

**E S East Sussex**  
**P F Pension Fund**

2021/22

Business Plan & Budget

## 1. Business Plan

1.1 It is anticipated that 2021/22 will see some key activities within the following themes:

- **Pension Fund Oversight and Governance activities:** Fund/Employer actuarial work, Fund external legal advice, Pension Fund Annual Report and Accounts, External/Internal audit work, Achievement of the Statutory Annual Benefit Statement, Implementation of McCloud provisions, Public Sector Exit Payments, Review of Academies, Employer covenant reviews and final implementation of the ill health insurance cover for employers.
- **Investment activities:** Review investment strategy, develop the Fund's Environmental, Social and Governance (ESG) credentials, UK Stewardship Code 2020, Principals of Responsible Investment, review and implement any agreed changes to the Fund's credit structure, assistance with annual accounts completion, Investment Governance, Investment Pooling, Cost Transparency, Cost Management.
- **ACCESS activities:** ACCESS support unit (ASU), Actively managed listed assets, Alternative/ non-listed assets, alternative / non listed assets, passive assets, Governance.
- **Employer engagement activities:** i-Connect implementation, contribution monitoring, communications strategy.
- **Pension Board/Committee Training:** Implementation of the agreed training strategy for the Board and Committee, Provision of 2 Investment Governance/Strategy days, Attendance at third party provided LGPS related training, Breaches, Good Governance.
- **Pension Administration:** Implementation of the sovereign pensions administration service, Maintaining Member Data, Data Improvement Programme, Annual Benefit Statement (ABS) Compliance and Employer Engagement Planning, McCloud working group.

1.2 Each theme within the business plan includes activities planned for the year. The strategic nature of East Sussex Pension Fund objectives means that a number of the 2021/22 activities build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

1.3 On a day to day basis the pension function is led and co-ordinated by the Pension Fund Officers. Pension administration will be a sovereign provision of service and will sit under the Head of Pensions in April 2021 and no longer provided by Orbis Business Operations. The Pension Committee and Board will receive updates on the work plan each quarter.

1.4 A budget totalling **£7,091k** (£3,730k 2020/21) to support the business plan for 2021/22 is detailed below in Table 1:

Table 1 Pension Fund Management Expenses

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Forecast Outturn £000	2021/22 Budget £000
	<b>Pension Fund Staff Costs</b>			
376	Fund Officers <sup>1</sup>	431	591	1,706
-	Recruitment costs	-	50	12
<b>376</b>	<b>Sub Total</b>	<b>431</b>	<b>641</b>	<b>1,718</b>
	<b>Pension Fund Oversight and Governance</b>			
345	Actuarial Fund Work	250	309	250
97	Actuarial Employer Work <sup>2</sup>	150	90	100
(97)	Employer reimbursement	(150)	(76)	(100)
-	Training Costs	30	3	10
30	External Audit – Grant Thornton	26	30	30
17	East Sussex County Council Recharges <sup>3</sup>	19	217	286
119	Legal Fees	115	187	165
182	Subscriptions and Other Expenses	222	173	72
<b>693</b>	<b>Sub Total</b>	<b>662</b>	<b>933</b>	<b>813</b>
	<b>Investment activities</b>			
130	Investment Advice	140	210	192
-	ESG Advice	35	36	25
54	Custodian	150	67	75
64	ACCESS	78	86	93
3,003	Investment Manager Fee Invoices <sup>4</sup>	1,200	2,167	3,313
<b>3,251</b>	<b>Sub Total</b>	<b>1,603</b>	<b>2,566</b>	<b>3,698</b>
	<b>Pension Administration<sup>5</sup></b>			
999	Orbis Business Operations Support Services	934	1,123	-
-	East Sussex County Council Recharges <sup>3</sup>	-	-	237
-	System Services and License	-	398	346
38	Consultancy & Service Providers - Benefits	100	150	100
-	Other Expenses	-	84	243
<b>1,037</b>	<b>Sub Total</b>	<b>1,034</b>	<b>1,755</b>	<b>926</b>
<b>5,357</b>	<b>Total</b>	<b>3,730</b>	<b>5,895</b>	<b>7,155</b>

<sup>1</sup>This is assuming a full team it is in place

<sup>2</sup>As we are moving away from a valuation year we expect the employer queries to decrease in 2021/22

<sup>3</sup>Staffing on costs have been separated from the direct staffing costs to provided greater clarity on staffing costs.

<sup>4</sup>The Fund has appointed some new external managers as part of a review of the its ESG and equity positioning which has increased the estimated invoiced fees amount for 2021/22.

<sup>5</sup>The Pension Administration team is moving to sovereign control some costs have not been fully agreed a prudent estimate has been applied

### **Key budget assumptions**

1.5 The key budget assumptions are set out below

- ACCESS cost based on the budget set by the ACCESS Joint Committee.
- Manager fees based on invoiced fees only. Fees are based on the assets under management no movement has been included in this figure.
- Assumptions of a 1.5% pay award have been built into the staffing model
- The full budgetary implications for the change from Orbis to East Sussex to the Pension Fund has not been fully costed at this point a reasonable estimate has been made from available information.

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

Table 2 Business plan deliverables by key theme

Theme	Tasks	2020/21 activity	Action Update
<b>Fund Oversight and Governance activities</b>	Fund/Employer actuarial work	New Actuary working arrangements and reporting to be implemented  Employer accounting reports/Employer requests/ Bulk Transfers calculations  Regular meeting attendance / Officer Support  Benefits Consultancy and Governance support/Club Vita longevity analysis/	
	Fund external legal advice	LGPS specific legal advice provided by external specialist lawyers.	
	Pension Fund Annual Report and Accounts	Statutory documents produced once a year providing information on the Pension Fund activities over the past year.	
	External audit	External Audit: statutory audit of the 2021/22 Pension Fund accounts.	
	Internal audit	Internal Audit: delivery of the 2021/22 Internal Audit Plan	
	Good Governance	Finalising the recruitment to the new structure put forward by the Good Governance Project to ensure that the Pension Fund has appropriate resources in place to deliver the required governance.	
	Procurements	Strategically important procurement of an Independent Advisor to the Committee	

Theme	Tasks	2020/21 activity	Action Update
	<p>Public Sector Exit payments</p> <p>GDPR review</p> <p>Policy review</p> <p>TPR COP14 compliance</p>	<p>The introduction of the £95k cap on exit payments has created a conflict in legislation which needs to be monitored as a resolution is sought.</p> <p>Review of GDPR compliance and assessment of the level of communication from the Fund</p> <p>Review of policies to ensure all up to date and on a cycle for regular refresh</p> <p>Review of COP14 to ensure compliance to the Pensions Regulator checklist built into the funds practices</p>	
<p><b>Investment activities</b></p>	<p>Review investment strategy</p> <p>Develop the Fund's ESG credentials</p>	<p>Implement any strategic changes agreed at the Q1 2020 equity strategy review.</p> <p>Implement any investments into the Fund's private markets programme.</p> <p>Review the Income generation of the Fund's investments. Review the credit portfolios of the Fund.</p> <p>Discuss strategy at the 2 strategy day meetings.</p> <p>Consider requirements under the UK Stewardship Code with a view to the Fund becoming a signatory.</p> <p>Complete reporting of Fund Activities to PRI as part of requirements of being a signatory.</p> <p>Undertake a review of the ESG credentials of all managers and develop appropriate analytic metrics to monitor the Fund.</p>	

Theme	Tasks	2020/21 activity	Action Update
	Assistance with annual accounts completion	<p>Collate quarterly analysis of fossil fuel exposure and voting &amp; engagement records.</p> <p>Prepare the usual information for the Report &amp; Accounts, including performance and private markets summary</p>	
<b>ACCESS</b>	<p>ACCESS Support Unit</p> <p>Actively managed listed assets</p> <p>Alternative / non listed assets</p> <p>Passive assets</p>	<p>The implementation of the increased ASU will be completed.</p> <p>Launch of Tranche 5b</p> <p>Launch of Tranche 6</p> <p>Determine, approval &amp; launch of Tranche 7</p> <p>Ensure sub-funds meet Link's due diligence requirements and ACCESS Authorities' Value for Money criteria (including transition activity). Manager search and selection activity where required. Work with Link to submit applications to the FCA for approval of the set-up of subfunds. Launch.</p> <p>A process for transitioning between sub-funds is established.</p> <p>Scheduled BAU evaluation</p> <p>Implementation of approach to pool illiquid assets.</p> <p>Following work undertaken in 2020/21 to consider the needs and implementation options.</p> <p>Ongoing monitoring of assets managed on a passive basis.</p>	

Theme	Tasks	2020/21 activity	Action Update
	Governance	<p>This follows the migration of passive assets held by ACCESS Authorities to UBS in early 2018.</p> <p>Meetings and oversight</p> <p>Operational protocols</p> <p>Engagement with HM Government</p> <p>Joint Policies &amp; guidelines.</p>	
<b>Employer Engagement</b>	<p>i-Connect implementation</p> <p>Contribution monitoring</p> <p>Communications strategy</p>	<p>To roll out the i-Connect employer interface module to all employers to simplify data submission and validation.</p> <p>To develop a robust contribution monitoring, reconciliation in conjunction with the roll out of i-Connect.</p> <p>To develop and implement a communication strategy so that we are proactive in providing information to employers and members.</p>	
<b>Pension Board/Committee Training</b>	<p>Implementation of training strategy</p> <p>2 Investment Strategy days</p> <p>Third party training</p>	<p>Provision of speakers to deliver East Sussex Pension Fund led training.</p> <p>Commissioning work to examine the current investment strategy</p> <p>Identifying useful third party provided session that will be useful for ESPF to attend.</p>	
<b>Pension Administration</b>	Implementation of the sovereign pensions administration service	Overseeing the disaggregation of pension administration services from Orbis	

Theme	Tasks	2020/21 activity	Action Update
	Maintaining Member Data  Data Improvement Programme  Annual Benefit Statement (ABS) Compliance,  McCloud working group	Day to day imputing of data into the pension system to ensure the records are up to date.  Identifying areas where data within the pension system can be improved and developing plan of redress.  Annual Benefit Statements need to be produced by statute. Ensuring the data is up to date to be able to provide an accurate statement to Members.  Group to work through the redress of benefit calculations in relation to the outcome of the McCloud case and guidance from Government.	

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

## 2. Significant Workstreams Analysed by Stream

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

### 1. Pension Fund Oversight and Governance activities:

- Governance and compliance reviews
- Data Improvement
- Communications implementation

### 2. Investment activities:

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

### 3. ACCESS activities:

- Sub Fund transition management
- Investment Governance

### 4. Pension Board/Committee Training:

- Relevant Training
- CIPFA Knowledge and Skills Framework

### 5. Pension Administration:

- Performance Management Group
- McCloud Work Plan

## 1. Pension Fund Oversight and Governance activities:

### Good Governance Review

In 2019/2020 the Pension Committee commissioned forward looking Good Governance Review, with its primary purpose to support the East Sussex Pension Fund's desire to get ahead of the game and establish the principles of the Scheme Advisory Board's ("SAB") Good Governance Project in the Pension Fund's governance arrangements, in order that it will be compliant with the recommendations expected to follow.

The project lead to a significant number of changes to the fund including a new Pension Fund team structure and revisions to various policies as well as the introduction of a conflicts of interest policy. The work resulting from the good governance review concluded in November 2020, however the pension fund through the expansion of the team and through Internal audit reviews have identified further work that is needed from a governance and compliance perspective. In 2021/22 the fund will undertake a comprehensive review of THE Code of practice 14 to ensure that the fund meets the expectations of compliance of the Pensions Regulator in all areas of fund administration. In addition the fund will reconfirm it is fully compliance on GDPR and that it provides sufficient documentation for members and employers in this area.

## **Data Improvement**

In 2019/20 there were issues in delivering the 2019 Annual Benefit Statements. There was a major project commissioned in 2020 to clear many of the problems and ensure the 2020 ABS process was improved. The 2020 ABS project was a significant success compared to the prior year however there are still a few areas where data can be improved. Data will never be perfect as it is continually moving but the Fund should be aiming for improved Data Scores annually.

The Pensions Regulator (TPR) has set targets of 100% for both common and scheme specific data and the fund saw an improvement in its score in November 2020 resulting from the projects completed to date.

A new data improvement project will begin in 2021 and this will be managed inhouse, however there will be various smaller projects that could be outsourced once the data item has been identified.

One of the main projects planned for 2021/22 is the roll out of i-Connect for employers to submit data monthly. This will enable data to be input into the system monthly and cleansed at point of input rather than requiring significant work from employer and the Pensions Admin team annually.

## **Communications Implementation**

The Fund commissioned a communications review to take place in the last quarter of 2020/21 to report back to Pensions Committee in March with recommendations. The fund will implement the recommendations in line with Pension Committee approval, developing a brand for the Fund and ensuring the fund communicate with members of the fund and employers more effectively. The budget has not yet been updated for this project and ongoing costs while we await approval from the Pensions Committee on the recommendations.

## **2. Investment activities:**

### **New Investment Strategy**

The Investment Strategy is usually reviewed annually and the strategy can be amended through out the year at Pension Committee meetings. The Fund will be focusing on a number of areas in 2021/22 including a review of the remaining passive equity holdings, review of FI and credit, further allocation to Infrastructure cashflows into Private Equity and significant work on ESG.

## **UK Stewardship Code 2020**

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

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

The investment market has changed significantly since the publication of the first UK Stewardship Code. There has been significant growth in investment in assets other than

listed equity, such as fixed income bonds, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities and signatories will need to consider how to exercise stewardship effectively in these circumstances.

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

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

- the effective application of the UK Corporate Governance Code and other governance codes;
- directors' duties, particularly those matters to which they should have regard under section 172 of the Companies Act 2006;
- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;
- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

### **PRI (Principle of Responsible Investment)**

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

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

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

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

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

### **3. ACCESS activities:**

#### **Sub Fund transition management**

As at the end of December 2020 there is £31.119 billion of investments pooled within ACCESS. The total number of actively managed listed asset sub-funds created by link is currently 22 with another 6 planned to launch over the next year. There are 2 more sub-funds being considered by ACCESS as potentially viable in the pool.

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

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

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

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

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

### **Investment Governance**

The governance arrangements around ACCESS is currently being reviewed with updates to the Inter Authority Agreement being completed in 2020/21 and Governance manual being updated to reflect current practices. Once this have been agreed the structure of the Officer groups will be reviewed to ensure that the appropriate decisions are being made at the appropriate level with the necessary level of delegation.

## **4. Pension Board/Committee Training:**

### **Relevant Training**

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

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

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

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

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

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

### **Addressing the ESPF Business Plan**

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

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

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

The Fund will commit to providing a minimum of 4 formal training sessions per year for Board and Committee members inline with the approved annual training plan

### **Acquiring, Reviewing and Updating Knowledge and Understanding**

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

### **Flexibility**

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

### **The Pensions Regulator E-learning toolkit**

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

- Conflicts of Interests;
- Managing Risk and Internal Controls;
- Maintaining Accurate Member Data;
- Maintaining Member Contributions;
- Providing Information to Members and Others;
- Resolving Internal Disputes;
- Reporting Breaches of the Law.

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

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

### **Risk**

#### **Risk Management**

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

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

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

### **Budget**

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

## **5. Pension Administration:**

### **Pension Administration Transfer**

The decision was taken for the pension administration team to be moved back to sovereign control from the Orbis partnership. Work has been undertaken for the service to have fully transferred by 1 April 2021.

Once the team is fully transferred there will be a program to shape the service to meet the needs of the East Sussex Pension Fund. Work will be taking place throughout the year to improve the service that is provided to members employers and other stakeholders. This will ensure that the Pension Fund is well placed to deal with the other issues that it will face throughout the year.

### **McCloud Work plan**

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

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

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