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East Sussex
County Council

East Sussex
Pension Fund

Report and Accounts
2009/2010

CONTENTS

ANNUAL REPORT

MEMBERS, EXTERNAL ADVISERS AND OFFICERS

Pension Fund Investment Panel

Members:

County Councillors:	Tony Reid (Chairman) David Tutt Richard Stogdon
Brighton & Hove Councillors:	Kevin Allen Mrs Pat Drake
District Councillor:	Ted Collict
Staff Rep (Observer):	Tony Watson

FUND MANAGERS:

UBS Global Asset	Harbourvest
Prudential M&G	Adams Street Partners
Capital International	Fidelity
Schroders	Legal and General
Custodian – Northern Trust	

INVESTMENT ADVISER:	Hymans Robertson
INDEPENDENT ADVISER:	John Hemingway
TREASURER:	Sean Nolan, BA CPFA Deputy Chief Executive & Director of Corporate Resources East Sussex County Council
ACTUARY:	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB

Contact Addresses:

Investments	*LGPS policy or statutory requirements*	*Day-to-Day Matters*
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LOCAL GOVERNMENT PENSION SCHEME

Introduction

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. The rules of the scheme are mainly provided between two separate sets of regulation; the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008, both of which came into force on 1 April 2008 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, set up for the benefit of local government employees the LGPS is in fact administered locally. The LGPS is open to all 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 61 participating employers. A full list of participating employers is given at the Actuary's Certificate.

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 other benefits. As part of its responsibilities as the administering authority the County Council is responsible, through the Pension Fund Investment Panel, to set the investment policy and review the performance of the Fund's external investment managers. Non investment issues concerning the Fund (such as administering authority discretions or the admission of new employers via admission agreements) are considered by the County Council's Governance Committee.

The County Council has contracted SERCO to undertake the day to day functions associated with the administration of the LGPS. The main services provided by SERCO 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 SERCO, the County Council takes its statutory responsibility very seriously. It has therefore, set up procedures to ensure that SERCO 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 participant 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 2007 (see note 3 to the accounts). 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 FRS17. 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. In 2002 the County Council established an 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 during 2009/2010, and future developments

There have been no major changes to the rules governing the benefit structure of the LGPS in the previous financial year, following the introduction of the new-look scheme from 1 April 2008.

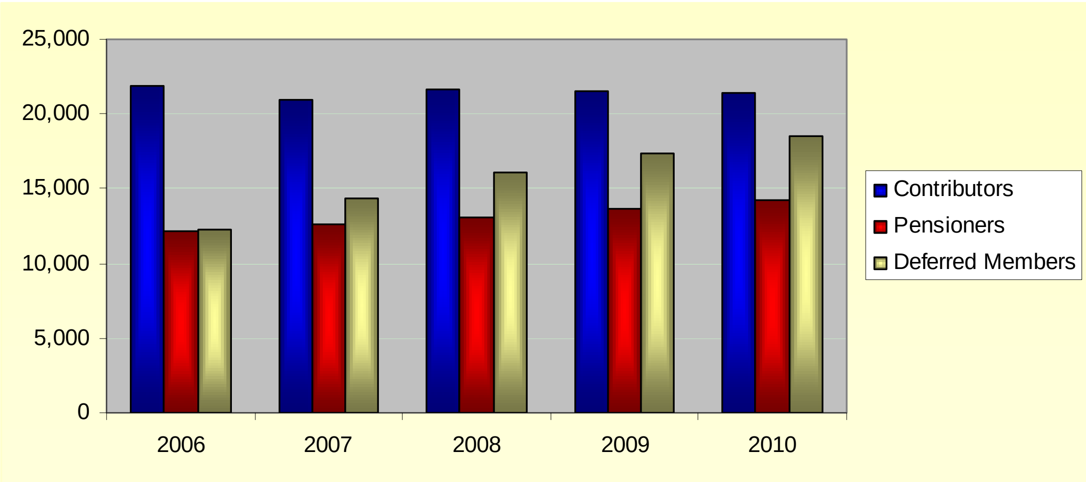
The proposals for introducing a cost sharing mechanism between employers and the scheme members has been finalised. The intention is for the cost sharing mechanism to become effective and for the Government Actuary's Department (GAD) to have a 'model fund' on which a benchmark can be taken, in place by 31 October 2010.

The County Council is working with SERCO to provide all the necessary data in order to meet the GAD data submission deadlines for this purpose.

The LGPS in East Sussex

Membership of the East Sussex Pension Fund as at 31 March 2010 is detailed below:

	March 2009	March 2010
Active Members (contributors)	21,550	21,384
Pensioners (inc dependants)	13,644	14,247
Deferred Members	17,357	18,512



Summary of the provisions of the LGPS

The LGPS is contracted out of the State Second Pension (S2P) and provides defined benefits which compare favourably with many private schemes.

The following summary is provided as an illustration of the type and range of benefits the LGPS provides. It is not intended as a detailed guide, nor does it detail the specific conditions that must be met before benefits can be obtained.

Contributions

Participating members are required to pay contributions, which are assessed by reference to their pensionable pay band as at the start of each financial year by their employer. These contributions currently range between 5.5% to 7.5% of pensionable pay. An individual can be re-attributed into a different band (and pay a different contribution rate, which could be higher or lower) if their employer believes they have had a permanent, material change in the terms of their contract. The pay bands are subject to increases at 1 April each year, in line with the annual pensions increase figure for that year.

Employer contribution rates are set every three years following a valuation of the Pension Fund's assets and potential liabilities. The last such valuation was as at 31 March 2007 with the next being as at 31 March 2010 with new employer rates being effective from 1 April 2011.

Benefits

The LGPS has a normal retirement age for both men and women of age 65. There are, however, a number of ways in which retirement before normal retirement age can be granted, but in all cases the consent of the employer is needed (unless the person is retiring voluntarily from age 60 or over in which case the pension is paid at a lower amount).

As a final salary scheme, pension benefits are generally calculated by reference to a member's pensionable earnings during the final year of membership. Annual pensions are based on 1/80th of the final pensionable pay for each year of membership up to 31 March 2008 and 1/60th of the final pensionable pay for each year of membership from 1 April 2008.

In addition to the annual pension, scheme members are also entitled to a lump sum retirement grant based on 3/80ths of final pensionable pay for each year of membership up to 31 March 2008. There is no automatic lump sum in respect of membership from 1 April 2008. The lump sum is currently paid tax free. Members also have the general option to increase their lump sum, within HMRC limits, to 25% of the value of their pension savings, by converting some of their annual pension. Within the LGPS every £1 of annual pension forgone provides an additional lump sum of £12.

Ill health

The ill health benefits can be put into payment at any age and are awarded depending on the circumstances in each individual case as certified by an independent qualified occupational health doctor. There are three tiers of ill health award, in which some tiers offer some element of enhancement to accrued pension benefits, as follows –

Tier one – accrued benefits plus 100% prospective future service enhancement where there is no likelihood of obtaining further gainful employment with any employer (LGPS or otherwise) before age 65.

Tier two – accrued benefits plus 25% prospective future service enhancement where there is a reduced likelihood of obtaining further gainful employment with any employer (LGPS or otherwise) before age 65.

Tier three – accrued benefits with no prospective future service enhancement where there is a likelihood that further gainful employment with any employer (LGPS or otherwise) will be obtained within 3 years (this level of award is subject to review and will cease by no later than 3 years after the award is made or could be converted to a tier two ill health benefit if it was certified that the required criteria was met);

Pensions Increase

Pensions in payment to pensioners aged 55 and over are increased annually in line with inflation, in accordance with Orders made under the Pensions (Increase) Act 1971. All ill health pensions and survivors' pensions are increased annually despite the fact that the recipient may be under the age of 55.

Death Benefits

The LGPS provides for the payment of a lump sum death grant, should a member die in service. The amount of the death grant payable from the Scheme is 3 times the final year's pensionable pay.

If death occurs within ten years of the member's retirement and before age 75 a death grant equal to 10 times the individual's annual pension (less payments already made) is due.

The LGPS also provides for the payment of a survivors pension to spouses, civil partners and nominated co-habiting partners. Survivors' pensions are based on 1/160th of the final pensionable pay for each year of the deceased member's membership. These are payable for life. Where appropriate the LGPS also provides for the payment of pensions to eligible children.

Added Years/ARCs/AVCs

The facility for a scheme member to purchase additional scheme membership was removed from 1 April 2008, although existing elections made up to but commencing after 31 March 2008 were honoured.

Scheme members are able to purchase additional pension (in multiples of £250) up to a maximum of £5,000 pa by the payment of additional regular contributions (ARCS). Employers can also award additional pension of up to £5,000 p.a. (although they don't have to do so in multiples of £250). A member may purchase additional pension for the member only or for the member and his or her dependents. Where an employer purchases additional pension, it will provide additional pension for the member only.

Scheme members may also elect to pay additional contributions to be invested in an Additional Voluntary Contribution Scheme set up by the Fund. The East Sussex Pension Fund has chosen Prudential as its AVC provider. (AVCs may also be paid independently to a Free Standing AVC Scheme, to whichever provider the individual chooses). The accumulated AVC fund may then be used at retirement in a number of ways. It can be used to provide an additional pension, either through the LGPS or through the purchase of an annuity from an insurance company. Alternatively the accumulated AVC fund can be used to provide additional lump sum (within HMRC limits) rather than the member converting annual pension at a rate of £1:£12, as highlighted previously.

Scheme members are also able to contribute to Stakeholder Pensions, which are similar to personal pensions and are designed to provide a cost effective method of providing a pension in retirement. In order to ensure the ability to contribute to a Stakeholder Pension was not abused restrictions were initially applied as to who could make use of such an arrangement. These restrictions have since been removed, resulting in Stakeholder pensions being available to all. Any LGPS scheme member would need to make their own arrangements were they to wish to contribute to a Stakeholder Pension.

Discretions

The LGPS provides the framework in which the statutory basis of the Scheme may work. In addition to the standard scheme benefits there are also a number of discretionary areas for the employer and the administering authority. There is an additional requirement for certain discretionary policies to be published as a matter of public record. Key discretionary areas where a published policy is required by the employer are:

- The award of additional scheme membership
- The award of additional scheme pension
- The choice of early payment of benefits from age 55 (but before age 60)
- The agreement to flexible retirement from age 55

Further details on participating employers' policies can be obtained from each individual employer.

Additionally, the County Council in its role as administering authority must publish its policy on the abatement of pension on re-employment.

Resolving Complaints

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 Director Law and Democratic Services.

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.

Communication

The Administering Authority must publish a statement of its policy concerning communications with members and employers in the pension fund.

The Administering Authority is also required to issue an annual benefit statement to each of its active, deferred and pension credit members.

Annual Governance Statement for the year ended 31 March 2010

(including the Governance Compliance Statement)

1. Scope of responsibility

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 past and present contributing members, and their dependents. The County Council is responsible for ensuring that pension fund administration is conducted in accordance with the law and proper standards, and that members money is safeguarded and properly accounted for, efficiently and effectively.

As part of its responsibilities as the administering authority the County Council is responsible, through the Pension Fund Investment Panel, to set the investment policy and review the performance of the Fund's external investment managers. The Investment Panel meets five times a year. Non investment issues concerning the Fund (such as administering authority discretions or the admission of new employers via admission agreements) are considered by the County Council's Governance Committee which meets at least five times a year. These arrangements comply with the guidance given by the Secretary of State.

East Sussex County Council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This Local Code covers all of the staff, systems and other activities involved in or related to the County Council's role as administering authority of the Pension Fund. A copy of the Local Code is on ESCC website at www.eastsussex.gov.uk or can be obtained from the Council's Monitoring Officer.

The Pension Fund has also adopted its own Governance Policy Statement which sets out in more detail its key governance arrangements and a Statement of Investment Principles, both of which have been in place at East Sussex County Council for the year ended 31 March 2010 and up to the date of the approval of the Pension Fund accounts.

2. Purpose of the governance framework

Good governance is about how a local authority, including in its role as Pension Fund administrator ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Our governance framework comprises the systems, processes, culture and values by which the Pension Fund is directed and controlled. Through effective governance the Pension Fund is accountable to, engages with and, where appropriate, leads participating employers, scheme members and other stakeholders.

The County Council's Local Code and the Pension Fund's own governance arrangements can provide only reasonable and not absolute assurance that the Pension Fund achieves its aim of good governance. Equally the system of internal control put in place by the County Council as administering authority is designed to identify and prioritise the risks to the achievement of the Pension fund's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage those risks efficiently, effectively and economically. It cannot eliminate all risk of failure; it can therefore only provide reasonable and not absolute assurance that our policies, aims and objectives are achieved.

3. Review of effectiveness

East Sussex County Council being the East Sussex Pension Fund administrator reviews the effectiveness of its governance arrangements, including its system of internal control, on an ongoing basis. This review of effectiveness is informed by:

- the work of Members through the Governance Committee, and the Pension Fund Investment Panel;
- the work of the Pension Fund Treasurer, i.e., Deputy Chief Executive and Director of Corporate Resources and the Pensions and Investment staff within Corporate Resources Finance Division;
- the professional advice provided by the Pension Fund's investment advisers.
- the work of the Pension Fund's actuaries;
- the work of the internal audit service in their annual report and opinion and the Pension Fund Audit Strategy which is compliant with the good practice guidance issued by the Society of County Treasurers;
- the external auditors in their audit and inspection annual letter and annual governance report;
- The review of the effectiveness of the County Council's governance arrangements the results of which are set out in its Annual Governance Statement;

4. Key elements of the governance and internal control environments

The County Council administers the Scheme on behalf of a number of participating employers and other stakeholders (such as scheme members and their relatives). It is important, therefore, to ensure that appropriate governance arrangements are put in place representing the needs of all stakeholders in the scheme. Decisions concerning the administration of the pension scheme in East Sussex are, therefore, made by the Governance Committee, rather than Cabinet. The Local Government Pension Scheme Regulations 1997 specify that, in investing the Fund's money, regard must be given to the need for diversification and for proper advice obtained at reasonable intervals.

The Key elements that comprise the Council's governance arrangements are set out in the Pension Fund Governance Policy Statement.

5. Assurance and Significant Governance Issues

No assurance can ever be absolute; however this statement seeks to provide a reasonable assurance that there are no significant weaknesses in the Pension Fund's governance arrangements. On the basis of the review of the sources of assurance set out in this statement, we are satisfied that there are satisfactory governance arrangements, including a satisfactory system of internal control in place for the Pension Fund, both of which are operating effectively.

As part of our review, we have not identified any gaps in assurance over key risks or significant governance issues. The County Council on behalf of the Pension Fund will continue to regularly monitor issues that may seriously prejudice or prevent achievement of its key objectives through its strategic risk review process.

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities.

This review has not identified any significant areas requiring improvement in the governance arrangements of the Pension Fund. However, the County Council as administering authority it will continue to:

- Develop and improve its governance arrangements through the actions set out in the County Council's Annual Governance Statement;
- ensure the Fund is effectively managed under the direction of the Pension Fund Investment Panel which comprises three members of the County Council, two members of Brighton and Hove City Council, a nominee of the East Sussex Borough and District Councils and the Non Voting staff representative (UNISON);
- ensure the Panel meets quarterly to discuss investment strategy and receives reports from the investment managers;
- ensure the Panel is advised by the Investment Adviser Hymans Robertson and an independent adviser John Hemingway (formerly Phillips and Drew);
- ensure the Panel also holds a separate annual strategy meeting at which it sets investment strategy policy;
- ensure effective communication with scheme employers, including an annual Employers Forum event;

Actions plans are in place to address these issues, and their implementation will be monitored and reviewed during the year.

Cllr Tony Reid
Chairman
Pension Fund Investment Panel

Sean Nolan (Treasurer)
Deputy Chief Executive and
Director of Corporate
Resources

3 September 2010

Current Investment Arrangements

The Fund is in the process of implementing a number of changes in its overall strategy and manager structure. It is currently restructuring to introduce an allocation to two absolute return mandates. Newton Investment Management and Ruffer LLP have been appointed to manage these mandates. These appointments are expected to provide further diversification. The Fund has also appointed two active global equity managers, Lazard Asset Management and Marathon Asset Management.

The Fund has moved to a fund of funds approach for the management of its property exposure. Schroder Investment Management Limited has been appointed to manage this mandate and the legacy property holdings have been transferred to this new manager's portfolio. There was also some restructuring of the bond portfolio over the year. Assets were transferred away from UBS Global Asset Management and the M&G mandate was revised. The allocation to gilts was reduced in favour of corporate bonds in October 2009. More recently the exposure has been revised to incorporate an allocation to an absolute return approach to bond management.

The Fund established an underweight position in equities in favour of cash as markets rallied sharply during the year. The strategic exposure is heavily weighted towards equities and a full exposure is only justified when the outlook is sound. The cash position at the end of the year is somewhat distorted by the restructuring of the Fund.

When considering the investment portfolio, diversification is one of the most important issues that the Panel considers. Rather than relying on a single investment decision, which might go badly wrong, 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 ("real" assets with a different performance cycle to equities) and to bonds (which ultimately "match" the Fund's liabilities). The allocation to absolute return approaches will provide further diversification.

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, to which the Fund is now aligned with its target after around six years of building exposure. This should lead to higher returns over the longer term, without adding to 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. Again, this has been 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 broadly diversified portfolios.

Legal and General remains the Fund's predominant equity manager. The Legal and General assets are managed passively within a number of pooled vehicles. Fidelity, the Fund's other appointed equity manager, employs a relatively low risk approach with no particular sector or regional biases.

The Panel believe that employing global equity managers is the most efficient way to access world equity markets, supporting its appointment of the new managers.

A single property manager is employed, however the fund of fund approach provides manager diversification within the underlying holdings.

The Fund's allocation to infrastructure is split between Prudential and UBS. Two absolute return managers have been appointed to provide diversification.

The objective is to ensure:

each active manager adds value, net of the fees which he charges;

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.

Prepared by:-
David O'Hara - Senior Investment Consultant
John Walbaum - Partner
James Sheehan – Investment Analyst

April 2010
For and on behalf of Hymans Robertson LLP

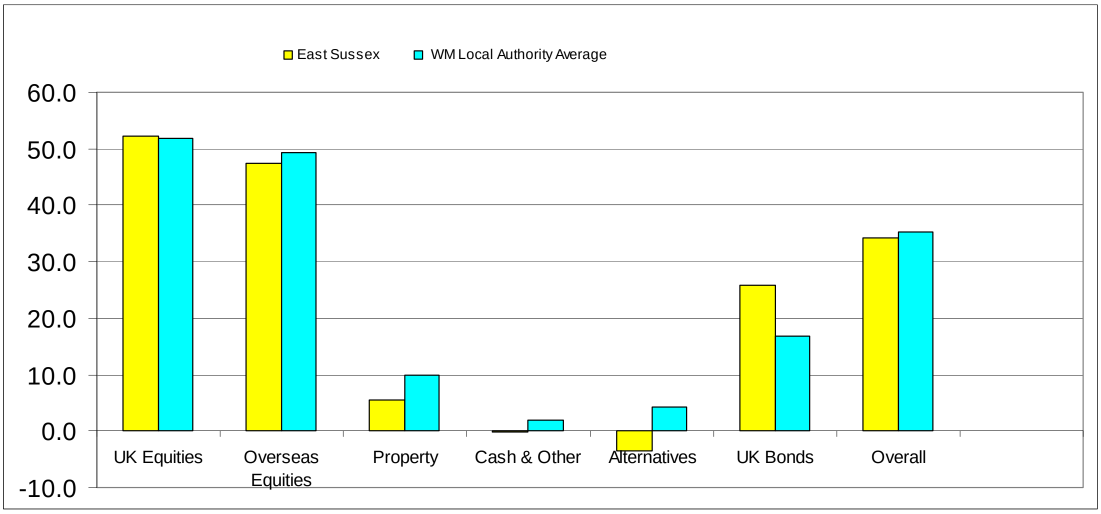
INVESTMENT PERFORMANCE

The County Council uses an independent Investment performance measurement service, provided by the WM Company which measures the performance of the Fund compared with 87 other local authority pension funds.

The Fund is managed against a customised benchmark which returned us 39.1% over the year. The overall annual rate of return achieved by the Fund is 34.3%, compared with the average return achieved by local authority funds of 35.2%. This was the 53rd best performance of the 87 local authority funds. Where longer term performance figures are shown they are compared with the average local authority pension fund (the WM local authority universe).

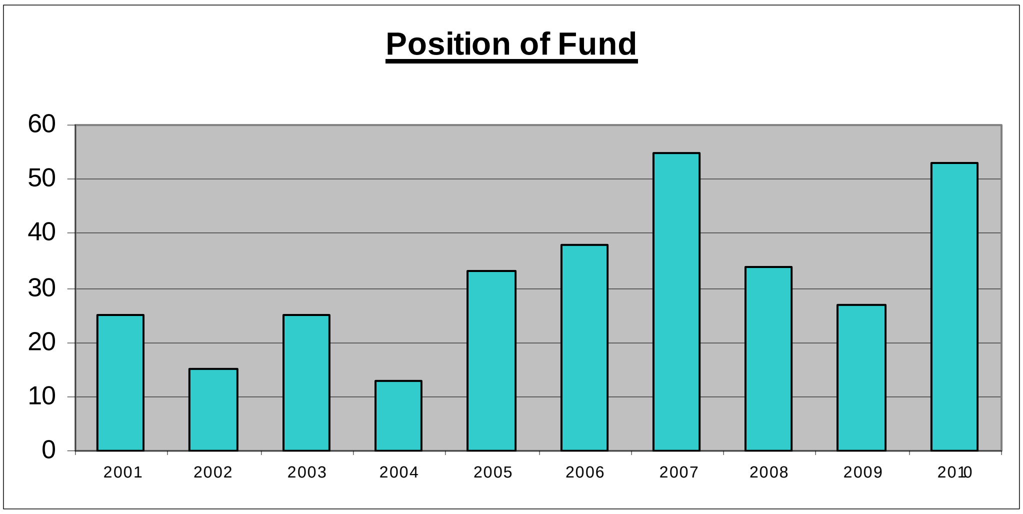
Over three years the Fund returned 2.2% pa, compared with the average local authority universe of 1.7% pa, is 0.5% higher than the average Fund and ranking the Fund in the 38th percentile. Over five years the Fund return of 7.3% pa is 0.2% higher than the average fund, ranking in the 36th percentile. Over ten years the Fund return of 4.5% is 0.7% higher than the average fund ranking in the 18th percentile.

The graphs below illustrate our investment performance in comparison to the WM Local Authority Universe.
East Sussex Fund Position in WM Local Authority Universe:



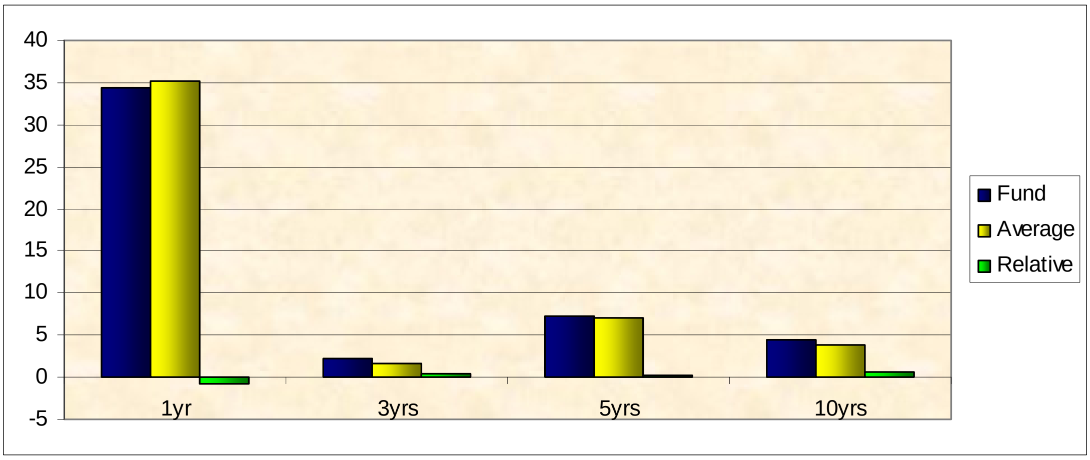
	East Sussex	2010 WM Local Authority Average
	%	%
UK Equities	52.3	51.9
Overseas Equities	47.4	49.4
Property	5.6	9.9
Cash & Other	-0.1	2.0
Alternatives	-3.5	4.3
UK Bonds	25.9	16.9
Overall	34.3	35.2

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Position	25	15	25	13	33	38	55	34	27	53



Fund returns

	Fund	Average	Relative
	%pa	%pa	%pa
1yr	34.3	35.2	-0.7
3yrs	2.2	1.7	0.5
5yrs	7.3	7.1	0.2
10yrs	4.5	3.8	0.7



REPORT AND ACCOUNTS SUMMARY

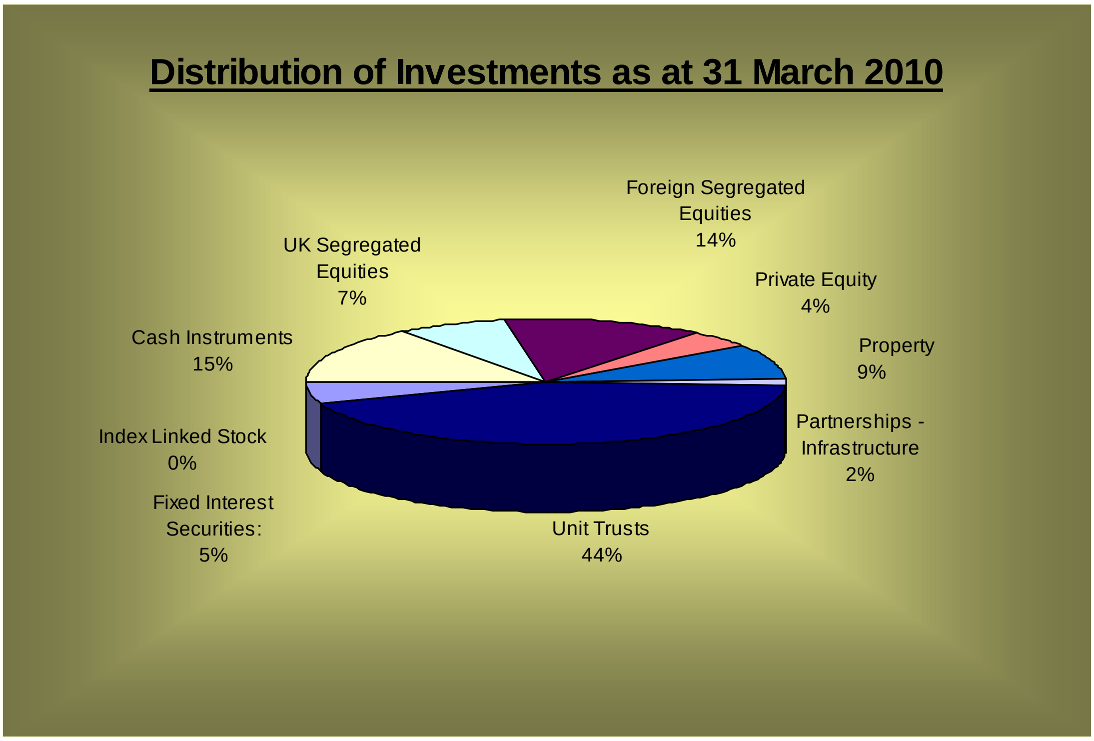
In 2009/2010 compared to 2008/2009:

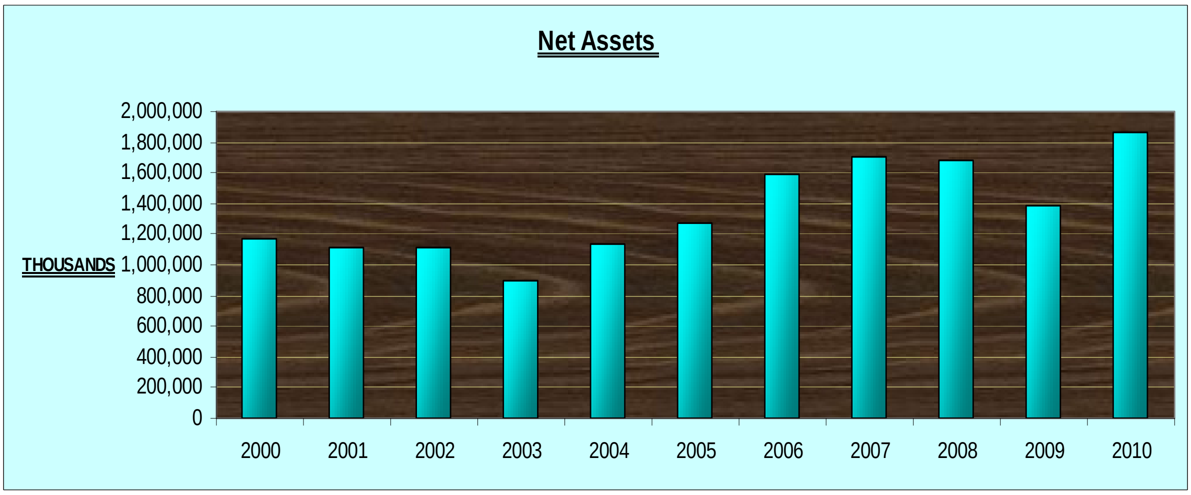
- The number of contributors to the Fund decreased by 0.8% to 21,384
- The number of pensioners being paid increased by 4.4% to 14,247
- Contributions income rose by £3.1m (3.1%) to £103.4m.
- Investment income decreased by £11.2m (-45.0%) to £13.6m. This large decrease is mainly explained by the Fund's switch to the Legal & General Passive Unit Trust Funds (Equities).
- Benefits paid out rose by £8.9m (11.1%) to £89.1m.

Investments

- The Net Assets of the scheme increased by £485m (35.1%) to £1,867m.
- The overall annual rate of return achieved by the Fund is 34.3%, compared with the average return achieved by local authority funds of 35.2%. This was the 53rd best performance of the 87 local authority funds.

INVESTMENT ACTIVITY





FINANCIAL ACCOUNTS 2009/2010

FUND ACCOUNT

Fund Account for Year Ended 31 March 2010
Dealings with Members, Employers and Others directly involved in the Scheme.

2008/09				2009/10	
£000	£000		Notes	£000	£000
		Contributions			
73,870		From Employers		76,762	
26,460	100,330	From Employees or Members	10	26,669	103,431
	7,994	**Transfers in**			9,845
	108,324				**113,276**
	80,126	**Benefits**	10		89,057
	5,033	**Payments to and on account of leavers**			8,231
	1,400	**Administrative expenses**			1,384
	86,559				**98,672**
	21,765	**Net Additions / (Withdrawals) from dealings with members**			**14,604**
		Returns on investments			
	24,746	**Investment income**	6		13,582
	(338,310)	**Change in market value of Investments**			460,919
	(519)	**Taxation**			(447)
	(3,761)	**Investment management expenses**	14		(3,227)
	(317,844)	**Net returns on investments**			**470,827**
	(296,079)	**Net Increase / (Decrease) in fund during the year**			485,431
	1,678,066	**Add Opening Net Assets of the scheme**			1,381,987
	1,381,987	**Closing net assets of the scheme**			**1,867,418**

NET ASSETS STATEMENT

Net Assets Statement as at 31 March 2010

2008/09					2009/10	
£000	£000			Notes	£000	£000
		Investment assets				
4,102		**Fixed interest securities**	**- Public Sector**		0	
130,350	134,452		**- Other**	7	95,822	95,822
109,325		**Equities Segregated**	**- UK**		135,553	
203,054			**- Overseas**		257,109	
69,572	381,951	**Unlisted**	**- Overseas**		82,418	475,080
0		**Index Linked Securities**	**- Public Sector**		0	
9,428	9,428		**- Other**		0	0
		Pooled Investment Vehicles				
110,032		**Unit Trusts**	**- Property**		165,097	
610,876			**- Equities**		808,125	
38,982	759,890	**Partnerships**	**- Infrastructure**		36,216	1,009,438
	90,917	**Cash deposits**				284,568
	15,781	**Other Investment balances**				10,067
	1,392,419					**1,874,975**
	(15,063)	**Investment liabilities**				(11,717)
	7,721	**Current assets**				8,153
	(3,090)	**Current liabilities**				(3,993)
	1,381,987					**1,867,418**

The Fund's financial statements do not take account of its liabilities to pay pensions and other benefits after the end of the financial year 2009/10.

Treasurer's 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 2010 and of the movements on the Fund Account for the year then ended.

SEAN NOLAN
Deputy Chief Executive and Director of Corporate Resources
8 June 2010

ACTUARY'S STATEMENT

Actuarial statement for the purpose of Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

As required by regulations, an actuarial valuation of the Fund's assets and liabilities was carried out as at 31 March 2007.

Security of prospective rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund, as required by the Regulations. In giving this opinion I have assumed that the following amounts will be paid to the Fund: -

Employee contributions in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2008.
Employer contributions, for the three years commencing 1 April 2008, as specified in our Certificate dated 22 November 2008 and also attached to this statement for ease of reference.

Summary of methods and assumptions used

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2008.

My opinion on the security of prospective rights is based on the Projected Unit Method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

Since assets were taken into account at their market value it is appropriate for me to take a lead from the market when setting the financial assumptions used to value the ongoing liabilities, to ensure compatibility of the asset and liability valuation bases. The stream of future liability payments is converted into a capital value today by assuming a return on Fund assets of 6.1% a year. The anticipated returns on assets are set by reference to the prevailing returns available on investing in the Government bond market at the valuation date. Long-term returns of 1.6% a year more than Government bonds are anticipated.

The key financial assumptions adopted for the 2007 valuation were as follows:

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long term failure inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield of fixed interest Government bonds	6.1%	2.8%

2007 valuation results

The 2007 valuation revealed that at 31 March 2007, the Fund's assets as a whole were sufficient to meet 89% (2004: 84%) of the liabilities accrued up to that date. Assets were taken into account at their then market value of £1,708m (£1,131m at 31 March 2004). The resulting deficit at the 2007 valuation was £212.3m (£223.3m at 31 March 2004).

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period chosen by the Administering Authority. The length of the spreading period depends on the type of employer and the strength of its funding covenant. For example, employers with tax raising powers have a 20 year spreading period whilst 15 years is used for Community Admission Bodies that are open to new members. Best Value Admission Bodies are permitted to spread deficit over the remaining contract period, subject to this period not exceeding the future working lifetime of their active employees. Changes to contribution rates are being phased in over a period of three years.

The next valuation will be carried out as at 31 March 2010.

Copies of the valuation report are available on request from the Finance Department of East Sussex County Council.

Experience since April 2007

The financial experience that affects the Fund's assets and liabilities since the valuation at 31March 2007 has been poor. Assets have significantly underperformed in relation to the assumptions set at the valuation whilst the value of liabilities will have risen slightly due to small reductions in government bond yields. The cost of new accrual of benefits will also have risen slightly due to the fall in bond yields.

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Chief Executive and Director of Corporate Resources.

- To manage its affairs to secure, economic, efficient and effective use of resources and safeguard its assets.

The responsibilities of the Deputy Chief Executive and Director of Corporate Resources

The Deputy Chief Executive and Director of Corporate Resources is responsible for the preparation of the Fund's statement of accounts which, in terms of the Chartered Institute of Public Finance and Accountancy / Local Authorities (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accountancy in Great Britain ("the Code") is required to present fairly the position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2010.

In preparing this statement of accounts, the Deputy Chief Executive and Director of Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently.

- Made judgements and estimates that were reasonable and prudent.

- Complied with the code.

The Deputy Chief Executive and Director of Corporate Resources has also:

- Kept proper accounting records which were up-to-date.

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

NOTES TO THE ACCOUNTS

1. 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 CRD Finance with monthly valuations of the schemes assets and details of all transactions.
- Responsibility for cash management and investing the daily cash balances in a "Triple A" rated cash pool.

2. Accounting Policies and Basis of Preparation

These accounts have been prepared in accordance with section 2 of the Statement of Recommended Practice (SORP) 'Financial Reports of Pension Schemes' (revised May 2007) and the 2009 SORP 'A Code of Practice on Local Authority Accounting in Great Britain'. The Fund has adopted the revised Pensions SORP 2007. As a result investments previously valued at mid prices are now valued at bid or offer prices for assets where there is a bid/offer spread. The accounts summarise the transactions and net assets of the Scheme.

The accounting policies for the Pension Fund accounts are the same as those used for the County Council, as set out on pages 18 to 23. The only points which particularly relate to the Pension Fund are:

- Foreign income is translated into sterling at the exchange rate at the time of the transaction.
- The expenditure of the fund includes all valid benefit claims arising during the financial year.

We show the investments held by the Pension Fund at the market value at 31 March 2010. The sources of valuation are as follows:

- Where available, all assets are priced at bid (the price a dealer is prepared to pay for a security).
- Northern Trust uses a number of established vendors for pricing equities and fixed income regardless of the market the security is traded in.
- The Private Equity investments are valued quarterly in arrears and are shown in the net assets statement as Equities-Unlisted Overseas.
- Unitised funds` prices are also sourced from a number of vendors as well as the Investment Manager.
- Non-sterling priced assets are priced in the local currency and converted to sterling at the WM/Reuters 4pm foreign exchange rate.
- All gains and losses arising on derivative contracts are reported in the 'Reconciliation of Movement in Investments'
- Brokers commissions and other costs of acquisition are included in the cost of investments purchased.

3. Actuarial Position

The latest actuarial valuation of the Fund was carried out as at 31 March 2007. 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 2007 valuation shows the Fund has a past service deficit, being 89% funded in respect of past liabilities. This compares with 84% funded at the 2004 valuation. A recent survey of valuation results for County Council funds carried out by the Society of County Treasurers has shown that all County Council funds are now in deficit. East Sussex funding of 89% compares with an average of 83% for all County Council funds and places East Sussex in joint 5th position out of thirty four funds. This means that the employer contribution rate only needs to go up by 1% over the next 3 years for the majority of the East Sussex Fund’s employers. The contribution rates paid by each employer participating in the fund for 2009/2010 are shown at note 9.

The contribution rates as described are calculated to be sufficient to cover 100% of the Funds Liabilities. With effect from 1 April 2008 the Common Rate of Contribution was 18.8% of pensionable pay, comprising a future service funding rate of 15.2% of pensionable pay, and an additional 3.6% in respect of the past service deficit resulting from past investment underperformance.

Summary of Methods and Assumptions Used

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2008.

The Actuarial opinion on the security of prospective rights is based on the Projected Unit Method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

Since assets were taken into account at their market value the actuary considers it appropriate to take a lead from the market when setting the financial assumptions used to value the ongoing liabilities, to ensure compatibility of the asset and liability valuation bases. The stream of future liability payments is converted into a capital value today by assuming a return on Fund assets of 6.1% a year. The anticipated returns on assets are set by reference to the prevailing returns available on investing in the Government bond market. Long-term returns of 1.6% a year more than Government bonds are anticipated.

The contribution rates have been calculated using the projected unit method and the main actuarial assumptions were as follows:

Investment Return	Nominal
Equities	6.1%
Pay Increases	4.7%
Price inflation/Pension Increases	3.2%

4. Fund Managers

The market value (at Bid) of the investments as at 31 March 2010 which were under the management of fund managers and the proportion managed by each manager:

Manager	2009 £m	2009 %	2010 £m	2010 %
UBS	114.6	8.3	11.0	0.6
Capital	11.7	0.8	19.4	1.0
Fidelity	346.6	25.2	438.1	23.5
Prudential M&G	145.0	10.5	125.8	6.7
Harbourvest	30.2	2.2	35.1	1.9
Adams Street Partners	39.3	2.9	47.7	2.6
Northern Trust Cash	84.7	6.2	235.6	12.6
UBS Infrastructure	13.9	1.0	14.9	0.8
Prudential Infrastructure	25.1	1.8	21.7	1.2
Legal & General	563.1	40.9	741.3	39.8
Alliance Bernstein	2.4	0.2	0	0
Schroders	0.0	0.0	174.3	9.3
Total	**1,376.6**	**100.0**	**1,864.9**	**100.0**

The Overall annual rate of return achieved by the Fund is 34.3% compared with the WM Universe return of 35.1%.

5. Analysis of Investments

Description	31/03/09 £m	(of which unquoted) £m	31/03/10 £m	(of which unquoted) £m
UK	737.9	(39.0)	1,175.2	(36.2)
Foreign	638.7	(69.6)	689.7	(82.4)
	1,376.6	(108.6)	1,864.9	(118.6)
Other Investment balances	15.8	-	10.1	-
	1,392.4	**(108.6)**	**1,875.0**	**(118.6)**

Largest Holdings

Only three holdings represented over 5% of the total value of the net assets of the scheme.

Name	Investment Type	£m	%
Legal & General UK Equity Index	Unit Trust Equity (Passive)	276.6	14.9
Legal & General World Equity Index	Unit Trust Equity (Passive)	131.9	7.1
Legal & General S N. America Equity Index	Unit Trust Equity (Passive)	117.4	6.3

6. Investment Income Table

	2008/09 £000	2009/10 £000
Income From Fixed Interest Securities	1,007	112
Dividends from Equities	13,024	10,369
Income from index linked securities	70	0
Income from pooled investment vehicles	2,389	1,731
Securities Lending	161	0
Commission Recapture	12	8
Interest on cash deposits	7,564	796
Income from Class Actions	0	119
	24,227	**13,135**
Irrecoverable Withholding tax	519	447
Total Investment Income	**24,746**	**13,582**

7. Investment

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include the costs charged directly to the scheme such as fees, commissions, and stamp duty. Transaction costs incurred during the year amounted to £1.322m (£1.567m 2008/09). In addition, indirect transaction costs are also incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

Reconciliation of Movement in Investments

	Value at 2008/09 £000	Purchases at cost & Derivative Payments £000	Sales Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 2009/10 £000
Fixed Interest Securities	134,452	46,126	(119,025)	34,269	95,822
Equities	381,951	327,835	(359,714)	125,008	475,080
Index Linked Securities	9,428	0	(10,339)	911	0
Pooled Investment Vehicles	759,890	74,405	(125,435)	300,578	1,009,438
	1,285,721	**448,366**	**(614,513)**	**460,766**	**1,580,340**
Cash Deposits	90,917			(114)	284,568
Other Investment balances	15,781			267	10,067
	1,392,419			**460,919**	**1,874,975**

Fixed Interest Securities	Value £000 2008/09	Value £000 2009/10
UK Public Sector Quoted	4,102	-
UK Corporate Quoted	130,350	95,822
Overseas Corporate Quoted	**-**	**-**
	134,452	**95,822**

Equities	2008/09	2009/10
UK Quoted	109,325	135,553
UK Unquoted	-	-
Overseas Quoted	203,054	257,109
Overseas Unquoted	69,572	82,418
	381,951	**475,080**

Index Linked Securities	2008/09	2009/10
UK Public Sector Quoted	9,428	-
Overseas Public Sector Quoted	-	-
	9,428	**-**

Pooled Investment Vehicles	2008/09	2009/10
UK Unit Trusts -Property	110,032	165,097
-Other	610,876	808,125
Partnerships -Infrastructure	38,982	36,216
	759,890	**1,009,438**

Cash Deposits	2008/09	2009/10
Sterling	90,917	284,568
Foreign Currency	-	-
	90,917	**284,568**

Investment Assets (Other Investment Balances)

	2008/09 £000	2009/10 £000
Sales including currency	13,705	7,820
Investment Income Due	1,199	1,289
Recoverable Taxes	833	950
Managers Fees rebate	44	8
Total	**15,781**	**10,067**

8. Derivative Contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. 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.

Derivative Contracts		**Mar-09**	**Mar-10**
		£	**£**
UK Fixed Income Futures		89,905	0
Overseas Fixed Income Futures		0	0
		89,905	**0**
Type of Future	**Expiration**	**Economic Exposure Value**	**Market Value**
UK FTSE exchange traded	less than 1 year	10,971,920	0
Overseas FTSE exchange traded	less than 1 year	0	0
		10,971,920	**0**
		Mar-09	**Mar-10**
Adjustment to Variation Margin		(89,905)	0
		(89,905)	**0**

9. The LGPS in East Sussex

Membership of the East Sussex Pension Fund as at 31 March 2010 is detailed below

	March 2009	**March 2010**
Contributors	21,550	21,384
Pensioners	13,644	14,247
Deferred Members	17,357	18,512

10. Analysis of Contributions

The normal contribution rates that are paid by participating employers in the Fund cover the cost of benefits relating to future service, and correcting any deficit identified at the latest actuarial valuation over a specified number of years.
The deficit funding in total for all participating employers is shown on the table below.

Contribution rates and benefits payable are set out in statutory regulations

Contributions	**2008/09 £000**	**2009/10 £000**
Employers' Normal	(63,496)	(62,089)
Deficit funding	(9,181)	(13,407)
Augmentation	(1,193)	(1,266)
Members' Normal	(26,460)	(26,669)
Total	**(100,330)**	**(103,431)**

All transfers in (£9,845m) are individual transfers i.e. there are no group transfers.

Benefits Payable	**2008/09 £000**	**2009/10 £000**
Pensions	59,405	64,281
Commutations & Lump Sums	19,249	22,882
Lump Sums Death Benefits	1,472	1,894
Total	**80,126**	**89,057**

	2008/09		**2009/10**	
	Contributions Receivable £m	**Benefits Payable £m**	**Contributions Receivable £m**	**Benefits Payable £m**
Administrative Authority	37.6	31.2	38.4	34.4
Scheduled Bodies	60.5	46.9	60.9	52.6
Admitted Bodies	2.2	2.0	4.1	2.1
	100.3	**80.1**	**103.4**	**89.1**

Payments to & on account of leavers	**2008/09 £000**	**2009/10 £000**
Refunds of Contributions	11	24
Group transfers out to other schemes	-	-
Individual Transfers out to other schemes	5,022	8,207
Total	**5,033**	**8,231**

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2009/10 some members of the pension scheme paid voluntary contributions and transfers in of £1,360m to Prudential to buy extra pension benefits when they retire. £1,853m was disinvested from the AVC provider in 2009/10 (£2,636m 2008/09).The contributions are paid directly from scheme members to the AVC provider and are therefore not included in the Pension Fund Accounts. The combined value of the AVC funds at 31 March 2010 was £16,150m (at 31 March 2009 £16,023m).

11. Assets & Liabilities

	2008/09 £000	**2009/10 £000**
Investment Liabilities (Other Investment Balances)		
Purchases including currency	14,550	11,235
Managers' Fees	513	482
Total	**15,063**	**11,717**
Current Assets		
Contributions (Ees&Ers)	7,415	7,593
Other Current Assets	306	560
Cash Balances (invested with ESCC)	-	-
Total	**7,721**	**8,153**
Current Liabilities		
Pension Payments (inc lump sums)	938	2,853
Cash Balances (owed to ESCC)	1,850	483
Professional Fees	62	71
Other Current Liabilities	240	586
Total	**3,090**	**3,993**

12. Contingent Assets / Contingent Liabilities

At 31 March 2010 the Fund has contractual commitments of £202.4 million to private equity funds managed by Adams Street and Harbourvest. The Fund has also committed £22.5 million to the M & G UK Companies Financing fund.

At 31 March 2010 the unfunded commitment was £95.0 million for private equity and £22.5 million for the M & G UK Companies Financing Fund. The commitments are paid over the investment time frame of the underlying partnership. Concurrently as these partnerships mature they will also distribute capital back to investors. The Fund has received distributions not subject to recall of £21.1 million in respect of these partnerships at 31 March 2010. All figures expressed are based on relevant exchange rates as at 31 March 2010.

The value of the funded commitment net of distributions in these funds at 31 March 2010 is included in the net asset statement.

Sussex Careers - a Community Admission Body in the Pension Fund, until recently, supplied careers advisory services on behalf of both ESCC and B&H CC. Sussex Careers has now been formally wound-up, and its remaining non-pension assets will be distributed to its creditors, including the Pension Fund.
The Fund will continue to pursue a claim for compensation and recovery of outstanding debts. While the outcome will only be decided by a decision of the Liquidators, the proportion to be paid to the Fund is yet to be determined.

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 will be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

13. Stock Lending

The East Sussex Fund has not operated a Stock lending Programme since 13th October 2008.

14. Scheme and Investment Expenses

Regulations permit the County Council to charge administration costs to the Fund. A proportion of relevant County Council costs have been charged to the Fund on the basis of actual time spent on pension scheme administration and investment related business and in safeguarding Fund assets. The fees of the Fund's external investment managers reflect the agreements contained in their respective mandates. Fees are linked to the market value of the Fund's investment and therefore may increase or reduce as the value of these investments change. The Fund Manager aggregated fees include the rebated fees in respect of the pooled funds so as to reflect the gross position in respect of investment fund manager charges.

Total expenditure on scheme and investment management expenses during the year was £4.6m broken down as follows: Professional Fees £3.2m (inc £0.9m rebated fees) and Scheme Administration £1.4m.

Investment Management expenses	**2008/09 £000**	**2009/10 £000**
Investment Management & Custody fees	3,551	2,885
Performance Measurement Services	13	15
Other Advisory Services	197	327
Total	**3,761**	**3,227**

Administrative expenses	**2008/09 £000**	**2009/10 £000**
Administration & Processing	1,168	1,193
Actuarial Fees	159	111
Audit Fee	68	71
Legal & other Professional Fees	5	9
Total	**1,400**	**1,384**

15. Related Parties

Employer pension contributions paid by East Sussex County Council in 2009/10 amounted to £38.4m (£37.6m in 2008/09). Details of transactions with East Sussex County Council can be found in note 14 to the Accounting Statements. Other than those listed above in note 14 no material transactions took place in 2009/10 with related parties. During 2009/10, the Pension Fund had an average balance of £2.4m deposited with the County Council, which paid £7,740 interest for these deposits. The County Council charged the Fund £1.4m for expenses incurred in administering the Fund. 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 professional fees paid to the Pension Fund's external investment fund managers and East Sussex County Council are shown in note 14.

16. Audit Costs

The table below sets out the fees agreed with PKF for services rendered during the year, and in line with the requirement for administrating authorities to produce a pension fund annual report from 2007/08. An additional requirement from 2008/09 is for the pension fund audit to be separate from the audit of the County Council's accounts. The scope of the audit is determined by the Audit Commission's Code of Audit Practice ('the Code') and PKF's risk-based approach to audit planning.

	2008/09	2009/10
	£000	**£000**
Pension Fund Audit	50	52
Total	**50**	**52**

ACTUARIAL POSITION SHOWING CONTRIBUTION RATES OF PARTICIPATING BODIES

1) An actuarial valuation of the Fund was carried out as at 31 March 2007.

2) Contribution rates

   a) This valuation showed that the required level of contribution to be paid to the Fund by the County Council; the District Councils and other participating employers was the percentage of pensionable pay shown in the attached Schedule of Contributions.

   b) The contribution rates, as described, are calculated to be sufficient to cover 100% of the Funds liabilities. With effect from 1 April 2008 the Common Rate of Contribution was 18.8% of pensionable pay, comprising a future service funding rate of 15.2% of pensionable pay, comprising a future service funding rate of 15.2% of pensionable pay, and an additional 3.6% in respect of the past service deficit resulting from past investment under-performance. In addition there are individual adjustments to the Common Rate resulting in Total Required Contribution rates as shown in the attached Schedule, these reflecting the individual circumstances of each employer.

   c) The Common Rate of contribution is the rate that, in addition to the contribution paid by members, is sufficient to target a funding level of 100% of the liabilities arising in respect of service after the valuation. Moving back to a funding level of 100% is targeted over approximately 20 years

   d) The market value of the Fund’s assets at the valuation date was £1,708m. The assets represent, therefore, 89% of the Funds accrued liabilities, allowing for future pay increase.

3) The contribution rates have been calculated using the projected unit method and the main actuarial assumptions were as follows:

Investment return	**Nominal**
Equities	6.1%
Bonds	4.5%
Pay increases	4.7%
Price inflation/Pension Increases	3.2%

STATEMENT TO THE RATES AND ADJUSTMENTS CERTIFICATE

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2008 to 31 March 2011 is 18.8% of pensionable pay (as defined in Appendix B of 2007 valuation report).

Individual Adjustments are required under Regulation 36 for the period 1 April 2008 to 31 March 2011 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Code	Administering Authority	Contribution Rates 2009/10 %	2010/11 %
2	East Sussex County Council	17.8%	18.1%
	Scheduled Bodies		
234	Brighton & Hove City Council (1)	16.7%	17.0%
212	Eastbourne Borough Council	20.9%	21.2%
214	Hastings Borough Council	20.5%	20.8%
218	Lewes District Council	19.2%	19.5%
220	Rother District Council	22.4%	22.7%
222	Wealden District Council	20.1%	20.4%
7	East Sussex Fire & Rescue Service	18.3%	18.4%
38	Battle Town Council	18.3%	18.6%
326	Bexhill 6th Form College	15.2%	15.5%
315	City College Brighton	16.5%	16.8%
320	Brighton Hove & Sussex 6th Form College	15.2%	15.5%
20	Chailey P C	18.3%	18.6%
120	Conservators of Ashdown Forest	18.3%	18.6%
22	Crowborough Town Council	18.3%	18.6%
142	Valuation Tribunal	18.3%	18.6%
146	Sussex Probation Board	20.0%	20.0%
319	Sussex Downs College	14.1%	14.5%
33	Forest Row Parish Council	18.3%	18.6%
36	Hailsham Town Council	18.3%	18.6%
312	Sussex Coast College	15.7%	16.0%
65	Heathfield & Waldron Parish Council	18.3%	18.6%
41	Lewes Town Council	18.3%	18.6%
42	Maresfield Parish Council	18.3%	18.6%
44	Newhaven Town Council	18.3%	18.6%
47	Peacehaven Town Council	18.3%	18.6%
316	Plumpton College	15.2%	15.5%
50	Polegate Town Council	18.3%	18.6%
52	Ringmer Parish Council	18.3%	18.6%
53	Rye Town Council	18.3%	18.6%
51	Seaford Town Council	18.3%	18.6%
208	Sussex Sea Fisheries District Committee	18.3%	18.6%
91	Telscombe Town Council	18.3%	18.6%
89	Uckfield Town Council	18.3%	18.6%
300	University of Brighton	15.4%	15.7%

322	Varndean 6th Form College	15.2%	15.5%
95	Willingdon & Jevington Parish Council	18.3%	18.6%
115	Chiddingly Parish Council	18.3%	18.6%
	Admitted Bodies		
134	1066 Housing Association (2)	29.9%	29.9%
192	Hove & Portslade Citizens Advice Bureau (4)	21.0%	21.5%
135	Rother Homes (2)	29.9%	29.9%
60	SEERA	12.8%	13.1%
201	Sussex Archaeological Society	18.5%	19.0%
136	Sussex Housing And Care	18.5%	19.0%
232	University of Sussex	18.5%	19.0%
155	Freedom Leisure	13.6%	13.9%
150	Commission for Social Care & Inspection	20.1%	20.7%
19	Centre for British Teachers	13.3%	-
39	Jarvis Workspace FM	18.4%	19.8%
23	De La Warr Pavillion Trust	16.4%	17.6%
54	RBLI	15.5%	15.8%
56	Eastbourne Leisure Trust (Serco)	8.7%	9.0%
55	Convex Leisure	13.4%	13.7%
325	Wealden & Eastbourne Lifeline (WELL)	16.3%	16.6%
30	Eastbourne Homes	15.9%	17.0%
126	May Gurney	18.7%	18.8%
225	Wave Leisure	12.6%	13.8%
141	Sussex County Sports Partnership (3)	15.8%	15.8%
239	Crime Reduction Initiatives	21.3%	21.3%

Notes

(1) Brighton, Hove and Worthing Joint Airport Committee is now included in the Brighton and Hove City Council Pool.
(2) Rother Homes Limited and 1066 Housing Association are now pooled due to a common parent group.
(3) Sussex County Sports Partnership contribution rate is effective from 1 January 2008.
(4) Hove & Portslade CAB is closed to new entrants after 5 December 2008. As a result the contribution rate payable from 1 April 2008 of 18.0% increases to 20.5% from 1 January 2009.

Changes to contributions have been phased in over a three year period.

Contributions expressed as a percentage should be paid into East Sussex Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid into the Fund to meet the costs of any non-ill health early retirements. These will be paid either:

a) by an additional 1% of pensionable pay; or
b) using methods and factors issued by me from time to time.

East Sussex County Council and I will make the final decision as to the method of payment (i.e. either (a) or (b)) to be used by each employer.

Further sums should be paid to the Fund to meet the costs of any augmentation (i.e. additional membership or additional pension) using methods and factors issued by me from time to time, or GAD guidance if I consider it to be appropriate.

In addition, further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements, non-ill health early retirements or augmentation that exceed those included within my assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

APPENDIX ONE - PENSION FUND POLICY DOCUMENTS

STATEMENT OF INVESTMENT PRINCIPLES

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Amendment Regulations 2009 require administering authorities of pension funds to prepare and review, from time to time, a written statement setting out the investment policy for their Fund. Any material change in investment policy must be included in a revised Statement of Investment Principles (SIP) within six months of the change. This SIP has been written to comply with these regulations. 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 updated copies are available from the Deputy Chief Executive and Director of Corporate Resources (01273 481785).

Myners Six Principles – Compliance Statement

The Panel has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication, 'investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of the LGPS funds'. Administering Authorities are required to report against these six principles on a 'comply or explain' basis. This compliance statement is included in the Fund's Statement of Investment Principles.

SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

The Panel has considered 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

APPENDIX TWO - FUNDING STRATEGY STATEMENT

1 Introduction

This is the Funding Strategy Statement (FSS) of the East Sussex Pension Fund ("the Fund"), which is administered by East Sussex County Council ("the Administering Authority") in accordance with the Local Government Pension Scheme Regulations ("the Regulations").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson and after consultation with the Fund's employers and investment adviser and is effective from 31 March 2008.

1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997[1] (regulations 76A and 77 are particularly relevant)
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

[1] From 1 April 2008 this was replaced by the Local Government Pension Scheme (Administration) Regulations 2008.

1.2 Review of FSS

This is a requirement under Regulation 76A of the Regulations. The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be started by 31 March 2010 and implemented in April 2011. Set out at Annex A is the derivation of the target minimum employer contributions rates, agreed phasing and spreading periods, and the resultant increases in relation to 2007/08 contribution rates, for three years 2008/09 through to 2010/11. Annex A is updated to reflect any changes to employers. Annex B sets out key roles and responsibilities.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact:

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2 Purposes

2.1 Purpose of the Funding Strategy Statement

Communities and Local Government (CLG), formerly the Office of the Deputy Prime Minister, has stated that the purpose of the FSS is:

- *"to establish a clear and transparent specific strategy which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities."*

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to help meet the long term pension costs and to reduce the variability of those costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarized in Annex B.

2.3 Aims of the Investment Strategy and Funding Policy

The core principles underpinning the Fund's investment policy are as follows:

- to ensure the long-term solvency of the Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to maximize investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk and volatility;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- to minimise the degree of short-term change in employer contribution rates
- 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;
- to take into account asset-liability studies when considering asset allocation decisions;
- to take into account reasonable deficit spreading approaches consistent with the above.

3 Employer Contributions

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- the estimated cost of future benefits being accrued, referred to as the *"the future service rate"*; plus
- a 'past service adjustment' for the funding position (at the valuation date) of accrued benefits relative to the Funds assets. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate,* for all employers collectively at each triennial valuation. It combines both items above and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to the employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.3. Annex A contains a breakdown of each employer's contributions following the 2007 valuation for the financial years 2008/09, 2009/10 and 2010/11. It identifies which employer's contributions have been pooled with others.

In respect of non-ill health early retirements, the larger and statutory employers have the option to pay an additional 1% of employer contributions per year to meet non-ill health premature retirement costs. For smaller and non-statutory employers in the scheme, these must be paid as lump sum payments at the time of the employer's decision in addition to the contribution described above (or by instalments shortly after the decision). The larger and statutory employers referred to above have the choice to revert to a 'pay as you go' approach to paying for early retirement decisions.

3.2 'Stability Overlay' Mechanism

A 'stability overlay' mechanism was adopted at the 2007 valuation to derive the minimum employer contribution rates. This has the effect of dampening down short-term market volatility subject to certain limits. The three year phasing of rate changes still applies. (see 3.8.4).

More detail on the stability overlay mechanism is given in the table below: (The rate for 2008/09, based upon the 2007 valuation, is compared with the prevailing rate as at 2007/08 and the stability overlay is applied depending upon the results of that comparison).

Difference in employer contribution rate between current rate (2007/08) and 2007 valuation rate before stability overlay		
A reduction	A small increase between 0% and 1%	A larger increase greater than 1% of pay
• If in deficit: no change from 2007/08 rate • If in surplus: rate becomes greater of: 5/6ths of current rate +1/6th of 2007 rate; or future service rate	Take increase in 2007 rate in full	Rate becomes *greater* of: • 5/6ths of current rate + 1/6th of 2007 rate; or 1% of pay more than current rate

The effect of using the mechanism at the 2007 valuation was to restrict the minimum contribution rate to increase ranging from 0% to 2% of pensionable pay for most employers.
Employers may opt to pay higher regular contributions than these minimum rates. Where minimum contributions have reduced, employers may prefer not to take such reductions and this would be the strong advice of the Administration Authority.

3.3 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.
In actuarial terms, "Solvency" for ongoing employers is defined to be the ratio of the current market value of assets to the value placed on accrued liabilities (i.e. future benefits promises as at the valuation date) discounted to current prices, on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding or solvency level.
The Target Funding level for all ongoing employers is to cover 100% of its accrued liabilities at the valuation date.

3.4 Ongoing Funding Basis

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority and it is applied to all ongoing employers. Please refer to paragraph 3.9 for the treatment of departing employers.

The demographic assumptions are intended to be best estimates of future liability experience (i.e. pension costs) for the Fund. They vary reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes an allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds but over time that has been the normal result. The volatility risk is greater over short periods such as the three years between formal actuarial variations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2007 valuation, it was assumed that the Fund's equity investments will deliver a higher return of 2% per year over that available from investing in fixed interest Government bonds at the time of the valuation (which forms part of the overall assumption of 1.6% per year on all assets held by the Fund, including corporate bonds and property amongst other asset classes in addition to equities).

The same financial assumptions are adopted for all ongoing employers.

3.5 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. (only certain employers known as "admission bodies" can decide not to admit new staff, local Authority employers cannot so decide).

3.5.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.
If the employee profile becomes more 'mature' (i.e. average age increases because for example, of reduced recruitment of younger new staff) the future service rate required would rise.

3.5.2 Employers that do not admit new entrants

Certain Admission Bodies who make up a small proportion of all scheme employers have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as membership ages.
Both funding methods are described in the Actuary's report on the valuation.
Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health and retirement.

3.6 Adjustments for Individual Employers

Adjustments for individual employers applied by the Fund Actuary allow for factors including:

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to mainly:

- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the additional costs of any non ill-health retirements relative to any extra payments made;

3.7 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer’s assets separately. The Fund’s actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an established and accepted actuarial technique known as “analysis of surplus”.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation, including, but not limited to

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the valuation analysis, which is split between employers in proportion to their liabilities.

3.8 Stability of Employer Contributions

3.8.1 Stability overlay mechanism

As mentioned earlier, this mechanism was adopted at the 2007 valuation and is detailed in Section 3.2. The 2007 valuation rate referred to in the mechanism is the theoretical rate calculated in accordance with Sections 3.8.2. and 3.8.3 below. The effect of the overlay is to dampen changes to contribution rates for employers between successive valuations.

3.8.2 Deficit Recovery Periods

The Administering Authority requests the actuary to adopt specific deficit recovery periods for all employers when calculating their theoretical contributions. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years but over 15 years for certain classes of employers (depending on the strength of the credit risk/ funding covenant i.e. council tax covenant is considered the most secure with the smallest credit risk). However the ‘Best Value’ Admission Bodies are subject to a deficit recovery period from the start of the revised contributions to the end of the employer’s contract.

The maximum period is used in calculating each employer’s theoretical contributions.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

The deficit spreading periods used to calculate the employers’ theoretical contributions are as follows:

Type of Employer	**Spreading Period**
Tax raising employers*	20 years
Community Admission Bodies (that are open to new entrants)	15 years
Best Value Admission Bodies	Remaining contract period (where provided), subject to not exceeding Remaining Working Lifetime.

*****the longer period is in recognition of their ability to pass on extra costs to the tax payer.

3.8.3 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their theoretical contributions.

3.8.4 Phasing In of Contribution Rises

The Administering Authority permits certain employers to phase in contribution rises. This will be in three equal steps over the three years following the triennial valuation. Best Value Admission Bodies are not eligible for phasing in of contribution rises.

3.8.5 Phasing in of Contribution Reductions

Any contribution reductions will be phased in over three years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

3.8.6 Pooled Contributions

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events – such as ill-health retirements or deaths in service – on their contributions. The actuary is still able to separately identify all the employer's assets.
As at the 2007 valuation separate pools are operated for Town and Parish Councils and for Community Admission Bodies with not more than 75 active members. Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Best Value Admission Bodies are also ineligible for pooling

3.9 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in the future. This could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.10 Early Retirement Costs

3.10.1 Non Ill Health Retirements

The actuary's funding basis makes an allowance for certain employers for premature retirement except on grounds of ill-health. For other employers they are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. The current costs of these are specified in the latest early retirement manual from Hymans Robertson.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

3.10.2 Ill Health Monitoring

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis that applies for non-ill health cases.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed each year at the Annual Strategy meeting of the Investment Panel to ensure that it remains appropriate to the Fund's liability profile. It is also formally revised after each triennial valuation. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2007, the proportion held in equities and property was approximately 75% of the total Fund assets.

The investment strategy of lowest risk in terms of volatility of funding – but expected to be the most expensive in terms of employer contributions (given the expected relative out performance of equities) – would be 100% investment in a combination conventional and index-linked Government bonds. The investment strategy of lowest expected cost in terms of long term employer contribution rates – but the most volatile in terms of actual performance in the short term – is 100% investment in equities and other growth orientated assets. This is the crucial trade off. The greater the investment in equities, the lower the initial employer contributions are likely to be, but the higher the risk of volatility in employer contribution rates and funding levels over the relatively short term period of triennial valuations.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from Government bonds. The Administering Authority's strategy recognises the 'non-mature' nature of the liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is followed for all employers.

4.2 Consistency with Funding Basis

The Fund's investment adviser's current best estimate of the long-term return from equities is around 3% a year in excess of the return available from investing in fixed interest Government bonds.

The funding policy adopts a more prudent approach by anticipating long-term returns of 1.6% per year in excess of the prevailing redemption yield on fixed interest Government bonds. This assumption relates to the future return anticipated on all assets held by the Fund, including corporate bonds and property in addition to equities.

In this way, the employer contributions anticipate returns from Fund assets where, in the Fund actuary's opinion, there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 5 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in asset classes with higher expected return, but more volatile, like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-valuation Monitoring of Funding Position

The Administering Authority monitors the funding position, between valuation dates, allowing for actual investment returns and changes in financial assumptions (such as the liability discount rate) caused by changes in market conditions. This is reported to all employers at least annually. In addition specific inter-valuation monitoring for individual employers may be undertaken if considered appropriate.

5. Key Risks and Controls

5.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- Financial;
- Demographic
- Regulatory; and
- Governance

5.2 Financial Risks

Risk	**Summary of Control Mechanisms**
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress annually, and at three yearly valuations for all employers.* *If appropriate inter-valuation roll-forward of liabilities between formal valuations at*

Risk	**Summary of Control Mechanisms**
	individual employer level, provided on an annual basis.
Inappropriate long-term investment strategy.	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark.	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.* *This is supplemented with an analysis of absolute returns against those under-pinning the valuation.* *This gives an early warning of contribution rises ahead. In the short term, volatility is damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Employers pay for their own salary awards.*
Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies.	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading, phasing in of contribution rises and stability overlay mechanism.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by CLG and comments where appropriate.*

5.5 Governance

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</td><td rowspan="2">The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations.

Deficit contributions are expressed as percentage (see Annex A).</td></tr>
<tr><td>Administering Authority not advised of an employer closing to new entrants.</td></tr>
<tr><td>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</td><td>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.

It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</td></tr>
<tr><td>An employer ceasing to exist with insufficient funding or adequacy of a bond.</td><td>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.

The risk is mitigated by:
• Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.
• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.
• Vetting prospective employers before admission.
• Setting a minimum limit of 20 employees for prospective employers.
• Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</td></tr>
</table>

Annex A – Employers' Contributions, Spreading and Phasing Periods

Group / Employer	Agreement Type	2007/08 Contributions (% of payroll)	Early Retirement Budget (% of payroll)	Maximum Deficit Recovery Period (years)	Minimum Target Contributions (% of payroll)	Minimum 2008/09 Contributions (% of payroll)	Minimum 2009/10 Contributions (% of payroll)	Minimum 2010/11 Contributions (% of payroll)
Scheduled Bodies - Major Authorities								
East Sussex County Council	Open	18.1%	0.0%	20	18.1%	17.5%	17.8%	18.1%
East Sussex Fire & Rescue Service	Open	19.0%	1.0%	20	18.4%	18.2%	18.3%	18.4%
Eastbourne Borough Council	Open	21.2%	1.0%	20	21.2%	20.6%	20.9%	21.2%
Eastbourne Buses Ltd.	Closed	34.1%	1.0%	20	33.1%	33.1%	33.1%	33.1%
Hastings Borough Council	Open	20.8%	1.0%	20	20.8%	20.2%	20.5%	20.8%
Lewes District Council	Open	19.5%	1.0%	20	19.5%	18.9%	19.2%	19.5%
Rother District Council	Open	22.7%	1.0%	20	22.7%	22.1%	22.4%	22.7%
Wealden District Council	Open	20.6%	1.0%	20	20.4%	19.8%	20.1%	20.4%
Brighton & Hove City Council	Open	17.0%	0.0%	20	17.0%	16.4%	16.7%	17.0%
University of Brighton	Open	15.7%	1.0%	20	15.7%	15.1%	15.4%	15.7%
Other Scheduled Bodies								
Sussex Probation Board	Open	21.0%	0.0%	20	20.0%	20.0%	20.0%	20.0%
Chailey Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Crowborough Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%

Group / Employer	Agreement Type	2007/08 Contributions (% of payroll)	Early Retirement Budget (% of payroll)	Maximum Deficit Recovery Period (years)	Minimum Target Contributions (% of payroll)	Minimum 2008/09 Contributions (% of payroll)	Minimum 2009/10 Contributions (% of payroll)	Minimum 2010/11 Contributions (% of payroll)
Forest Row Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Hailsham Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Battle Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Lewes Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Newhaven Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Peacehaven Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Polegate Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Seaford Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Ringmer Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Rye Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Heathfield & Waldron Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Uckfield Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Telscombe Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Willingdon & Jevington Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Maresfield Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Conservators of Ashdown Forest	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%

Group / Employer	Agreement Type	2007/08 Contributions (% of payroll)	Early Retirement Budget (% of payroll)	Maximum Deficit Recovery Period (years)	Minimum Target Contributions (% of payroll)	Minimum 2008/09 Contributions (% of payroll)	Minimum 2009/10 Contributions (% of payroll)	Minimum 2010/11 Contributions (% of payroll)
East & West Sussex Valuation Tribunal	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Sussex Sea Fisheries District Committee	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Colleges								
Hastings College of Arts & Technology	Open	16.0%	0.0%	20	16.0%	15.4%	15.7%	16.0%
City College, Brighton	Open	16.8%	1.0%	20	16.8%	16.2%	16.5%	16.8%
Sussex Downs College	Open	13.2%	0.0%	20	14.5%	13.7%	14.1%	14.5%
Plumpton College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
Brighton, Hove & Sussex Sixth Form College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
Varndean Sixth Form College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
Eastbourne Sixth Form College	Open	14.5%	0.0%	20	14.5%	13.7%	14.1%	16.8%
Bexhill College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
Admission Bodies								
Centre for British Teachers	Open	12.6%	0.0%	FWL	13.6%	13.0%	13.3%	13.6%
Connexions Sussex	Open	10.9%	0.0%	15	13.6%	13.0%	13.3%	13.6%
De La Warr Pavilion Trust	Closed	14.0%	0.0%	FWL	17.6%	15.2%	16.4%	17.6%
Jarvis Workspace FM	Closed	15.7%	0.0%	FWL	19.8%	17.0%	18.4%	19.8%

Group / Employer	Agreement Type	2007/08 Contributions (% of payroll)	Early Retirement Budget (% of payroll)	Maximum Deficit Recovery Period (years)	Minimum Target Contributions (% of payroll)	Minimum 2008/09 Contributions (% of payroll)	Minimum 2009/10 Contributions (% of payroll)	Minimum 2010/11 Contributions (% of payroll)
RBLI	Closed	15.0%	0.0%	15	15.8%	15.2%	15.5%	15.8%
Convex Leisure (formerly Red Eventful Cuisine)	Open	12.7%	0.0%	15	13.7%	13.1%	13.4%	13.7%
1066 Housing Association	Closed	31.5%	0.0%	15	29.9%	29.9%	29.9%	29.9%
Commission for Social Care & Inspection	Closed	18.8%	0.0%	15	20.7%	19.5%	20.1%	20.7%
Wealden Leisure Ltd	Open	12.9%	0.0%	FWL	13.9%	13.3%	13.6%	13.9%
Sussex Careers Limited	Open	16.1%	0.0%	15	17.1%	16.5%	16.8%	17.1%
South East England Regional Assembly	Open	12.3%	0.0%	Contract	13.1%	12.5%	12.8%	13.1%
Hastings & St Leonards EAZ	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Rother Homes Ltd	Closed	17.4%	0.0%	15	29.9%	29.9%	29.9%	29.9%
Sussex Housing & Care	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Hove & Portslade CAB	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Sussex Archaeological Society	Closed	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Sussex Lantern	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
University of Sussex	Closed	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Eastbourne Homes Limited	Closed	13.8%	0.0%	FWL	17.0%	14.8%	15.9%	17.0%
May Gurney	Open	18.5%	0.0%	FWL	18.8%	18.6%	18.7%	18.8%
Lifeline (WELL)	Closed	15.7%	0.0%	FWL	16.6%	16.0%	16.3%	16.6%

Group / Employer	Agreement Type	2007/08 Contributions (% of payroll)	Early Retirement Budget (% of payroll)	Maximum Deficit Recovery Period (years)	Minimum Target Contributions (% of payroll)	Minimum 2008/09 Contributions (% of payroll)	Minimum 2009/10 Contributions (% of payroll)	Minimum 2010/11 Contributions (% of payroll)
Wave Leisure	Open	10.0%	0.0%	FWL	13.8%	11.3%	12.6%	13.8%
• collect employer and employee contributions; Sussex County Sports Partnership	Closed	-	0.0%	Contract	15.8%	15.8%	15.8%	15.8%
Eastbourne Leisure Trust	Open	-	0.0%	15	9.0%	8.4%	8.7%	9.0%

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain the FSS and a SIP, both after proper consultation with interested parties; and
- Monitor all aspects of the fund's performance and funding and amend FSS/ SIP.

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

APPENDIX THREE

Independent auditor's report to the Members of East Sussex County Council as the administering authority of the East Sussex Pension Fund

Opinion on the East Sussex Pension Fund accounting statements

We have audited the pension fund accounting statements of the East Sussex Pension Fund for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of East Sussex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Deputy Chief Executive and Director of Corporate Resources and auditor

The Deputy Chief Executive and Director of Corporate Resources is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing the pension fund accounting statements, the Deputy Chief Executive and Director of Corporate Resources is responsible for:

- Selecting suitable accounting policies and then applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Keeping proper accounting records which are up to date;
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and of the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the data reporting the performance of the East Sussex Pension Fund in the section of the Annual Report headed “Investment Performance”.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

We read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report comprising the information about the scheme, other elements of the Annual Governance Statement and Current Investment Arrangements, the Statement to the Rates and Adjustment Certificates, the Pension Fund Policy Documents and Funding Strategy Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the pension fund accounting statements, and of whether the accounting policies are appropriate to the pension fund’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounting statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements.

Opinion

In our opinion:

- The pension fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the Untied Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- The information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Richard Bint
Partner, on behalf of PKF (UK) LLP
London, UK

3 September 2010

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Further information can also be obtained from our website eastsussex.gov.uk or by writing to the Deputy Chief Executive and Director of Corporate Resources at the address left or by email to finance@eastsussex.gov.uk

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