Report to:	**Pension Committee**
Date of meeting:	**25 September 2024**
By:	**Chief Finance Officer**
Title:	**Governance Report**
Purpose:	**To provide an update on governance workstreams and changes effecting Local Government Pension Schemes and the East Sussex Pension Fund**

RECOMMENDATIONS

The Pension Committee is recommended to:

1) **Note the updates;**
2) **Approve the revised Conflicts of Interest Policy; and**
3) **Delegate authority to Chief Finance Officer to submit a response to the Governments Pensions Investment Review: Call for Evidence**

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1 Background

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

2 Legal and regulatory changes

2.1 The Fund received a letter from the Minister for Local Government dated 15 May 2024 requesting a two-page submission covering how the Fund will complete the process of asset pooling to deliver benefits of scale and how the Fund will ensure it is effectively run including governance and benefits of greater scale. Despite the change in Government, the Fund responded to the questions in the letter submitting its response to the new Ministry of Housing Communities and Local Government following advice from the Scheme Advisory Board that the responses would be useful to any minister in this position. A response was submitted prior to the deadline of 19 July 2024. A copy of the response from the Fund is available at **Appendix 1.**

2.2 In July 2024, the new Chancellor of the Exchequer, Rachel Reeves, announced a pensions' review to boost investment and tackle waste in the pensions system stating that action will be taken to unleash the full investment might of the £360bn LGPS to make it an engine for growth and tackle the £2bn that is being spent on fees. The work announced focusing on investments was stated to be the first phase in reviewing the pensions landscape.

2.3 On 4 September 2024 the Government issued a Call for Evidence inviting input data and information from interested parties to inform the first phase of the Pensions Investment Review. The call for evidence consists of ten questions across three areas - Scale and consolidation, Costs vs Value and Investment in the UK. Three questions specifically reference the LGPS, some are specifically for Defined Contribution (DC) schemes and others could apply to both sectors. Responses are limited to 500 words per question and the deadline for responses is 25 September 2024.

2.4 The questions within the Call for Evidence where the Fund could respond are-

Scale & Consolidation
To what extent has **LGPS** asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?
Costs vs Value
Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?
Investing in the UK
What is the potential for a more consolidated **LGPS** and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?
What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?
Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and **LGPS** funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

2.5 At the time of publishing the report, responses to the questions have not yet been drafted. It is recommended that the Committee delegate responsibility to the Chief Finance Officer to finalise a response to the questions and submit to the Government, to ensure the specific attributes of the Fund are captured in the Call for Evidence.

2.6 The Fund have also been advised of activity for mid to late September, from HM Treasury (HMT), Ministry for Housing Communities and Local Government (MHCLG), and the Scheme Advisory Board (SAB) through meetings, requests for information and roundtables/workshops relating to the Pensions Review. At this time ESPF have not been invited to participate in anything directly.

3 Pension Board membership

3.1 Since the last meeting of the Pension Board, the Governance Committee resolved to appoint Linda Hughes as a new employer representative on the Pension Board for the period 25 June 2024 to 24 June 2028 at their meeting on 24 June 2024.

4 Pension Fund Policies

4.1 The Fund's Conflict of Interest Policy is due for its three year review and is attached at **Appendix 2.** Changes to the Strategy include the addition of a reference to the potential conflict as Employer and Administering Authority and a new section on Investment conflicts. Where wording has been amended the text is highlighted in yellow.

5 Funding Update

5.1 The Fund Actuary has prepared the indicative quarterly funding update, rolling forward assumptions from the valuation and reflecting actual experience since March 2022 to June 2024, included as **Appendix 3**. The indicative funding report shows the funding position fall from 123% in March 2023 to 119% in June 2024, however it is worth noting this is a slight improvement from the 118% in March 2024. The drop since the valuation has primarily been as a result of actual short term inflation experience impacting actual pensions increases compared to the long-term average used as an assumption in the valuation. In addition investment returns have been lower than assumed through the valuation.

6 GAD Section 13

6.1 On 14 August 2024 the Government Actuary's Department (GAD) issued a report under section 13 (s.13) Public Service Pensions Act 2013. This report relates to the 2022 Triennial Valuation.

6.2 GAD's report is based on 4 objectives which are to determine:

- Compliance - If Fund Valuations are compliant with Scheme Regulations.
- Consistency - Whether Fund Valuations are inconsistent with those of other Funds.
- Solvency - If employer contributions are set at an appropriate level to ensure the solvency of the Pension Fund.
- Long term cost efficiency - Whether employer contributions are set at an appropriate level to ensure the long-term cost efficiency of the Scheme so far as it relates to the individual Fund.

6.3 In relation to Compliance GAD concluded that the aims of section 13 were achieved under the heading of Compliance in terms of valuation reporting. GAD were please to note improvements in the clarity of references to the assumptions on which Rates and Adjustment Certificates were based following the prior review.

6.4 In relation to Consistency GAD found that presentational consistency was evident in 2022 and dashboards aid understanding. The additional information provided following the 2019 review has helped with presentational consistency. However they found that there was no indication of significant improvement in evidential consistency since the 2019 review. They note that local variations may merit different approaches and assumptions but these lead to different outcomes such as ongoing contribution rates. GAD recognised significant improvement in the presentation of climate risk analysis as part of 2022 valuations and most Funds had followed the broad climate risk principles agreed between MHCLG, Fund Actuaries and GAD. GAD recommend the SAB engage with stakeholders to develop the principles and improve consistency across Funds for 2025.

6.5 In relation to Solvency GAD found funding levels have continued to improve on a local basis since 2019 with 106% funded LGPS in aggregate. This reduces current solvency concerns but future solvency risk is still an important consideration. GAD found that the growth of Fund assets relative to the size of the underlying local authorities mean that Funds in deficit will more likely trigger the GAD asset shock measure. No other solvency flags have been raised, however GAD recognise the competing pressures on employer budgets and sensitivity of funding levels to future experience including investment market conditions. GAD recommend Funds continue to review risks and respond to emerging issues and ensure they have appropriate governance arrangements in place.

6.6 In relation to long term cost efficiency GAD flagged two funds in relation to deficit recovery periods and were concerned with one fund that contribution rates were reducing while the deficit recover period was extended. GAD made a recommendation that the SAB consider the approach to surpluses in their review of the Funding Strategy Statement (FSS) guidance. GAD also carried out Asset Liability Modelling (ALM) to illustrate two different surplus sharing models which highlights the potential contribution volatility and funding risks even where a Fund may have a strong current funding position.

6.7 A summary report for ESPF is provided in the exempt section of this agenda. The report does not recognise any flags for concern. Under the SAB funding model GAD have calculated the funding position of the Fund to be 129.4% compared to the Fund's own actuarial funding level of 123%.

7 Conclusion

7.1 The Committee is recommended to note this report and delegate authority to Chief Finance Officer to submit a response to the Governments Pensions Investment Review: Call for Evidence to ensure the Fund has put forward evidence to support the development of any Pensions reform within the time frames available.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert Head of East Sussex Pension Fund
Email: sian.kunert@eastsussex.gov.uk