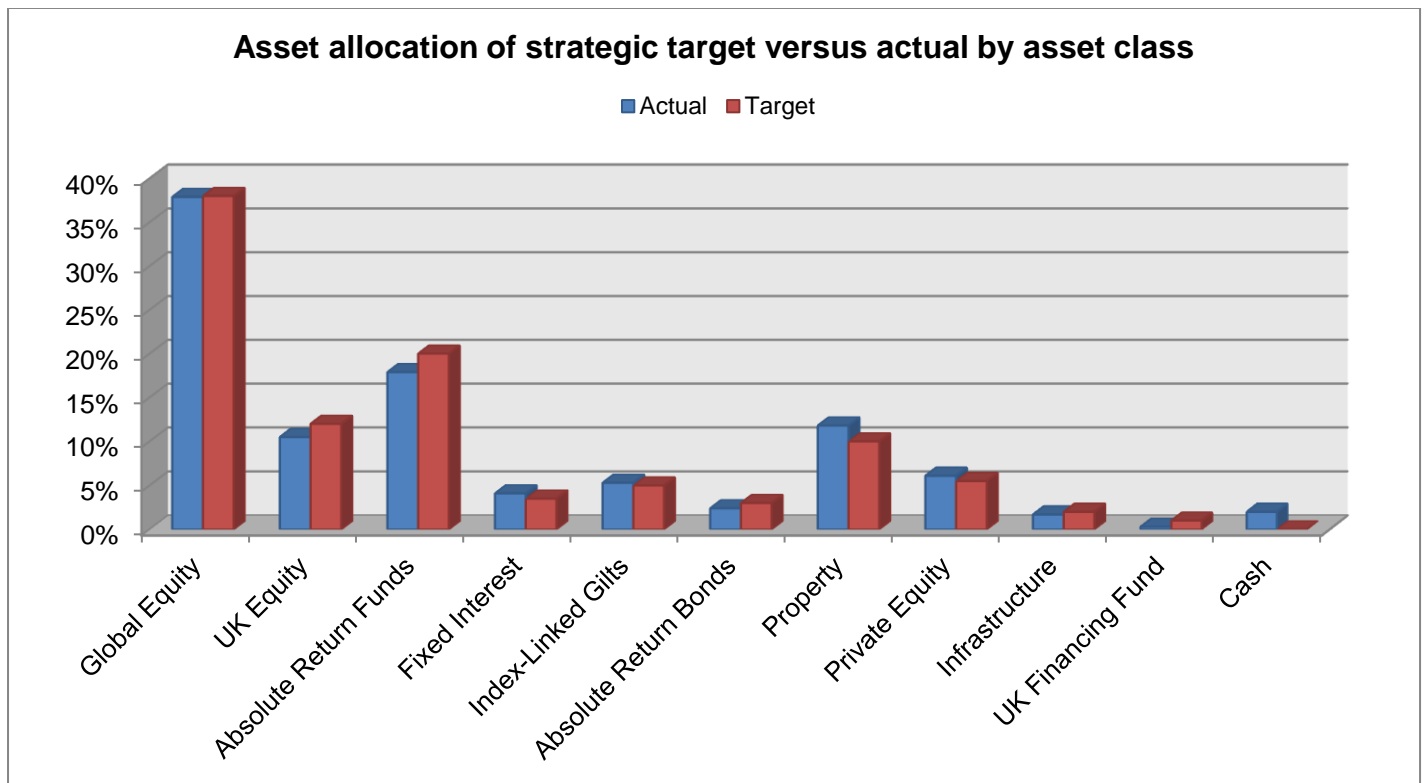
The responsibilities of the Custodian are:

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

Asset allocation

Mandate	Value (£m)	Proportion (%)		Value (£m)	Proportion (%)	
	Q1 2015	Actual	Target	Q1 2016	Actual	Target
L&G - Global Equities	200.6	7.3%	8.0%	385.5	13.9%	15.5%
Lazard - Global Equities	410.2	15.0%	15.0%	0	0.0%	0.0%
Longview - Global Equity	174.6	6.4%	5.0%	180.7	6.5%	5.0%
State Street - Fundamental Indexation	290.7	10.6%	10.0%	483.1	17.5%	17.5%
L&G - UK Equities	286.4	10.5%	12.0%	289.6	10.5%	12.0%
Newton - Absolute Return	249.7	9.1%	10.0%	253.2	9.2%	10.0%
Ruffer - Absolute Return	256.7	9.4%	10.0%	240.3	8.7%	10.0%
L&G - 5yr ILG	144.3	5.3%	5.0%	147.2	5.3%	5.0%
M&G - Bonds	180.2	6.6%	6.5%	179.2	6.5%	6.5%
Schroder - Property	294.1	10.7%	10.0%	325.9	11.8%	10.0%
M&G - Infrastructure Fund	39.2	1.4%	1.0%	28.7	1.0%	1.0%
UBS - Infrastructure	22.1	0.8%	1.0%	20.7	0.7%	1.0%
Adams Street - Private Equity	85.4	3.1%	2.8%	88.6	3.2%	2.8%
HarbourVest - Private Equity	69.8	2.5%	2.7%	79.3	2.9%	2.7%
M&G - UK Financing Fund	10.6	0.4%	1.0%	8.5	0.3%	1.0%
Cash account	25.3	0.9%	0.0%	54.6	2.0%	0.0%
Total	2,739.9	100.0%	100.0%	2,765.1	100.0%	100.0%

Set out below is the Fund's strategic target and actual allocations at the beginning and end of the 2015/16 financial year.



During the third quarter the Committee agreed to terminate the Lazard mandate, and the funds were reinvested equally between the pre-existing Legal and General and State Street passive equity mandates.

Investment performance

The Fund delivered an absolute return of 2.8% over the twelve month period to 31 March 2016, outperforming its customised benchmark by 0.9%. **Note 28 on page 54** gives further detail on the total fund performance.

Actual and benchmark performance for each of the Fund's mandates is provided in the table below, over 12 months 3 years and 10 years. Results are considered by the Investment Panel on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year			3 year (p.a.)			10 year (p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
L&G - Global Equities	-0.4%	-0.5%	0.1%	8.2%	8.2%	0.0%			
Longview - Global Equity	3.5%	-1.2%	4.8%	N/A	N/A	N/A			
State Street - Fundamental Indexation	-3.2%	-3.3%	0.2%	N/A	N/A	N/A			
L&G - UK Equities	-3.9%	-3.9%	0.1%	3.8%	3.7%	0.1%			
Newton - Absolute Return	1.4%	0.6%	0.8%	3.3%	0.6%	1.8%			
Ruffer - Absolute Return	-6.1%	0.6%	-6.6%	2.2%	0.6%	1.6%			
L&G - 5yr ILG	1.9%	1.8%	0.0%	N/A	N/A	N/A			
M&G - Bonds	-0.3%	-0.4%	0.1%	6.1%	5.8%	0.3%			
M&G - Absolute Return Bonds	0.4%	0.6%	-1.0%	2.4%	0.6%	1.8%			
Schroder - Property	10.9%	12.2%	-1.2%	14.0%	14.8%	-0.7%			
M&G - Infrastructure Fund	32.2%	4.5%	26.5%	20.6%	4.5%	15.4%			
UBS – Infrastructure	-0.1%	0.6%	-0.7%	-0.6%	0.6%	-1.1%			
Adams Street - Private Equity	12.3%	-0.6%	13.1%	14.4%	8.0%	5.9%			
HarbourVest - Private Equity	16.7%	-0.6%	17.5%	13.9%	8.0%	5.4%			
M&G - UK Financing Fund	4.4%	0.6%	3.8%	4.7%	0.6%	4.1%			
Cash account	1.4%	0.4%	1.0%	0.6%	0.4%	0.2%			

The Funding Strategy Statement dated March 2014 has been in force throughout the year to 31 March 2016.

Contribution rates payable by participating employers over the year to 31 March 2016 were set at the 2013 valuation in line with the principles summarised in the Funding Strategy Statement. 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 the 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 2016/17 year.

An analysis of fund assets as at the reporting date

	UK £m	Non-UK £m	Global £m	Total £m
Equities	359	327	870	1,556
Bonds	474	51	8	533
Property (direct holdings)	-	-	-	-
Alternatives	323	-	261	584
Cash and cash equivalents	63	16	8	87
Other	-	5	-	5
Total	1,219	399	1,147	2,765

An analysis of investment income accrued during the reporting period

	UK £000	Non-UK £000	Global £000	Total £000
Equities	1,515	9,019	11	10,545
Bonds	2,000	453	-	2,453
Property (direct holdings)	-	-	-	-
Alternatives	8,772	-	19,908	28,680
Cash and cash equivalents	246	172	-	418
Other	-	-	-	-
Total	12,533	9,644	19,919	42,096

In the above tables:

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

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

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

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

4. Administrative management performance

Key administration performance indicators

Performance Indicator	Target %	Achieved by Fund %
Calculation of spouses benefits within specification	100%	82%
Deferred benefit notifications within specified timescales	100%	91%
Transfers in request values within specified timescales	100%	96%
Transfers in request payment within specified timescales	100%	94%
Transfers out provide quote within specified timescale	100%	98%
Transfers out make payment within specified timescale	100%	94%
Refunds - within specified timescales	100%	98%
Payslips despatched as per specification	100%	100%
Payroll accuracy - as specified	100%	100%
Payment of lump sums within specification	100%	91%
Estimates provided within specified timescales	100%	83%

	2014/15	2015/16
Number Of Complaints	7	6

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund		Benchmark Unit Costs
	2014/15	2015/16	
Excluding investment management expenses	25.28	26.36	29.51
Including investment management expenses	153.09	196.48	171.69

Key staffing indicators

At 31 March 2016 staffing numbers within Orbis – Business Operations were 14.8 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,562.

With an average cases per member of staff of 1:468

Membership

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

Note 27 to the accounts provides 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	72	19	91
Admitted body	37	20	57
Total	109	39	148

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2015/16

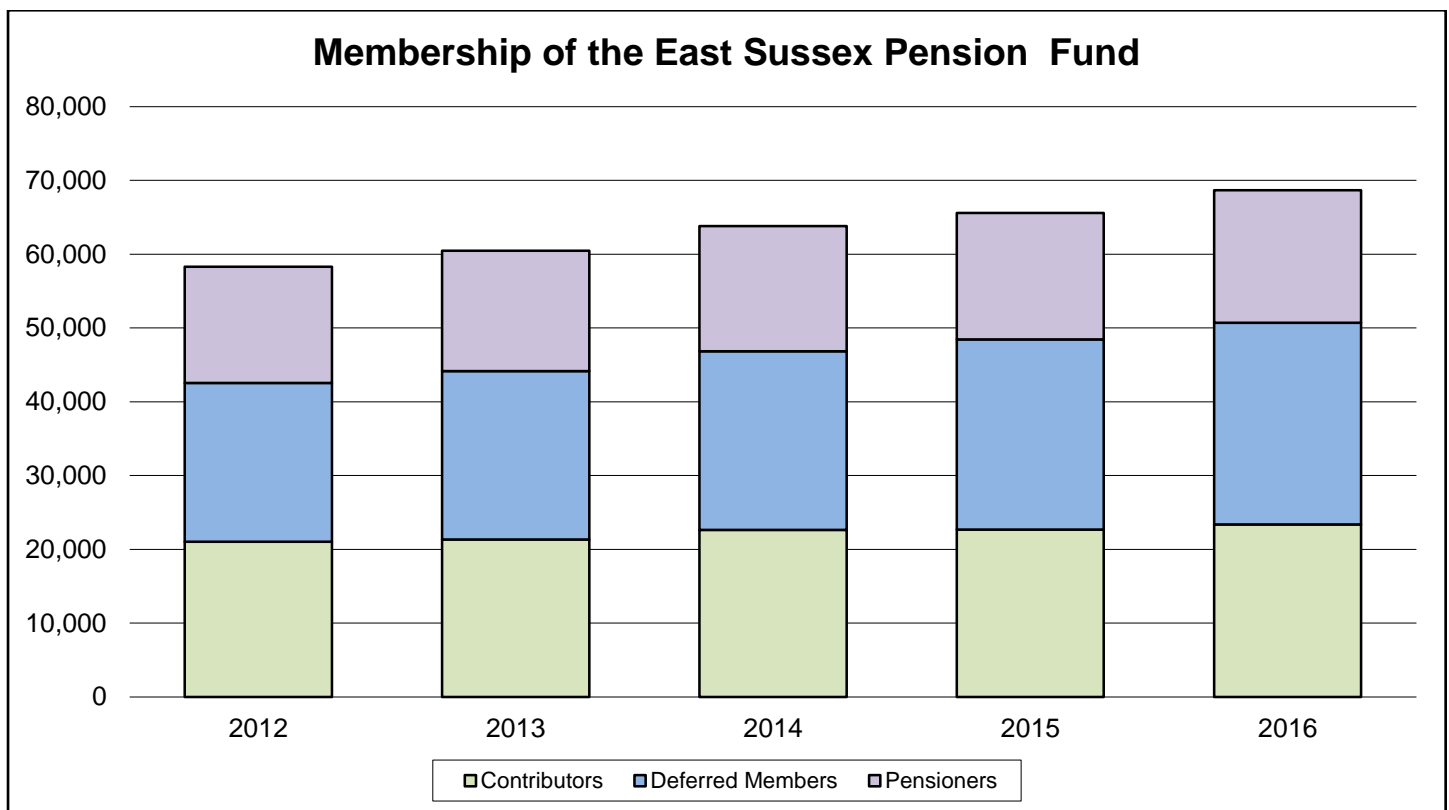
During 2014/15 the number of contributing members within the Pension Fund increased by 2.9% from 22,688 to 23,367. In summary, the number of members contributing to the Scheme is:

	2014/15	2015/16
East Sussex County Council	8,970	8,789
Scheduled Bodies	13,307	14,022
Admitted Bodies	411	556
Total	22,688	23,367

The number of pensioners in receipt of payments from the Fund increased from 17,117 to 17,891 (or 4.5%).

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

	March 2012	March 2013	March 2014	March 2015	March 2016
Active Members (contributors)	21,050	21,347	22,649	22,688	23,367
Pensioners (inc dependants)	15,738	16,276	16,993	17,117	17,942
Deferred Members	21,504	22,822	24,173	25,757	27,344



5. Scheme administration report

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

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

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

The Pensions Administration Team at Orbis comprises of 14.8 full time equivalent staff who provide a wide range of services including:

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

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

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

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

Internal Dispute Resolution Procedure

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

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

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

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

	2015/16
First Stage	2
Upheld	-
Declined	2
Ongoing	-
Second Stage	1
Upheld	-
Declined	1
Ongoing	-

6. Actuarial report on funds

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

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

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

The latest actuarial valuation of the fund was carried out as at 31 March 2013 and set the employer contribution rates from 1 April 2014 to 31 March 2017. The full valuation report can be downloaded from the Fund's website and is discussed in some detail in the Funding Strategy Statement. The actuary has also provided a report on the Fund which can be seen in Note 19 to the Pension Fund Accounts on page 47.

The common contribution rate for employers at the 2013 valuation was 27.1% (Future Service Rate 19.4% plus Past Service Adjustment 7.7%) (2010: 20.4%). Average employee contributions were assumed to be 6.3% (2010: 6.6%).

Between the 2010 and 2013 valuation the funding position deteriorated:

- **Assets:** Although the Fund is not 100% funded on the Actuary's assumptions, the Fund exceeded its asset performance objectives over the period by £59m.
- **Liabilities:** When calculating the Fund's liabilities the Actuary will typically try to forecast when benefits will come into payment and what form these will take (demographic assumptions) and try to anticipate the size of these benefits (financial assumptions). A big driver in these calculations is the estimate of how much all these benefits will cost the Fund in today's money. This is based on government gilt yields, these have fallen over the three year period since the last valuation, pushing up the cost of liabilities by £319m having a significant impact on the total funding level.
- **Active membership profile:** The Fund membership is gradually maturing, meaning that the burden on contributing members of meeting the cost of the Fund's liabilities is becoming progressively greater. However, membership experience, such as actual pay awards versus expected pay awards have served to decrease the deficit at this valuation by around £13m.

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

The next actuarial valuation will be carried out as at 31 March 2016.

7. Governance Arrangements

Pensions Committee

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

Pension Board

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

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

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

To achieve these objectives:-

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

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

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

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

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

And have knowledge and understanding of:

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

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

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

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

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

The Knowledge and Skills Framework

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

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

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

Scheme Employers now have a greater need –

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

Application of the training strategy

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

Purpose of training

The purpose of training is to:

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

Two training sessions were held in 2015/16 and it is proposed that further joint sessions for the Board and Committee will be held in 2016/17.

Summary

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

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

Business Plan

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administer the Pension Fund for approximately 69,000 individuals employed by 109 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

This Business Plan (BP) provides an overview of the Fund's key objectives for 2015/16. The key high level objectives of the fund are summarised as:

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

A bespoke training strategy and plan for this administration will be added to the BP after agreement by Members at the Pension Committee in July.

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

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

Committee membership and attendance

During the year ended 31 March 2016 there were 7 meetings of the Pension Committee, 4 meetings of the Pension Board and one annual employers forum.

Member attendance at committee meetings during 2015/16

2015/16 Pension Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Richard Stogdon (Chairman)	7
	David Tutt	5
	Frank Carstairs	6
	Godfrey Daniel	7
	Bob Standley	7

Member attendance at Board meetings during 2015/16

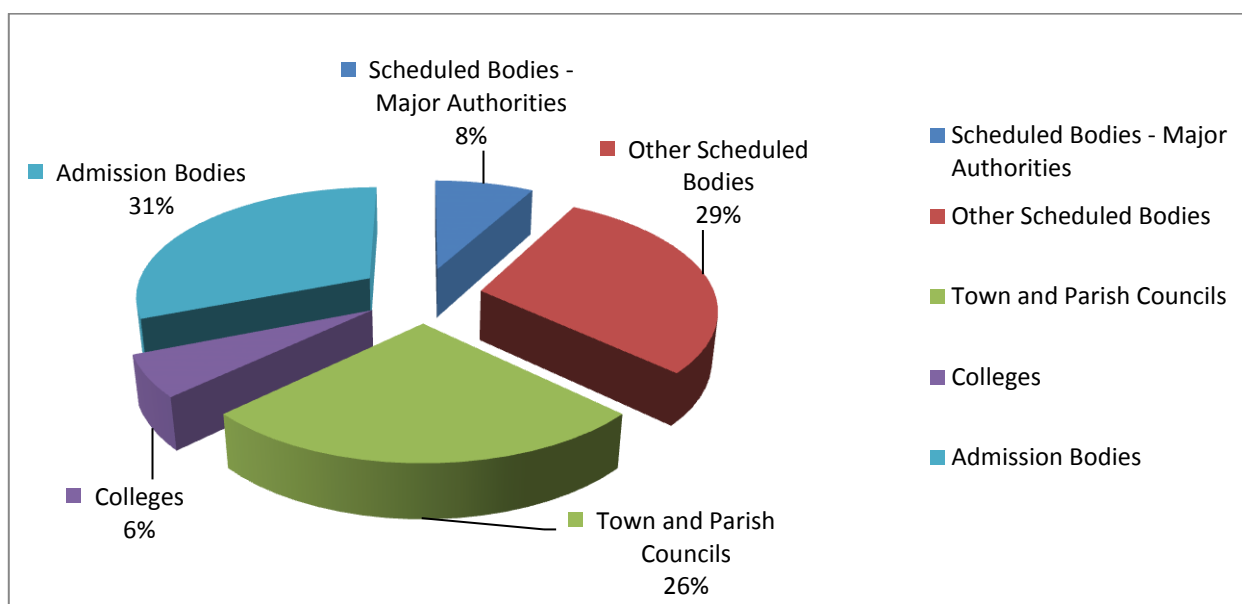
2015/16 Pension Board Members		
		Nos. of meetings attended
Independent Chaiman:	Richard Harbord	4
Employer Representative:		
Brighton & Hove City Council	Councillor Kevin Allen	4
Districts & Borough Councils	Councillor Brian Redman	4
Educational Bodies	Sue McHugh	3
Employee Representative:		
Active & Deferred	Angie Embury	4
Active & Deferred	David Zwirek	4
Pensioners	Tony Watson	2

Employer statistics by Employer type

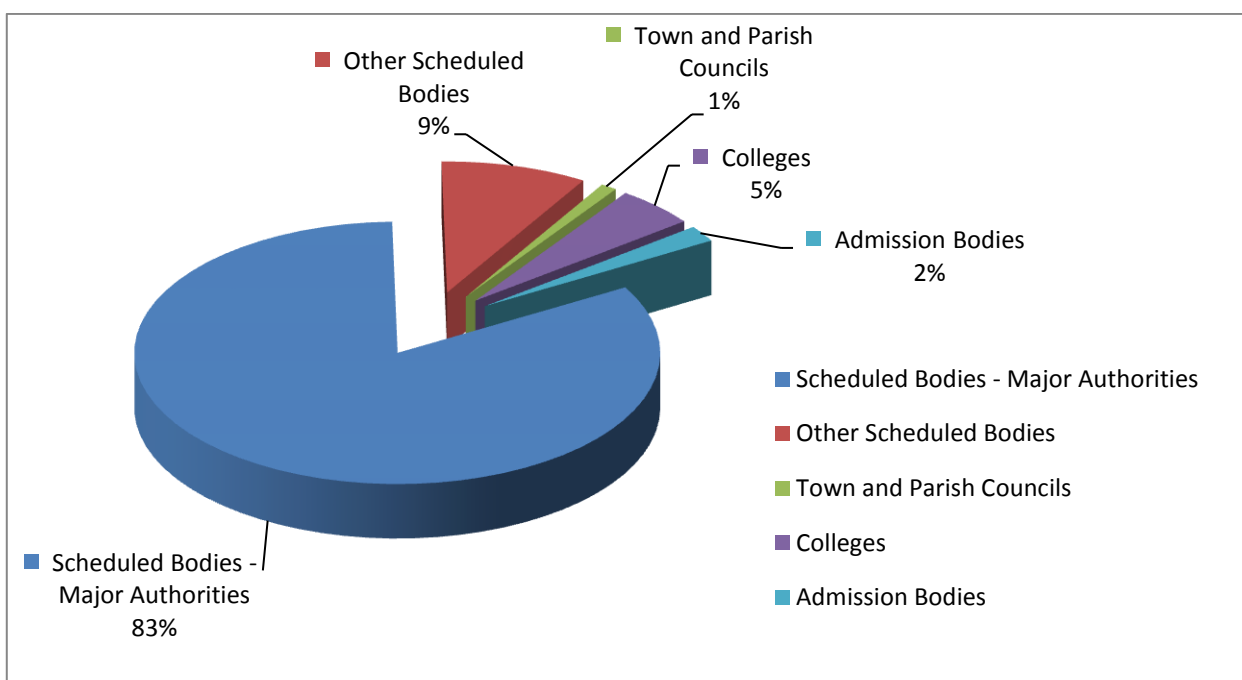
Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies - Major Authorities	8%	83%	9
Other Scheduled Bodies	29%	9%	32
Town and Parish Councils	26%	1%	28
Colleges	6%	5%	7
Admission Bodies	31%	2%	33

Note - all percentages have been rounded to the nearest whole number

Number of Employers as a percentage of total



Percentage of total fund membership



Regulatory Framework

The Annual Report

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

- The management and financial performance during the year;
- The authority's investment policy and a review of performance of the fund assets;
- Administration arrangements;
- A statement by the Actuary of the assets, liabilities and funding level at the most recent valuation;

- The current version of the Governance Compliance Statement;
- The Fund Account and Net Asset Statement and supporting notes and disclosures in accordance with proper practices;
- The current version of the Statement of Investment Principles;
- The current version of the Communications Statement;
- The current version of the Funding Strategy Statement; and
- Other material considered appropriate.

The Scheme and benefits available

The Local Government Pension Scheme is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. 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.

Pensions and entitlements are still fully protected in law. The Scheme is open to all employees under age 75, whether they work full-time or part-time. East Sussex County Council automatically enrolls all employees into the Fund, as long as they have a contract of employment of more than three months duration. Employees with a contract of employment for less than three months may now join the LGPS upon application. All members of the scheme can choose to leave at any time.

8. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

2014/15			2015/16	
£000	£000	Notes	£000	£000
		Dealings with members, employers and others directly involved in the fund		
		Contributions	7	
(87,237)		From Employers		(92,259)
(26,761)		From Members		(27,904)
	(113,998)			(120,163)
(5,592)		Transfers in from other pension funds	8	(3,657)
(119,590)				
111,993		Benefits	9	118,469
98,183		Payments to and on account of leavers	10	4,940
210,176				123,409
	90,586	Net (additions)/withdrawals from dealings with members		(411)
	10,037	Management expenses	11	13,465
		Returns on investments		
(26,856)		Investment income	12	(42,096)
621		Taxes on income	13	506
(341,397)		Profit and losses on disposal of investments and changes in the market value of investments	15a	3,719
(367,632)		Net return on investments		(37,871)
(267,009)		Net increase in fund during the year		(24,817)
(2,479,540)		Add opening net assets of the scheme		(2,746,549)
(2,746,549)		Closing net assets of the scheme		(2,771,366)

b. Net Assets Statement for the year ended 31 March 2015

31 March 2015 £000		Notes	31 March 2016 £000
2,667,422	Investment assets	15	2,684,489
3,758	Other Investment balances	20	3,031
81,220	Cash deposits	15	79,059
2,752,400			2,766,579
(12,486)	Investment liabilities	21	(1,447)
10,570	Current assets	20	10,922
(3,935)	Current liabilities	21	(4,688)
2,746,549	Net assets of the fund available to fund benefits at the year end.		2,771,366

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 19](#).

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 2016 and of the movements for the year then ended.

Marion Kelly

Chief Finance Officer

Business Services Department

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2015

1: Description of fund

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

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2014/15 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 2009 (as amended).

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

b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

There are 111 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2015	31 March 2016
Number of employers with active members	106	109
Number of employees		
County Council	8,993	8,789
Other employees	13,695	14,578
Total	22,688	23,367
Number of pensioners		
County Council	7,671	7,987
Other employers	9,446	9,955
Total	17,117	17,942
Deferred pensioners		
County Council	12,360	13,062
Other employers	13,397	14,282
Total	25,757	27,344

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 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 12.9% to 31.0% of pensionable pay.

d) Benefits

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

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

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

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

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

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

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

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

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

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

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

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2015/16, £1.0m of fees is based on such estimates (2014/15: £1.3m).

Net assets statement

g) Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. 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.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the Custodian using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

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

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

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 section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2012. The value of unquoted private equities at 31 March 2016 was £167.4 million (£153.9 million at 31 March 2015).

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 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 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

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

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

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

The items in the Net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2013 Valuation the actuary advised that:</p> <ul style="list-style-type: none"> • A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £253 million (9%). • A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £78 million (3%). • A 0.5% increase in the assumed prices inflation (increase in pensions) would increase the value of liabilities by approximately £197 million (7%). • A 1 year increase in assumed life expectancy would increase the liability by approximately £87 million (3%).
Debtors	At 31 March 2016, the fund had a balance of sundry debtors of £1.1 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £167.4 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

6: Events after the balance sheet date

There have been no events since 31 March 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2014/15 £000	2015/16 £000
By category		
Employee's contributions	26,761	27,904
Employer's contributions		
Normal contributions	83,555	86,306
Deficit recovery contributions	3,104	5,085
Augmentation contributions	578	868
Total	113,998	120,163
By authority		
Scheduled bodies	62,033	71,816
Admitted bodies	9,620	5,230
Administrative Authority	42,345	43,117
Total	113,998	120,163

8: Transfers in from other pension funds

	2014/15 £000	2015/16 £000
Group transfers	719	-
Individual transfers	4,873	3,657
Total	5,592	3,657

9: Benefits payable

	2014/15 £000	2015/16 £000
By category		
Pensions	95,040	98,309
Commutation and lump sum retirement benefits	15,584	17,025
Lump sum death benefits	1,369	3,135
Total	111,993	118,469
By authority		
Scheduled bodies	61,933	67,780
Admitted bodies	3,962	3,384
Administrative Authority	46,098	47,305
Total	111,993	118,469

10: Payments to and on account of leavers

	2014/15 £000	2015/16 £000
Refunds to members leaving service	160	231
Group transfers*	95,097	759
Individual transfers	2,926	3,950
Total	98,183	4,940

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2015/16

During 2014/15 the Ministry of Justice (MoJ) merged the 35 probation trust pension funds into a single fund hosted within the Local Government Pension Scheme. The MoJ appointed the Greater Manchester Pension Fund (GMPF) to manage the assets and liabilities of these 35 trusts. As part of this merger the Surrey and Sussex Probation Board's assets and liabilities were transferred to the GMPF the value of this group transfer was £95m.

11: Management expenses

	2014/15	2015/16
	£000	£000
Administrative costs	1,085	1,065
Oversight and governance costs	572	741
Investment management expenses	8,380	11,659
Total	10,037	13,465

The investment management expenses above includes £482.2k (£273.4k 2014/15) in respect of transaction costs.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a).

The external auditor appointed to audit the fund is KPMG their fee for 2015/16 was £27k (£27k 2014/15) and this is included within oversight and governance costs. Fees include only the statutory audit of the fund and no non-audit services have been provided.

12: Investment income

	2014/15	2015/16
	£000	£000
Fixed interest securities	1,543	1,653
Index linked securities	594	800
Equity dividends	12,352	10,528
Private equity income	7	18
Pooled property investments	9,149	8,772
Pooled investments - unit trusts and other managed funds	2,672	19,885
Interest on cash deposits	524	418
Class Actions	15	22
Total	26,856	42,096

13: Taxes on income

	2014/15	2015/16
	£000	£000
Withholding tax – equities	(382)	(303)
Withholding tax – pooled	(239)	(203)
Total	(621)	(506)

14: Investment expenses

	2014/15	2015/16
	£000	£000
Management fees	8,277	11,508*
Custody fees	103	151
Total	8,380	11,659

*Includes fees deducted at source

During the year, the Pension Fund incurred fees of £2.4m (£2.4m in 2014/15) on its private equity investments, fees of £0.7m (£0.8m in 2014/15) on its infrastructure investments and fees of £0.4m (£0.3m in 2014/15) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund and have been included in the 2015/16 accounts.

15: Investments

	2014/15	2015/16
	£000	£000
Investment assets		
Fixed interest securities	180,186	191,721
Index Linked	245,968	237,433
Equities	692,429	290,442
Pooled Investments	1,033,431	1,420,022
Pooled property investments	287,569	322,775
Private equity/infrastructure	215,199	216,898
Commodities	6,842	3,613
Multi Asset	5,798	1,585
Derivative contracts:		
Forward Currency Contracts	207	1,656
	2,667,629	2,686,145
Cash deposits with Custodian	81,220	79,059
Other Investment balances (Note 20)	3,551	1,375
Total investment assets	2,752,400	2,766,579
Investment Liabilities (Note 21)	(10,973)	(1,438)
Derivative contracts:		
Forward Currency Contracts	(1,513)	(9)
Total Investment Liabilities	(12,486)	(1,447)
Net investment assets	2,739,914	2,765,132

15a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2015	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 2016
	£000	£000	£000	£000	£000
Fixed interest securities	180,186	13,784	(649)	(1,600)	191,721
Index Linked	245,968	6,582	(20,709)	5,592	237,433
Equities	692,429	317,630	(685,770)	(33,847)	290,442
Pooled investments	1,033,431	388,907	(2,495)	179	1,420,022
Pooled property investments	287,569	19,969	(8,819)	24,056	322,775
Private equity/infrastructure	215,199	27,246	(38,732)	13,185	216,898
Commodities	6,842	3,080	(5,788)	(521)	3,613
Multi Asset	5,798	2,449	(1,338)	(5,324)	1,585
	2,667,422	779,647	(764,300)	1,720	2,684,489
Derivative contracts					
■ Forward currency contracts	(1,306)	15,692	(6,728)	(6,011)	1,647
	2,666,116	795,339	(771,028)	(4,291)	2,686,136
Other investment balances:					
■ Cash deposits	81,220			572	79,059
■ Other Investment Balances	3,551				1,375
■ Investment Liabilities	(10,973)				(1,438)
Net investment assets	2,739,914			(3,719)	2,765,132

	Market value 1 April 2014	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 2015
	£000	£000	£000	£000	£000
Fixed interest securities	162,880	37,219	(37,867)	17,954	180,186
Index Linked	58,659	195,656	(28,694)	20,347	245,968
Equities	596,116	120,689	(170,522)	146,146	692,429
Pooled investments	1,139,887	2,072	(198,456)	89,928	1,033,431
Pooled property investments	244,451	22,730	(14,195)	34,583	287,569
Private equity/infrastructure	181,777	29,316	(30,593)	34,699	215,199
Commodities	6,631	-	-	211	6,842
Multi Asset	3,228	6,263	-	(3,693)	5,798
	2,393,629	413,945	(480,327)	340,175	2,667,422
Derivative contracts					
■ Forward currency contracts	305	7,886	(9,824)	327	(1,306)
	2,393,934	421,831	(490,151)	340,502	2,666,116
Other investment balances:					
■ Cash deposits	80,934			895	81,220
■ Other Investment Balances	2,154				3,551
■ Investment Liabilities	(2,327)				(10,973)
Net investment assets	2,474,695			341,397	2,739,914

Transaction costs incurred during the year total £482.2k (£273k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

15b: Analysis of investments (excluding derivative contracts)

	2014/15 £000	2015/16 £000
Fixed interest securities		
UK		
Corporate quoted	180,186	191,721
	180,186	191,721
Index linked Securities		
UK		
Public sector quoted	209,174	198,883
Overseas		
Public sector quoted	36,794	38,550
	245,968	237,433
Equities		
UK		
Quoted	87,439	45,010
Unquoted	10,603	8,500
Overseas		
Quoted	594,387	236,932
	692,429	290,442
Pooled funds - additional analysis		
UK		
Unit trusts	538,178	549,263
Overseas		
Unit trusts	495,253	870,759
	1,033,431	1,420,022
Pooled property investments	287,569	322,775
Private equity/infrastructure	215,199	216,898
Commodities	6,842	3,613
Multi Asset	5,798	1,585
	515,408	544,871
	2,667,422	2,684,489

15c: Investments analysed by fund manager

	Market value 31 March 2015		Market value 31 March 2016	
	£000	%	£000	%
Prudential M&G	112,502	4.1%	111,779	4.0%
East Sussex Pension Fund Cash	25,337	0.9%	54,563	2.0%
UBS Infrastructure Fund	22,081	0.8%	20,726	0.7%
Prudential Infracapital	39,237	1.4%	28,728	1.0%
Legal & General	631,265	23.1%	822,218	29.8%
M&G UK Financing Fund	10,603	0.4%	8,500	0.3%
Schroders Property	294,110	10.7%	325,867	11.8%
Harbourvest Strategies	69,800	2.5%	79,284	2.9%
Adams St Partners	85,379	3.1%	88,603	3.2%
M&G Absolute Return Bonds	67,699	2.5%	67,434	2.4%
Ruffer LLP	256,733	9.4%	240,264	8.7%
Lazard Asset Management	410,206	15.0%	-	0.0%
Newton Investment Management	249,719	9.1%	253,240	9.2%
Longview Partners	174,558	6.4%	180,739	6.5%
State Street Global Advisers	290,685	10.6%	483,187	17.5%
	2,739,914		2,765,132	

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

Security	Market Value 31 March 2015 £000	% of total fund	Market value 31 March 2016 £000	% of total fund
State Street Fundamental Index	290,724	10.6%	483,244	17.5%
L&G UK Equity Index	270,937	9.9%	260,786	9.4%
Newton Real Return (Pooled Fund)	250,075	9.1%	253,601	9.2%
L&G North America Equity Index	116,763	4.3%	230,151	8.3%
L&G Over 5 year Index Gilt Linked	144,327	5.3%	147,197	5.3%

15c: Stock lending

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

16: 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 may be 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. During the year the fund bought equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Greater than 2 months	GBP	942	EUR	(1,197)	-	(9)
Greater than 2 months	GBP	69,410	USD	(97,790)	1,389	-
Greater than 2 months	GBP	32,573	JPY	(5,209,006)	267	-
					1,656	(9)
Net forward currency contracts at 31 March 2016						1,647
Prior year comparative						
Open forward currency contracts at 31 March 2015					207	(1,513)
Net forward currency contracts at 31 March 2015						(1,306)

17: Financial instruments**17a: Classification of financial instruments**

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

31 March 2015			31 March 2016		
Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial Assets					
180,186	-	-	191,721	-	-
245,968	-	-	237,433	-	-
692,429	-	-	290,442	-	-
1,033,431	-	-	1,420,022	-	-
287,569	-	-	322,775	-	-
215,199	-	-	216,898	-	-
6,842	-	-	3,613	-	-
5,798	-	-	1,585	-	-
207	-	-	1,656	-	-
-	81,220	-	-	79,059	-
3,551	-	-	1,375	-	-
-	10,570	-	-	10,922	-
2,671,180	91,790	-	2,687,520	89,981	-
Financial liabilities					
(1,513)	-	-	(9)	-	-
(10,973)	-	-	(1,438)	-	-
-	-	(3,935)	-	-	(4,688)
(12,486)	-	(3,935)	(1,447)	-	(4,688)
2,658,694	91,790	(3,935)	2,686,073	89,981	(4,688)

17b: Net gains and losses on financial instruments

	31 March 2015 £000	31 March 2016 £000
Financial assets		
Fair value through profit and loss	340,180	1,620
Loans and receivables	890	673
Financial liabilities		
Fair value through profit and loss	327	(6,012)
Total	341,397	(3,719)

17c: Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 2015		31 March 2016	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Fair value through profit and loss	2,671,180	2,671,180	2,687,520	2,687,520
Loans and receivables	91,790	91,790	89,981	89,981
Total financial assets	2,762,970	2,762,970	2,777,501	2,777,501
Financial liabilities				
Fair value through profit and loss	(12,486)	(12,486)	(1,447)	(1,447)
Financial liabilities at amortised cost	(3,935)	(3,935)	(4,688)	(4,688)
Total financial liabilities	(16,421)	(16,421)	(6,135)	(6,135)

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

17d: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

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

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

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

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

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which East Sussex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,837,623	281,259	568,638	2,687,520
Loans and receivables	78,254	11,727	-	89,981
Total financial assets	1,915,877	292,986	568,638	2,777,501
Financial liabilities				
Financial liabilities at fair value through profit and loss	99,831	(101,278)	-	(1,447)
Financial liabilities at amortised cost	(4,688)	-	-	(4,688)
Total financial liabilities	95,143	(101,278)	-	(6,135)
Net financial assets	2,011,020	191,708	568,638	2,771,366

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,764,750	294,505	611,925	2,671,180
Loans and receivables	91,790	-	-	91,790
Total financial assets	1,856,540	294,505	611,925	2,762,970
Financial liabilities				
Financial liabilities at fair value through profit and loss	(12,486)	-	-	(12,486)
Financial liabilities at amortised cost	(3,935)	-	-	(3,935)
Total financial liabilities	(16,421)	-	-	(16,421)
Net financial assets	1,840,119	294,505	611,925	2,746,549

18: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	8%
Other Bonds	9%
UK equities	17%
Global equities	20%
Pooled property investments	15%
Private Equity	29%
Infrastructure funds	20%
Absolute Return	13%
Cash	1%

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.

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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 2016 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Cash and Cash Equivalents	54,226	542	54,768	53,684
Investment portfolio assets:				
Index Linked	147,197	11,776	158,973	135,421
Other Bonds	179,213	16,129	195,342	163,084
UK equities	394,039	66,987	461,026	327,052
Global equities	953,271	190,654	1,143,925	762,617
Pooled property investments	325,731	48,860	374,591	276,871
Private Equity	167,888	48,687	216,575	119,201
Infrastructure funds	49,454	9,891	59,345	39,563
Absolute Return	491,108	63,844	554,952	427,264
Net derivative assets	1,647	-	1,647	1,647
Investment income due	1,358	-	1,358	1,358
Amounts receivable for sales	-	-	-	-
Amounts payable for purchases	-	-	-	-
Total assets available to pay benefits	2,765,132	457,370	3,222,502	2,307,762

Asset Type	Values at 31 March 2015 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Cash and Cash Equivalents	81,220	812	82,032	80,408
Investment portfolio assets:				
Index Linked Bonds	245,968	12,298	258,266	233,670
Other Bonds	180,186	18,019	198,205	162,167
UK equities	636,219	108,157	744,376	528,062
Overseas equities	594,387	118,877	713,264	475,510
Overseas equity unit trusts	495,254	99,051	594,305	396,203
Pooled property investments	287,569	43,135	330,704	244,434
Private equity	153,880	44,625	198,505	109,255
Infrastructure funds	61,319	9,811	71,130	51,508
Commodities	6,842	958	7,800	5,884
Multi Asset	5,798	-	5,798	5,798
Net derivative assets	(1,306)	-	(1,306)	(1,306)
Investment income due	2,010	-	2,010	2,010
Amounts receivable for sales	1,526	-	1,526	1,526
Amounts payable for purchases	(9,132)	-	(9,132)	(9,132)
Total assets available to pay benefits	2,741,740	455,743	3,197,483	2,285,997

Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2015	As at 31 March 2016
	£000	£000
Cash with Custodian	81,220	79,059
Cash balances	(246)	(369)
Fixed interest securities	180,186	191,721
Total	261,160	270,411

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. An 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 2016	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	79,059	-	79,059	79,059
Cash balances	(369)	-	(369)	(369)
Fixed interest securities	191,721	1,917	193,638	189,804
Total change in assets available	270,411	1,917	272,328	268,494

Asset type	Carrying amount as at 31 March 2015	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	81,220	-	81,220	81,220
Cash balances	(246)	-	(246)	(246)
Fixed interest securities	180,186	1,802	181,988	178,384
Total change in assets available	261,160	1,802	262,962	259,358

Income Source	Carrying amount as at 31 March 2016	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits/cash and cash equivalents	418	787	1,205	(369)
Fixed interest securities	1,641	-	1,641	1,641
Total change in assets available	2,059	787	2,846	1,272

Income Source	Carrying amount as at 31 March 2016	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits/cash and cash equivalents	524	810	1,334	(286)
Fixed interest securities	1,537	-	1,537	1,537
Total change in assets available	2,061	810	2,871	1,251

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

Currency risk

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

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

The following table summarises the fund's currency exposure as at 31 March 2016 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2015 £000	Asset value as at 31 March 2016 £000
Overseas index linked	36,794	38,550
Overseas quoted securities	594,387	236,931
Overseas unit trusts	495,253	870,760
Total overseas assets	1,126,434	1,146,241

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

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

A 13% strengthening/weakening of the UK pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2015 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas Index Linked	38,550	5,012	43,562	33,538
Overseas quoted securities	236,931	30,801	267,732	206,130
Overseas unit trusts	870,760	113,199	983,959	757,561
Total change in assets available	1,146,241	149,012	1,295,253	997,229

Currency exposure - asset type	Values at 31 March 2015 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas Index Linked	36,794	4,783	41,577	32,011
Overseas quoted securities	594,387	77,270	671,657	517,117
Overseas unit trusts	495,253	64,383	559,636	430,870
Total change in assets available	1,126,434	146,436	1,272,870	979,998

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 receipt 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 2015 £000	Asset value as at 31 March 2016 £000
Money market funds		
NTGI Global Cash Fund	71,519	65,378
Short term bills and notes		
UK Treasury bills	-	11,588
Bank deposit accounts		
Non NT cash accounts	6,000	-
Bank current accounts		
NT custody cash accounts	3,701	2,093
Total overseas assets	81,220	79,059

c) Liquidity risk

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

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

All financial liabilities at 31 March 2016 are due within one year.

Refinancing risk

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

19: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2013. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund which together with investment growth will be sufficient to meet the fund's future liabilities. The 2013 valuation shows the fund has a past service deficit, being 81% funded in respect of past liabilities. This compares with 87% funded at the 2010 valuation.

East Sussex Pension Fund ("the Fund")**Actuarial Statement for 2015/16**

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

to ensure that employer contribution rates are reasonably stable where appropriate;

to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,344 million, were sufficient to meet 81% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £541 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2014.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	4.3%	1.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Figures assume members aged 45 as at the 2013 valuation.

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

20: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund, which is in the remainder of this note.

Present value of Promised Retirement Benefits

Present value of Promised Retirement Benefits (£m)	Year ended	
	31 March 2016	31 March 2015
Active members	1,858	1,893
Deferred pensions	645	732
Pensioners	1,269	1,405
Total	3,385	4,031

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £373m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2016 % p.a.	31 Mar 2015 % p.a.
Inflation / Pension Increase Rate	2.2%	2.4%
Salary Increase rate	4.2%	4.3%
Discount Rate	3.5%	3.2%

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to last year's IAS26 disclosure for the Fund.

Commutation assumption

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

Sensitivity Analysis

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

Change in assumptions for the year ended 31 March 2016	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	11%	398
1 year increase in member life expectancy	3%	113
0.5% increase in salary increase rate	3%	128
0.5% increase in pensions increase rate	7%	263

21: Current assets

	31 March 2015 £000	31 March 2016 £000
Other Investment Balances		
Sales inc Currency	1,734	1,656
Investment Income Due	1,685	861
Recoverable Taxes	324	497
Managers Fee Rebate	15	17
Total	3,758	3,031

	31 March 2015 £000	31 March 2016 £000
Current Assets		
Contributions receivable from employers and employees	8,243	9,845
Sundry Debtors	2,327	1,077
Total	10,570	10,922

22: Current liabilities

	31 March 2015 £000	31 March 2016 £000
Investment Liabilities		
Purchases including currency	(10,645)	(9)
Managers Fees	(1,841)	(1,438)
Total	(12,486)	(1,447)

	31 March 2015 £000	31 March 2016 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(988)	(1,415)
Cash	(246)	(369)
Professional Fees	(21)	(84)
Administration Recharge	(1,173)	(1,038)
Sundry Creditors	(1,507)	(1,782)
Total	(3,935)	(4,688)

23: Additional voluntary contributions

	Market value 31 March 2015 £000	Market value 31 March 2016 £000
Prudential	14,992	14,691

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2015/16 some members of the pension scheme paid voluntary contributions and transfers in of £1.686m (£1.512m 2014/15) to Prudential to buy extra pension benefits when they retire. £2.196m was disinvested from the AVC provider in 2015/16 (£1.925m 2014/15). 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: 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 fund committee is required to declare their interests at each meeting.

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

The Council incurred costs in administering the fund and charged £1.0m to the fund in 2015/16 (£1.2m in 2014/15). The Council's contribution to the fund was £43.1m in 2015/16 (£42.3m in 2014/15). All amounts due to the fund were paid in the year. At 31 March 2016 the Pension Fund bank account was overdrawn by £0.369m. The average invested throughout the year was £4.6m (£2.7m in 2014/15) and earned interest of £0.033m in 2015/16 (£0.017m in 2014/15).

Key management personnel

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

25: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2016 totalled £87.3m (31 March 2015: £115.3m).

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 2016 the unfunded commitment was £84.0m for private equity, and £3.4m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2016.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. These are not sufficient to meet their deficit of approximately £3.6 million. The Fund is engaged in active dialogue with the liquidators for Sussex Careers Limited.

26: Contingent assets

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

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

At 31 March 2016 the Fund has invested £223.1 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £55.2 million in the infrastructure funds managed by UBS and M&G.

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.

27: Impairment losses

During 2015/16 the fund has not recognised any impairment losses.

28: East Sussex Pension Fund – Active Participating Employers

Employer	Contribution Rate					
	2014/15		2015/16		2016/17	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	18.5%	-	19.0%	-	19.3%	249,000
East Sussex County Council	19.3%	424,000	19.3%	1,179,000	19.3%	1,999,000
East Sussex Fire & Rescue Service	18.9%	-	19.4%	-	19.9%	-
Eastbourne Borough Council	19.1%	264,000	19.1%	314,000	19.1%	367,000
Hastings Borough Council	20.6%	144,000	20.6%	194,300	20.6%	248,800
Lewes District Council	20.5%	46,500	20.5%	97,000	20.5%	151,700
Rother District Council	19.7%	307,100	19.7%	355,900	19.7%	408,300
University of Brighton	18.7%	-	18.7%	-	18.7%	-
Wealden District Council	18.0%	409,800	18.5%	427,400	19.0%	445,700
Other Scheduled Bodies						
ARK Schools Hastings	19.6%	5,960	19.6%	1,040	19.6%	-
Aurora Academies Trust	19.9%	10,600	19.9%	16,600	19.9%	18,500
Beacon Academy	20.6%	-	20.7%	4,400	20.7%	10,400
Bexhill Academy	20.7%	28,800	20.7%	25,300	20.7%	24,500
BHCC Bilingual Primary School	12.9%	5,400	12.9%	5,300	12.9%	5,200
Brighton Aldridge Community Academy	17.9%	-	18.4%	-	18.5%	4,400
Cavendish Academy	18.2%	22,300	18.2%	20,200	18.2%	17,900

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Employer	Contribution Rate					
	2014/15		2015/16		2016/17	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
City Academy Whitehawk	21.6%	1,590	21.6%	280	21.6%	-
Diocese of Chichester Academy Trust	26.4%	-	26.4%	-	26.4%	-
Eastbourne Academy	19.4%	-	19.9%	-	19.9%	4,700
Eastbourne Homes Ltd	17.5%	-	18.0%	-	18.5%	-
Gildredge House Free School	16.6%	7,200	16.6%	6,700	16.6%	6,200
Glyne Academy	23.4%	-	23.4%	-	23.4%	-
Hailsham Academy	17.3%	23,800	17.3%	20,800	17.3%	17,600
Hailsham Primary Academy	-	-	22.0%	-	22.0%	-
King Church of England Free School	13.7%	980	13.7%	960	13.7%	930
Marshlands Academy	18.9%	2,200	18.9%	2,300	18.9%	2,400
Newhaven Primary Academy	-	-	22.0%	-	22.0%	-
Ore Village Primary Academy	16.6%	7,510	16.6%	6,540	16.6%	5,470
Pebsham Academy	17.2%	4,300	17.2%	3,500	17.2%	2,700
Portslade Aldridge Community Academy	18.2%	1,100	18.2%	6,600	18.2%	12,700
Ratton Academy	20.6%	-	21.1%	-	21.6%	-
Ringmer Academy	18.8%	-	19.3%	-	19.8%	-
Rye Multi Academies Trust	24.0%	-	23.5%	-	23.0%	-
Seaford Academy	21.6%	12,300	21.6%	9,100	21.6%	6,300
Seahaven Academy	19.3%	5,800	19.3%	6,100	19.3%	6,400
Surrey & Sussex Probation Board	18.1%	62,000	-	-	-	-
The Hastings Academies Trust	18.6%	-	19.1%	-	19.6%	-
The SABDEN Multi Academy Trust	-	-	25.6%	-	25.6%	-
Torfield & Saxon Mount Academy Trust	20.6%	-	21.1%	-	21.6%	-
UTC@ Harbourside	-	-	22.0%	-	22.0%	-
White House Academy	16.0%	1,600	16.0%	1,700	16.0%	1,700
William Parker Academy	19.6%	5,120	19.6%	-	19.6%	-
Town and Parish Councils (pool)						
Battle Town Council	20.1%	-	20.6%	-	21.1%	-
Chailey Parish Council	20.1%	-	20.6%	-	21.1%	-
Chiddingly Parish Council	20.1%	-	20.6%	-	21.1%	-
Conservators of Ashdown Forest	20.1%	-	20.6%	-	21.1%	-
Crowborough Town Council	20.1%	-	20.6%	-	21.1%	-
Ewhurst Parish Council	20.1%	-	20.6%	-	21.1%	-
Fletching Parish Council	20.1%	-	20.6%	-	21.1%	-
Forest Row Parish Council	20.1%	-	20.6%	-	21.1%	-
Hailsham Town Council	20.1%	-	20.6%	-	21.1%	-
Hartfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Heathfield & Waldron Parish Council	20.1%	-	20.6%	-	21.1%	-
Hurst Green Parish Council	20.1%	-	20.6%	-	21.1%	-
Lewes Town Council	20.1%	-	20.6%	-	21.1%	-
Maresfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Newhaven Town Council	20.1%	-	20.6%	-	21.1%	-
Newick Parish Council	20.1%	-	20.6%	-	21.1%	-
Peacehaven Town Council	20.1%	-	20.6%	-	21.1%	-
Pett Parish Council	20.1%	-	20.6%	-	21.1%	-
Plumpton Parish Council	20.1%	-	20.6%	-	21.1%	-
Polegate Town Council	20.1%	-	20.6%	-	21.1%	-
Ringmer Parish Council	20.1%	-	20.6%	-	21.1%	-
Rye Town Council	20.1%	-	20.6%	-	21.1%	-
Salehurst & Robertsbridge Parish Council	20.1%	-	20.6%	-	21.1%	-
Seaford Town Council	20.1%	-	20.6%	-	21.1%	-
Sussex Inshore Fisheries & Conservation Authority	20.1%	-	20.6%	-	21.1%	-
Telscombe Town Council	20.1%	-	20.6%	-	21.1%	-

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2015/16

Employer	Contribution Rate					
	2014/15		2015/16		2016/17	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Uckfield Town Council	20.1%	-	20.6%	-	21.1%	-
Westham Parish Council	20.1%	-	20.6%	-	21.1%	-
Willingdon & Jevington Parish Council	20.1%	-	20.6%	-	21.1%	-
Colleges						
Bexhill College	17.0%	-	17.5%	-	18.0%	-
Brighton, Hove & Sussex Sixth Form College	17.0%	-	17.5%	-	18.0%	-
City College, Brighton	17.4%	42,000	17.4%	68,000	17.4%	96,000
Plumpton College	17.0%	-	17.5%	-	18.0%	-
Sussex Coast College	17.5%	-	18.0%	-	18.4%	2,700
Sussex Downs College	16.0%	-	16.5%	-	17.0%	-
Varndean Sixth Form College	17.0%	-	17.5%	-	18.0%	-
Community Admission Bodies (Open) & Pre-2000 Admission Bodies (Open)						
Amicus Horizon	17.5%	310,000	17.5%	388,000	17.5%	472,000
East Sussex Energy, Infrastructure & Development Ltd (ESEID)	22.1%	-	21.2%	-	20.4%	-
Hastings Business Operations Limited (HBOL)	17.2%	-	18.6%	-	20.0%	-
Sussex Housing & Care	20.0%	59,300	20.0%	123,700	20.0%	193,500
Community Admission Bodies (Closed) & Pre-2000 Admission Bodies (Closed)						
Brighton Dome & Festival	31.0%	-	31.0%	-	31.0%	-
Care Quality Commission	21.3%	-	21.8%	-	22.3%	-
De La Warr Pavilion Charitable Trust	25.1%	-	27.0%	1,900	27.0%	5,500
Hove & Portslade CAB	21.5%	-	21.5%	-	21.5%	-
Sussex Archaeological Society	24.2%	31,400	24.2%	35,600	24.2%	40,100
Sussex County Sports Partnership	15.8%	-	15.8%	-	15.8%	-
University of Sussex	30.9%	112,700	-	-	-	-
Other Admission Bodies						
Accent Catering Services Ltd	21.4%	-	21.4%	-	21.4%	-
Amey	22.9%	-	19.1%	-	15.2%	-
BHCC - Peyton and Byrne	21.1%	-	-	-	-	-
Curchill - Cavendish	26.2%	200	-	-	-	-
Churchill Contract Services	-	-	23.3%	-	26.0%	-
Civica ICT - William Parker	15.9%	-	15.9%	-	15.9%	-
Eastbourne Homes - SEILL	22.6%	-	22.6%	-	22.6%	-
Eastbourne Leisure Trust	20.9%	-	21.2%	11,700	21.2%	25,000
EBC - Towner	19.2%	-	19.2%	-	19.2%	-
Eden Foodservice	19.3%	-	16.1%	-	13.0%	-
Education Futures Trust	21.9%	-	21.9%	-	-	-
ESCC - Care at Home	21.5%	-	-	-	-	-
ESCC - Care at Home	-	-	27.4%	-	27.4%	-
ESCC - Churchill	20.7%	-	-	-	-	-
ESCC - Health Management Ltd (HML)	20.0%	-	20.0%	-	20.0%	-
ESCC - John O'Conner Ltd	19.9%	1,600	16.8%	-	13.0%	-
ESCC - NSL Limited	24.3%	-	23.9%	-	23.5%	-
European Electronique Ltd	14.5%	14,700	-	-	-	-
May Gurney Ltd	22.8%	-	24.7%	-	25.4%	3,000
Mears Ltd	24.9%	5,200	24.9%	25,400	24.9%	47,300
MyTime Active Ltd	20.1%	3,400	20.1%	10,900	20.1%	19,000
Sussex Community Development Association Ltd (SCDA)	-	-	26.4%	-	26.4%	-
Wealden Leisure - Portslade Sports Centre	-	-	17.4%	-	17.4%	-
Wave Leisure Trust Ltd	18.8%	-	20.9%	13,100	20.9%	56,300
Wave Leisure - Newhaven Fort	-	-	27.6%	-	27.6%	-

Employer	Contribution Rate					
	2014/15		2015/16		2016/17	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
WDC - ISS Limited	26.4%	-	26.4%	-	26.4%	-
WDC - Kier	24.8%	-	24.4%	-	24.0%	-
WDC - Richardson	21.8%	-	21.0%	-	20.3%	-
WDC - Wealden Leisure	22.1%	17,600	22.1%	111,200	22.1%	212,900
BHCC - Wealden Leisure	20.1%	-	22.6%	4,000	22.6%	19,000
White Rock Theatre	22.4%	8,500	22.4%	18,600	22.4%	29,700

29: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by the WM Company which measures the performance of the Fund compared with 85 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	1.6	7.4	7.3	
Benchmark	0.4	5.9	5.9	
Relative	1.2	1.4	1.3	

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	1.6	7.4	7.3	
Local Authority Average	0.6	6.6	7.1	
Relative	1.1	0.8	0.2	

The Fund outperformed the average local authority fund over the year by 1.1% (1.6% outperformance 2014/15), ranking the East Sussex Fund in the xx percentile (22nd 2014/15) in the local authority universe. Over three years the fund outperformed by 0.8% (0.1% outperformance 2014/15) and was placed in the xx percentile (44th 2014/15). Over five years the fund outperformed by 0.2% (0.3% underperformance 2014/15) and was placed in the xxth percentile (67th 2014/15). Over ten years the fund relative performance was in line with the local authority fund average x.x% (0.0% 2014/15) and was placed in the xxth percentile (50th 2014/15).

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.

30: 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.

	2014/15 £000	2015/16 £000
East Sussex County Council		
Total		

9. 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 Statement of Investment Principles

10. Statement of investment principles

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment policy for their Fund they must consult with persons they deem appropriate when drawing up their statements. Any material change in investment policy must be included in a revised Statement of Investment Principles (SIP) within six months of the change. The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments. The East Sussex Pension Fund statement was first published in May 2000 and is reviewed annually (updated copies are available on the website).

Social, environmental and ethical considerations

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

- Corporate governance
- Employment standards
- Human rights
- Environmental standards

Compliance with the updated Myners Principles

The original Myners Review in 2001 established ten principles of investment for defined benefit schemes. In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into six new high level principles, providing guidance on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.

The Pensions Committee has set out details of the extent which the Fund complies with these six principles set on a 'comply or explain' basis. This compliance statement is included in the Fund's Statement of Investment Principles.

11. 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.

12. External auditors report

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

To Follow

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

28 July 2015