

Internal Audit Position Statement

Pension Fund Preparedness for Pooling Reforms

Final

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Prepared for: East Sussex County Council
Date: January 2026

Internal Audit Report – Pension Fund Preparedness for Pooling Reforms

Report Distribution List

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Final Report:

As per the draft report distribution list, with the inclusion of:

Ros Parker, Chief Operating Officer

Ian Gutsell, Chief Finance Officer

Pension Board

Pension Committee

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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1. Introduction

- 1.1. The East Sussex Pension Fund (ESPF) provides retirement benefits for employees of the County Council and 140 other employer organisations, including Brighton & Hove City Council, district and borough councils and academic institutions.
- 1.2. On 14 November 2024, the Chancellor of the Exchequer announced major changes to local government pension schemes' investments. These will require that the 86 Local Government Pension Schemes' administering authorities consolidate all their assets into six pools. It will also remove Pension Committees' powers to make decisions relating to individual investments and place this responsibility, along with the monitoring of investment performance, with the pools themselves.
- 1.3. Currently, ESPF pools along with another 10 funds as part of the ACCESS Pool, a collaboration of central, eastern and southern shires. However, under this new scheme, 'Fit for the Future', the ESPF is required to identify a new pooling partner and for this to be in place by 01 April 2026. On 18 November, the Pension Committee agreed for the ESPF to become a shareholder in the Border to Coast Pensions Partnership Pool (BCPP).
- 1.4. This review is part of the agreed Internal Audit Plan for 2025/26 and has been delivered in compliance with the Global Internal Audit Standards and the Local Government Application Note.

2. Scope

- 2.1. The purpose of the review was to provide assurance that controls are in place to meet the following objectives:
 - Robust arrangements are in place regarding the restructuring of investment pools to ensure the Fund maintains its internal controls and can exercise stewardship of its assets.
 - The programme of change is well managed and monitored to ensure the government's timescales are met.

3. Overview

- 3.1. The aim of this review was to assess the arrangements in place for implementing the changes to pooling arrangements required as part of the Government's 'Fit for the Future' agenda, including the governance arrangements that will oversee the changes. Due to the timing of our work, we found that, although key decisions had been taken, much of the activity needed to deliver the governance changes was still at a relatively early stage, not least because government guidance was being awaited, though the move to the new pooling arrangements is more advanced. As a result, there is little upon which to base an informed audit opinion and therefore we have set out the position as it stood at the time of testing (December 2025) without providing a formal opinion.
- 3.2. Currently the ESPF is part of the ACCESS Pool. To retain a degree of continuity, and to limit the costs of any changes, the Fund had initially set out a proposal for the ACCESS Pool to be registered with Financial Conduct Authority (FCA) along with wider proposals to meet the requirements of the Fit for the Future consultation. However, this proposal was not supported by the government. As a result, alternative options were explored and, on 18 November 2025, the Pension Committee formalised its decision for the Fund to join the Border to Coast Pensions Partnership Pool (BCPP). The Fund will therefore transfer its investments to BCPP, as will the investments of six of the other ACCESS funds. The remaining ACCESS funds will transfer their assets to the Local Government Pension Scheme (LGPS) Central Pool.
- 3.3. The move to join BCPP needs to be completed by 1 April 2026. To become a member of the BCPP, key documents are required to be put in place that will define the governance arrangements: a Shareholders' Agreement, Articles of Association and an Inter-Authority Agreement. These will be supported by a Pension Cost Recharge Agreement and a Pension Guarantee. As part of due diligence, these documents have been reviewed by Squires Patton Boggs, solicitors, on behalf of all seven authorities transferring to BCPP, and are now being prepared for signing.
- 3.4. To manage the dissolution of the ACCESS Pool, the existing ACCESS Inter Authority Agreement ("IAA") will need to be revised. Pending this revision, a Memorandum of Understanding (MOU) has been put in place for the ACCESS partners, detailing the principles of dissolving ACCESS. This has been reviewed by each of the funds in the ACCESS partnership; however, it is not a legally binding document. A Heads of Terms document, setting the key principles upon which ACCESS will be dissolved, will be agreed by the authorities by 31 January 2026. The target is to implement a fully revised IAA by 1 April 2026. Squires Patton Boggs have confirmed that if this is not completed by 1 April 2026 the current IAA combined with the MOU is sufficient to manage ACCESS from a legal perspective.
- 3.5. In addition, a review of the remit of the Pension Committee has been carried out by King's Counsel and this confirmed that the Committee has full authority to make the necessary decisions on behalf of the Fund.
- 3.6. The process of identifying assets and moving them to the new pool will be complicated, due to the nature of the investments, and will incur expenditure. There is no certainty around the cost, and this represents the largest single risk in the process. The Pension Committee is fully aware of these complexities and had sought to minimise the cost. Data gathering is currently being undertaken to determine the assets in place to support their transfer to BCPPs. Project plans are being drawn up and discussed with partners in ACCESS and BCPP, subject to the limitations of information provided by the government, including updates provided as recently as December 2025. As a result, plans are constantly evolving and work continues to ensure that the final plan is robust.

3.7. Additional activities to be carried out by the Fund include:

- A senior officer will be appointed, other than the Section 151 Officer, who will have delegated responsibility for the management and administration of the Fund;
- The Fund's governance arrangements are being reviewed to ensure policies are aligned with Fit for the Future agenda. In addition, the Investment Strategy Statement (ISS) will be updated to reflect the Fund's very much reduced role in the management of its investment portfolio, as responsibilities transfer to the new pool; and
- The Fund will commission an independent review of its governance arrangements, which will be undertaken following the changes that will be fully implemented by October 2026, to ensure these are robust and compliant.

4. Conclusion

- 4.1. Our review has identified no findings or gaps in the arrangements to implement the required changes. However, due to the tight timescales for the establishment of the new pooling arrangements and the need to await further government direction and guidance, before effective plans could be put into place, we have been unable to undertake sufficient work to enable us to provide a meaningful audit opinion. We shall continue to work with the Fund in order to provide support with the planning arrangements and work being undertaken on the proposed governance arrangements.

5. Acknowledgements:

- 5.1. We should like to thank all staff, who provided assistance during the course of this review.

Appendix A

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control, and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.