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East Sussex
County Council

East Sussex
Pension Fund

Annual Report and Accounts
2019/2020

Contents

1. Chairmans report

Welcome to the East Sussex Pension Fund Annual Report for 2019/20

As Chairman of the East Sussex Pension Fund (ESPF) Committee, I have the pleasure in introducing the Pension Fund's Annual Report and Accounts for 2019/20. I cannot do so without reflecting on the continuing COVID-19 pandemic that is having a devastating impact nationally and globally. The accounts focus on the financial implications of activity in 2019/20 and beyond, but the impact on humanity is truly beyond anything we have all experienced. I send my thoughts to all who have been affected by the pandemic.

The membership of the ESPF at March 2020 was 76,792 people (active – 23,835, deferred – 31,622 and pensioners – 21,335) and in the region of 130 employer organisations, with £3.479bn funds under management at 31 March 2020 to meet the accrued benefits.

This year saw the latest triennial actuarial valuation for the Fund. Hymans Robertson calculated the Fund's assets at 31 March 2019 at £3.6bn. When compared to the projected liabilities of the Fund at £3.4bn, this represented a 107% funding level, indicating a strong solvency position, and reflecting strong investment returns. COVID-19 has negatively impacted on the Fund's valuation, as the global economy struggles to understand and respond to the pandemic. However, the long-term 20-year assumptions within the valuation put the Fund in a strong position to weather the current uncertainties.

The Pension Committee is responsible for managing the Fund, with the assistance of the Pension Board, East Sussex County Council officers, external advisors and fund managers. In responding to the national review of Good Governance, undertaken by Hymans Robertson, reporting to the Scheme Advisory Board and the Ministry of Housing, Communities and Local Government, the Committee, during 2019, established programme to work to review its own governance arrangements. The Committee has subsequently approved revised terms of reference for the Pension Board and itself, together with refreshing a range of policies and strategies, including Communication and Administration. The review also recognised that the number of officers supporting the Fund needed to be expanded; a new structure has been approved and recruitment is underway to fill new roles. All these actions place the ESPF in a great position to move forward and tackle the challenges ahead.

The ESPF has experienced some stakeholder and external pressures to divest from companies involved in the production of fossil fuels. The Pension Committee's Investment and Environmental, Social and Governance (ESG) Working Group, together with Hymans Robertson, have undertaken a review of the Fund's Investment Strategy. This has reflected on the impact of the pandemic and helped to explore and frame the Fund's approach to better aligning its investments with the risks and opportunities presented by sustainability and the energy transition. As a consequence, the Fund has made a number of substantial changes to its investment approach, raising its commitment to infrastructure assets, including renewable assets, acquiring exposure to Impact Funds who invest in companies addressing some of the world's major challenges, and adopting an approach to passive index funds better aligned with the goals of the Paris Agreement. The Committee has also updated its investment beliefs, which are set out in its Investment Strategy Statement, and more fully articulated its Responsible Investment Policy.

The Committee believes in applying long-term thinking in pursuit of long-term sustainable returns from well governed assets; while using evidence based long-term investment appraisal to inform decision making in the implementation of its responsible investment principles, consistent with its fiduciary responsibilities. It will continue to evaluate and manage the Fund's carbon exposure in order to mitigate risks associated with Climate Change, while seeking to reconcile its need for income to pay pensions with the fact that many of the more carbon intensive companies and sectors provide a significant proportion of the market's dividend income.

ESPF continues to favour engagement with companies and sectors over blanket divestment as it believes that this is the most effective strategy for promoting change and protecting its long run investment interests. However, the extent of its exposure to them will reflect an ongoing assessment of progress in engaging with the energy transition, and the associated risks and rewards of holding these assets in the Fund. The Fund does not own stocks directly but seeks to influence company and sector policies via its chosen investment managers. Its Climate engagement is broadly aligned with that of the Institutional Investor Group on Climate Change (IIGCC), representing over $33 trillion in assets, of which it is a member.

East Sussex has continued to be an active member in the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool, together with 10 partner LGPS Funds. By the end of 2019/20 a total of £21.4bn (49%) was invested on the ACCESS platform, in the following assets:

	£ billion
Passive investments*	10.5
UK Equity Funds	1.6
Global Equity Funds	7.2
UK Fixed Income	0.8
Diversifed Growth	1.3
Total Pooled Investments	**21.4**

*The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

The Pension Committee and Pension Board have worked tirelessly to transform the ESPF landscape. I would like to take this opportunity to express my thanks for all the support and input provided by Committee and Board members and officers. I look forward to continuing to work with members and officers in the new financial year as the Fund seeks to meet the challenges of an ever-changing national and global environment.

In presenting the Annual Report, I hope you find it helpful in underspending the Fund.

Councillor Gerard Fox

Chairman of the East Sussex Pension Fund

September 2020

2. Independent adviser's report

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is primarily to act as a separate source of insight to Officers and Committee members. Our collective objective is, of course, to invest the Fund's assets to pay members' pensions in full and on time. I am additionally able to provide stakeholders with some independent assurance that the Fund is being appropriately and properly managed.

Last year I ended my report by saying that the fund was in a good position financially, but that the Fund's increasing maturity makes it likely that net cashflow will deteriorate over time and this would require increasing attention. At March 2019 the actuarial valuation found that the Fund's assets were well in excess of its liabilities, which is undoubtedly a healthy position. On the other hand, member and employers' contributions were slightly less than pension pay-outs and the gap was made up by investment income. I make further comments on this below.

I said last year that the onus for maintaining economic prosperity would for political reasons increasingly fall on fiscal rather than monetary policy. I expected interest rates to stay ultra-low and I viewed the combination as a positive fundamental background for financial assets. I commented that valuations were historically high and that the risk of unpleasant surprises remained, but I thought damage from these sources would be limited by the US Federal Reserve's willingness to keep monetary policy loose.

In 2019 this played out as expected and, by the end of January this year, markets were reaching new highs. In the last few months of the financial year the decision by the authorities in many countries to slow the spread of COVID-19 by enforcing social isolation has precipitated both a sudden recession and also significant stress in financial markets. It has been exacerbated by the halving of the oil price at the same time as a result of the collapse of the OPEC-led oil cartel. Your Fund was not immune from these events, which will have had an adverse impact on the Fund's funding level, but I should emphasise that it still stands at a high level.

Authorities round the world reacted swiftly to mitigate the economic risks of this policy by announcing a rise in spending of an order not seen since the Second World War. At the same time, where possible, central banks reduced interest rates to almost zero in order to protect the financial system. However, there is little more they can do on this front and so economic recovery is now largely dependent on how quickly the fiscal measures take effect.

Looking forward, at the time of writing it is not clear how or when recovery will take place. Whatever happens, the Fund will suffer a significant and immediate reduction in investment income from dividend cuts and real estate rents as companies struggle to conserve cash. As the Fund's funding position can be considered solvent, there is no cause for immediate alarm, but the need for careful cashflow planning has become paramount.

It is too early to give definitive views what this means in the longer term. It looks as if government will play a substantially larger role in society and there may be some retreat from globalisation. This probably means higher inflation and higher bond yields, though that has not happened yet and it may take some years to come through. From the Fund's perspective there will be winners and losers, which underlines the importance of investing in a genuinely diversified portfolio.

I commented in my last report on governance matters, both internally and in respect of shared service providers such as the ACCESS investment implementation pool and the administration service provider, Orbis. Over the last year both the Pension Committee and Pension Board have spent considerable time on this, culminating in two governance reviews, one to bring the Fund's procedures into line with the LGPS Scheme Advisory Board's 2019 recommendations on good governance, and the second focused more narrowly on investment governance. Internal Audit have also, in a separate report, identified a number of internal shortcomings requiring improvement.

These are all important reviews, because the Fund depends heavily on these shared service providers to administer the Fund on your behalf. It is good to see progress, but it is also important that the recommendations made in these three reviews are implemented as fully as possible. Good governance costs money but the value of having well thought-out processes in place is shown when, like now, times are turbulent. It is the best assurance you can have that the Committee and Officers will continue to make good decisions even when events are trying to throw them off course.

I attend every Committee meeting and I see that the Committee members, supported by Officers, consider in detail possible courses of action. In this year in particular they have spent substantial time outside meetings on the sometimes very complex issues before them. In my view they are performing their duties carefully and conscientiously in circumstances which are far from easy.

William Bourne

Independent Advisor

3. Introduction

Local Government Pension Scheme

The LGPS is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and, since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire fighters and police, who have their own separate schemes. It is also open to employees of other employers specified within the legislation.

The LGPS is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 meaning that members receive tax relief on contributions. The Scheme complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004.

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.

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 2019. The funding level at this at this valuation is 107%.

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 East Sussex County Council, as administering authority for the East Sussex Pension Fund. This has been delegated to the East Sussex Pension Committee supported by the East Sussex Pension Board.

4. Overall Fund Management

Scheme management and advisers

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

2019/20 PENSION COMMITTEE MEMBERS		
EAST SUSSEX COUNTY COUNCILLORS:	Gerard Fox (Chairman)	Conservative
	Simon Elford	Conservative
	Nigel Enever	Conservative
	David Tutt	Liberal Democrates
	Trevor Webb	Labour
2019/20 PENSION BOARD MEMBERS		
INDEPENDENT CHAIRMAN:	Ray Martin	
EMPLOYER REPRESENTATIVES:	Councillor Carmen Appich	Brighton & Hove City Council
	Councillor Chris Collier	Districts & Borough Councils
	Stephen Osborn	Educational Bodies
MEMBER REPRESENTATIVES:	Niki Palermo	Active & Deferred
	Diana Pogson	Pensioners
	Lynda Walker	Active & Deferred
SCHEME ADMINISTRATOR:	East Sussex County Council	
ADMINISTRATION PROVIDER:	Orbis Business Operations	
BANKERS TO THE FUND:	NatWest Bank	
AUDITOR:	Grant Thornton	
PENSION FUND OFFICERS		
TREASURER:	Ian Gutsell Chief Finance Officer (Section 151 Officer) East Sussex County Council	
HEAD OF PENSION FUND:	Michelle King (Interim)	Michelle.King@eastsussex.gov.uk
HEAD OF INVESTMENTS:	Russell Wood	Russell.Wood@eastsussex.gov.uk
LGPS GOVERNANCE AND STATUTORY COMPLIANCE:	Michelle King (Interim)	Michelle.King@eastsussex.gov.uk
PENSION ADMINSTRATOR:	Paul Punter	Paul.Punter@eastsussex.gov.uk

ADVISORS TO THE FUND

ACTUARY:	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB
LEGAL ADVISORS:	Appointed from National LGPS Framework for Legal Services
INVESTMENT ADVISER:	Hymans Robertson
INDEPENDENT ADVISER:	William Bourne
ASSET POOL:	ACCESS Pool
ASSET POOL OPERATOR:	Link Funds Solution
FUND MANAGERS:	Adams Street Partners Harbourvest Longview Partners* M&G** Newton* Pantheon Ruffer* Schroders UBS
CUSTODIAN:	Northern Trust
AVC PROVIDER:	Prudential

BODIES TO WHICH THE FUND IS MEMBER, SUBSCRIBER OR SIGNATORY:

Pensions and Lifetime Savings Association
Local Authorities Pension Fund Forum
CIPFA Pensions Network
Club Vita
Local Government Association (LGPC)
Local Government Pension Scheme National Framework:

- Passive Investments,
- Legal Services,
- Actuarial and,
- Investment Consultants
- Stewardship Advisory Services

Principles for Responsible Investing
Institutional Investors Group on Climate Change
Climate Action 100+

* Appointed through the ACCESS Pool operator
** Coporate Bonds mandate appointed through ACCESS other mandates directly appointed.

Risk management

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

Risk is identified and managed as follows:

Covid 19 Risk – The onset of Coronavirus and Covid19 is placing significant pressures on both Employers to the Fund and the Pension Administration Service. The increased demand for Pension Administration Services may increase the likelihood of breaching service performance targets and presents resourcing constraints since staff may be subject to the illness themselves. In addition, the migration to remote working has seen an increase in the likelihood of Cyber Scams and Data Protection.

The Pension Regulator issued a notice on the 2 April 2020 to Scheme Managers of Public Service Pension Schemes to carry out a risk assessment of their Pension Administrator in relation to Covid 19. The Scheme Manager is required to assess whether the ESPF business continuity plan is still adequate and to establish from the Pension Administrator what contingency plan is in place to mitigate their impact of increases in work volumes or unavailable staff.

A collaborative approach is required to work with your administrators to make sure they deliver critical processes: reducing the burden by limiting any non-critical demands and queries; and, confirm the priorities of activities to be carried out, in the order set out below:

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these
- any processes needed to ensure benefits are accurate

This includes the agreement of changes in operating procedures such as allowing electronic signatures and documents and encouraging other third-party providers to do the same. The legal validity of electronic signatures has been endorsed in a recent statement from government.

The Chancellor, Rishi Sunak, in his March Statement advised a suite of financial relief measures to alleviate economic duress arising from the global lockdown and the corresponding liquidity squeeze. It is clear that despite attempts by the Government to prevent a permanent structural impact, a number of companies that existed prior to the lockdown will not exist after the lockdown due to the severity of this economic shock. It follows that the ESPF has seen an increase in employers advising they need to defer the payment of employer contributions to the Fund, noting that employee contributions are legally prohibited from deferral. The Fund is working on a policy on the deferral of employer contributions and has managed the early requests on a case by case basis.

In managing the economic consequence of a global lockdown and the increasing need to build up cash reserves has given rise to dividend retention. This impacts the cashflow balances of pension funds which are required to service pension promises. The ESPF has therefore commenced cashflow modelling to ensure it can manage within its cash envelope and to mitigate against forced sales of assets to service pension promises.

Covid 19 has also impacted the progress of the Data Improvement Programme and the Annual Benefit Statement exercise for 2019/20. It has been difficult to make contact with employers in lockdown and those staff are generally redirected to business critical tasks of the employer.

In summary, the Covid 19 Risk is a global risk affecting a number of risk indicators, so it has been necessary to rebalance both the pre-mitigation and post mitigation response as set out in summary in the table below.

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

This risk can manifest itself in several ways:

- Failure to process pensions
- Failure to collect contributions
- Failure to have proper business continuity plans in place
- Fraud or misappropriation
- Failure to maintain up-to-date and accurate data and hold it securely
- Failure to maintain expertise or over-reliance on key staff

- Failure to communicate effectively with members and employers
- Failure to provide the service in accordance with sound equality principles

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

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

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

Financial/Funding Risk - This is essentially the risk that the funding level drops and/or contribution rates must rise due to one or more of the following factors:

- Investment Risk – This is the risk that the investment assets underperform the level assumed in the Triennial Actuarial Valuation. This can occur due to poor economic/market conditions, the wrong investment strategy or poor selection of investment managers. Investment risk is regularly considered by Members and Officers, advised by the East Sussex Pension Fund (ESPF) Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility.
- Liability Risk – This is the risk that there is a fall in the so-called "risk free" returns on Government bonds, which form the basis of assumptions about future investment returns. The assumed future investment return is used to "discount" future liabilities (i.e. over the next 0-80 years) back to today's values (net present value). Therefore, falling bond yields means higher liabilities.
- Inflation Risk – Notwithstanding other factors, Pension Fund liabilities increase in line with inflation, because the CPI is applied to pensions annually. Therefore, rising inflation causes the liabilities to increase.
- Insufficient Funds Risk - This is the risk that there is insufficient money in the Fund to pay out pensions as they become due.

The ESPF Investment Strategy Statement (see page 69), sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12-month period under review.

Demographic Risk - This is the risk of that the pensioners live longer and therefore the liabilities of the Fund increase.

Regulatory Risk - This risk could manifest itself in several ways. For example, it could be the risk that the liabilities will increase due to the introduction of an improved benefits package, or that investment returns will fall due to tighter regulation being placed on what can be invested in. It could also arise through a failure to comply with LGPS or other regulations.

Governance Risk - This is the risk that governance arrangements of the Fund are sub-optimal. For example, this could arise through a lack of expertise on the Committee arising from insufficient training. Another possibility is that potential conflicts of interest between the Fund and the Council are not managed sufficiently well.

Employer Risk - This is the risk that an employer is unable to meet its financial obligations to the Fund, either during its membership of the Fund, or at its ceasing when the last contributing member leaves. Where a guarantor is in place they will pick up the cost of any default, but where there is not one, the cost must be spread across all employers in the Fund.

Third Party Risk - Contribution payments are monitored closely for accuracy and timeliness. A reporting process is in place to escalate any late/inaccurate payments to ensure all payments are received.

A Risk Register has been formally adopted by the East Sussex Pension Committee and a report of the key highlights is reported to the Pension Board at each quarterly meeting.

Some of the risks highlighted are shown in the table below - please note that this is not an exhaustive list. The full risk register can be seen within the quarterly Pensions Committee papers.

EAST SUSSEX PENSION FUND - RISK REGISTER – SNAPSHOT OF KEY RISKS								
Reference	**Risk**	**Pre Mitigation**			**Risk Control / Response**	**Post Mitigation**		
		Impact	**Likelihood**	**Risk Score**		**Impact**	**Likelihood**	**Risk Score**
Pensions Administration								
1	**Pension contributions:** ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS102/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● Annual year end checks ● Fines imposed for late payment and late receipt of remittance advice.	3	2	6
2	**Poor or inadequate delivery of Pensions Administration by service provider** ● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman) ● Data interruption from system changeover	4	3	12	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance ● Procurement of new Pension Administration System to replace Heywoods ● Project managers being sourced risk not yet mitigated.	4	3	12
Pensions Investment and Governance								
3	**Coronavirus and Covid 19** ● Employers unable to pay employer contributions Ceding Employers unable to find additional funds to support outsourced operations ● Revised dividend policies reducing income to pension funds ● Remote working presenting data protection risks ● Administration service unable to service demand ● Increased criminal activity from cyber scams and phishing ● investment environment changes radically, and Fund is slow to respond, leading to lower solvency	4	4	16	● investment working group created to actively review investment strategy on an ongoing basis ● Data improvement Programme and ABS Working Group monitoring employers and administration service in relation to data cleansing and end of year returns for the ABS. ● Covenant reviews underway and review of all high risk employers in the fund. ● Contribution deferral policy submitted to committee for consideration in June 2020.	4	3	12
4	**2019 Triennial actuarial valuation outcome** ● An increase in liabilities, which is higher than the previous actuarial valuation estimate. ● The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities. ● Significant rises in employer contributions due to increases in liabilities or fall in assets.	3	2	6	● The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. ● The Committee receiving training on understanding liabilities ● Hymans Robertson commission to produce an Asset Liabilities Model. ● Life expectancy assumptions are reviewed at each valuation. ● Reviewing of the each triennial valuation assumptions and challenge actuary as required. ● Funding Strategy Statement and Investment Strategy Statement updated and approved,	3	1	3

EAST SUSSEX PENSION FUND - RISK REGISTER – SNAPSHOT OF KEY RISKS								
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation		
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
					● Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations ● The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy;			
LGPS Pooling - ACCESS Pool								
5	**LGPS Investment Pooling & Sub Fund Issues** ● Increase in investment risk taken to access higher returns ● There can be size restrictions on certain investments. ● Weaker control leading to poorer governance. ● There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.	3	3	9	● ACCESS Support Unit function to provide support. ● Officers have agreed Link should be allowed a reasonable time period to resolve issues, e.g., until ending of August. The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may be considered, e.g. Funds may continue to hold the sub fund outside the ACS	3	2	6
6	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.	3	3	9	• Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios. • There may also be the opportunity to transfer securities in 'specie'. • A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.	2	2	4

The risk scores are calculated using the risk matrix below:

LIKELIHOOD					
	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

5. Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on pages 16 to 22.

	Restated 2018/19 £000	2019/20 £000
Fund Account		
Net (Contributions)/withdrawals	(2,218)	(4,453)
Management Expenses	14,038	17,333
Return on Investments	(260,652)	140,238
Net Increase in Fund	**(248,832)**	**153,118**

	Restated 2018/19 £000	2019/20 £000
Net Asset Statement		
Bonds	499,750	212,331
Equities	153,695	-
Pooled Funds	2,825,479	3,189,335
Cash	149,156	63,715
Other	(4,870)	(135)
Total Investment Assets	**3,623,210**	**3,465,246**
Non-Investment Assets	9,002	13,848
Net assets of the fund available to fund benefits at the year end.	**3,632,212**	**3,479,094**

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2019/20.

Month	Payments Due	Payments Received Late
April	127	5
May	127	6
June	126	4
July	126	3
August	126	3
September	124	6
October	123	6
November	122	4
December	123	9
January	122	3
February	121	5
March	120	13

No interest was charged on any of the late payments.

Forecasts

The following tables show the forecasts and outturn for the Fund Account and the Net Asset Statement.

Fund Account	Restated 2018/19 Forecast £000	Restated 2018/19 Actual £000	2019/20 Forecast £000	2019/20 Actual £000	2020/21 Forecast £000
Contributions	(136,900)	(127,810)	(141,600)	(138,719)	(118,600)
Payments	133,200	125,592	137,600	134,266	134,700
Administration expenses	1,086	916	940	1,106	1,080
Oversight and governance costs	733	740	709	1,208	1,365
Investment expenses:					
fees invoiced to the fund	4,650	6,138	5,100	4.370	1,350
fees deduced at source	-	6,244	-	10,649	-
Net investment income	(39,300)	(25,919)	(27,000)	(26,487)	(27,200)
Change in market value	(231,700)	(234,733)	(206,300)	166,725	(134,600)
Net increase in the Fund	**(268,231)**	**(248,832)**	**(230,551)**	**153,118**	**(141,953)**

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

Net Asset Statement	2018/19 Forecast £000	2018/19 Actual £000	2019/20 Forecast £000	2019/20 Actual £000	2020/21 Forecast £000
Equities	2,341,400	2,134,847	2,273,600	1,332,597	1,403,200
Bonds	530,800	751,032	781,100	595,691	611,600
Property	373,000	339,442	356,400	318,129	329,600
Alternatives	222,700	245,135	265,200	321,996	341,000
Cash	135,800	149,156	195,200	63,715	43,900
Other	3,800	3,598	3,800	833,118	869.700
Total Investment Assets	**3,607,500**	**3,623,210**	**3,875,300**	**3,465,246**	**3,599,000**

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

Management Expenses

	2018/19		2019/20		2020/21
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Orbis Finance Support Services	51	69	45	40	-
Orbis Business Operations Support Services	935	809	854	952	935
Supplies and Services	100	38	41	114	145
Administration total	**1,086**	**916**	**940**	**1,106**	**1,080**
Oversight and governance costs					
Orbis Finance Support Services	263	210	234	267	385
Supplies and Services	470	529	475	941	980
Third Party Payments	150	100	130	97	150
Other Income	(150)	(98)	(130)	(97)	(150)
Oversight and governance total	**733**	**741**	**709**	**1,208**	**1,365**
Investment Management					
Investment expenses:					
fees invoiced to the fund	4,650	6,138	5,100	4.370	1,350
fees deduced at source*	-	6,244	-	10,649	-
Investment Management Total	**4,650**	**12,382**	**5,100**	**15,019**	**1,350**
Management Expenses Total	**6,469**	**14,038**	**6,749**	**17,333**	**3,795**

* During the year, the Pension Fund incurred management fees which were deducted at source for 2019/20 of £3.7m (£2.3m in 2018/19) on its private equity investments, fees of £1.3m (£1.3m in 2018/19) on its infrastructure investments, fees of £2.6m (£0.0m in 2018/19) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2018/19) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

Pension overpayments

When an overpayment of pension benefits has been identified the recovery of this debt needs to be persued. The details of the debt is collated and an invoice is raised to the relevant party for payment. The Fund follows the East Sussex County Councils procedure for recovering income which has escalation points set if the debt remains unpaid with the final stage this is passed on to the East Sussex legal team to persue. The table below shows the pension overpayments and recovieries for the past 5 years:

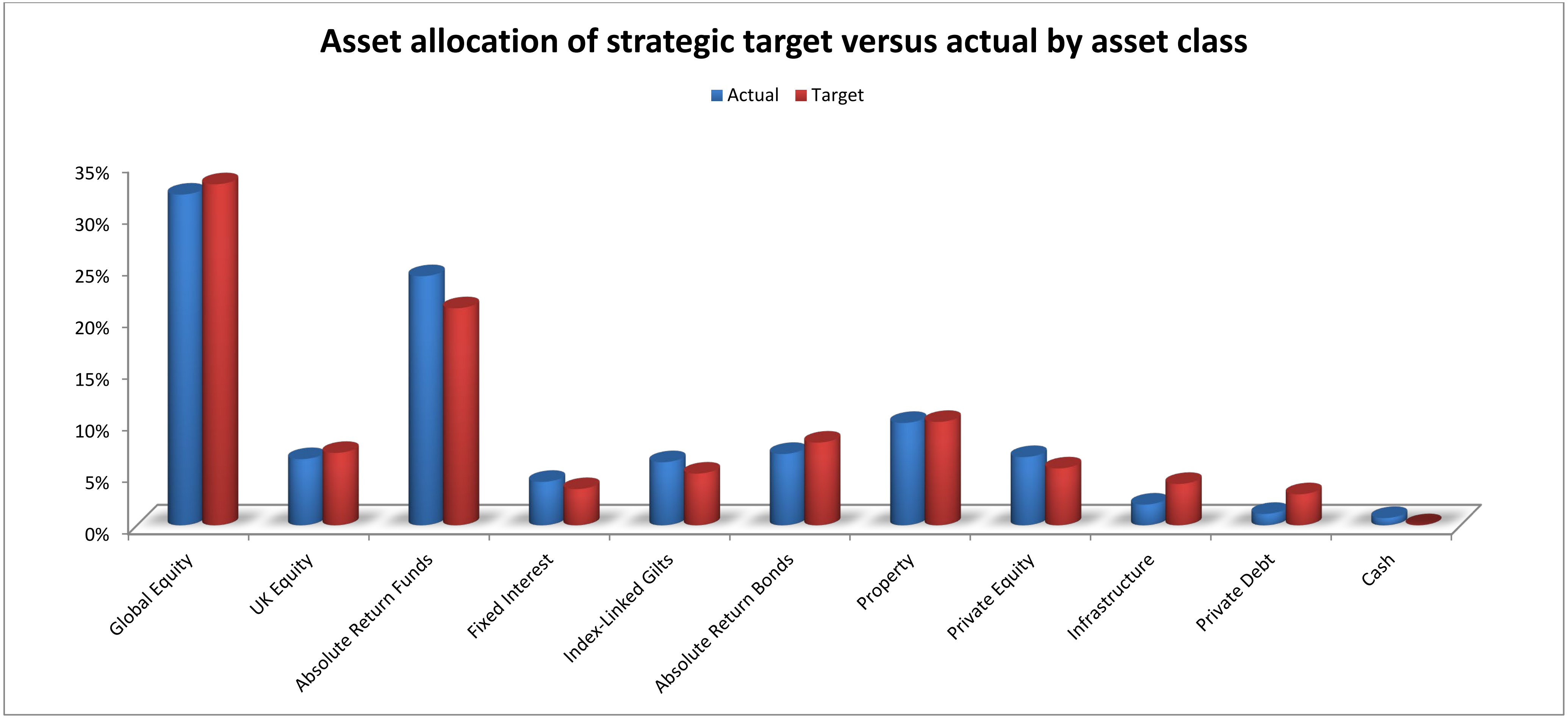
Year		Overpaid Pensioners	Recoveries	Write Off	Outstanding
2019/20	Number	10	8	0	2
	Value £000	6	4	0	2
2018/19	Number	30	21	1	8
	Value £000	70	59	6	5
2017/18	Number	52	41	3	8
	Value £000	52	42	1	9
2016/17	Number	73	45	2	26
	Value £000	61	30	4	27
2015/16	Number	44	38	-	6
	Value £000	34	23	-	11

The Fund's administrator this year introduced mortality screening of the active pensioners each month and this has reduced the number of overpayments significantly over the year. Recently the tell us once initiative has also been implemented with the aim to further reduce the overpayments made by the Fund.

6. Investment policy and performance

Investment Policy

The Fund's strategic asset allocation was unchanged during the year to 31 March 2020, set out below, strategic target and actual allocations, at the end of the 2019/20 financial year.



During the year, the Committee agreed to commit £40m to the UBS Archmore International Infrastructure Fund and £20m to the M&G InfraCapital Greenfield Partners II LP. These commitments were made to enable the Fund to meet its 4% target allocation to infrastructure.

Mandate	Value (£m) Q1 2019	Proportion (%) Actual	Proportion (%) Target	Value (£m) Q1 2020	Proportion (%) Actual	Proportion (%) Target
Investments in the ACCESS Pool						
ACCESS - Global Equity (Longview)	275.0	7.6%	7.0%	238.8	6.9%	7.0%
ACCESS - Absolute Return (Ruffer)	-	-	-	418.5	12.0%	10.5%
ACCESS - Real Return (Newton)	-	-	-	414.8	11.9%	10.5%
ACCESS - Corporate Debt (M&G)	-	-	-	144.3	4.1%	3.5%
Total Investments held in ACCESS	**275.0**	**7.6%**	**7.0%**	**1216.4**	**35.2%**	**31.5%**
Investments held directly						
Equities						
Passive						
UBS - Fundamental Indexation	429.4	11.9%	11.5%	363.2	10.4%	11.5%
UBS - Global Emerging Markets	41.7	1.2%	1.5%	36.2	1.0%	1.5%
UBS - Regional Equities	331.2	9.2%	8.0%	312.4	9.0%	8.0%
UBS - UK Equities	271.3	7.5%	7.0%	221.9	6.4%	7.0%
UBS - Climate Aware	169.7	4.7%	5.0%	160.0	4.6%	5.0%
Total Equities	**1,243.3**	**34.5%**	**33.0%**	**1093.7**	**31.5%**	**33.0%**
Absolute Return						
Newton	422.0	11.6%	10.5%	-	-	-
Ruffer	402.2	11.1%	10.5%	-	-	-
Total Absolute Return	**824.2**	**22.7%**	**21.0%**	**-**	**-**	**-**
Bonds						
UBS - 5yr ILG	207.5	5.7%	5.0%	212.3	6.1%	5.0%
M&G - Corporate Bonds	137.7	3.8%	3.5%	-	-	-
M&G - Absolute Return	251.3	6.9%	8.0%	239.1	6.9%	8.0%
Total Bonds	**596.5**	**16.4%**	**16.5%**	**451.4**	**13.0%**	**13.0%**
Other Investments						
Schroder - Property	360.4	9.9%	10.0%	343.7	9.9%	10.0%
M&G - Infrastructure Fund	2.0	0.1%	1.0%	20.7	0.6%	1.0%
Pantheon - Infrastructure Fund	14.8	0.4%	2.0%	30.1	0.9%	2.0%
UBS - Infrastructure	19.5	0.5%	1.0%	16.7	0.5%	1.0%
Adams Street - Private Equity	115.2	3.2%	2.8%	122.9	3.5%	2.8%
HarbourVest - Private Equity	98.1	2.7%	2.7%	106.2	3.1%	2.7%
M&G Real Estate Debt VI	-	-	-	38.8	1.1%	3.0%
M&G - UK Financing Fund	0.7	0.0%	3.0%	-	-	-
Cash account	73.5	2.0%	0.0%	24.6	0.7%	0.0%
Total Other Investments	**684.2**	**18.8%**	**22.5%**	**703.7**	**20.3%**	**22.5%**
Total	**3,623.2**	**100.0%**	**100.0%**	**3,465.2**	**100.0%**	**100.0%**

An analysis of fund assets as at the reporting date

	UK £m	Non-UK £m	Global £m	Total £m
Equities	222	472	638	1,332
Bonds	357	-	239	596
Property (direct holdings)	-	-	-	-
Alternatives	349	-	291	640
Cash and cash equivalents	41	23	-	64
Other	-	-	833	833
Total	**969**	**495**	**2,001**	**3,465**

An analysis of investment income accrued during the reporting period

	UK £000	Non-UK £000	Global £000	Total £000
Equities	4,344	1,145	-	5,489
Bonds	32	376	6,425	6,833
Property (direct holdings)	-	-	-	-
Alternatives	11,973	-	1,531	13,504
Cash and cash equivalents	455	218	-	673
Other	-	-	47	47
Total	**16,804**	**1,739**	**8,003**	**26,546**

In the above tables:

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

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

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

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

Responsible Invesment

The Fund understands the urgency of the need to address climate change following the release of the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming in 2019[1]. This sets out the likely consequences of global warming of 1.5°C and the additional damage that global warming of 2°C could cause. Following the publication of this report there is understandable interest in what pension funds and other financial market participants are doing to uphold their responsibility to help reduce carbon emissions.

In order to provide a general framework for investment decision-making, the Pensions Committee has developed a set of investment beliefs. These are set out in the Fund's ISS and are reviewed by the Committee on a regular basis. A number of these beliefs – set out below - apply specifically to the consideration of ESG issues and Responsible Investment (RI) in its wider sense.

We will apply long-term thinking to deliver long-term sustainable returns.

We will seek sustainable returns from well-governed assets.

We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.

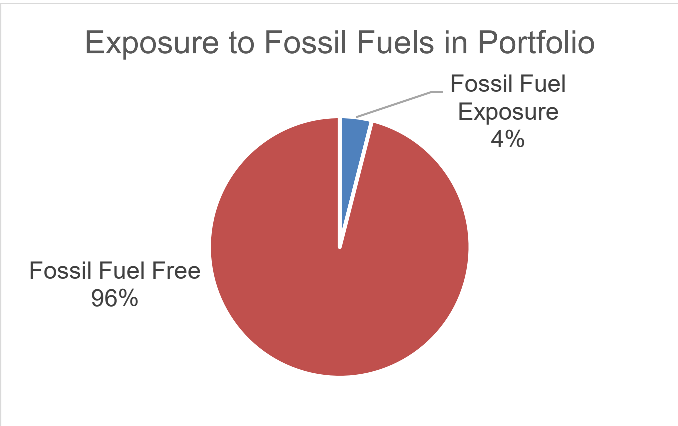
We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.

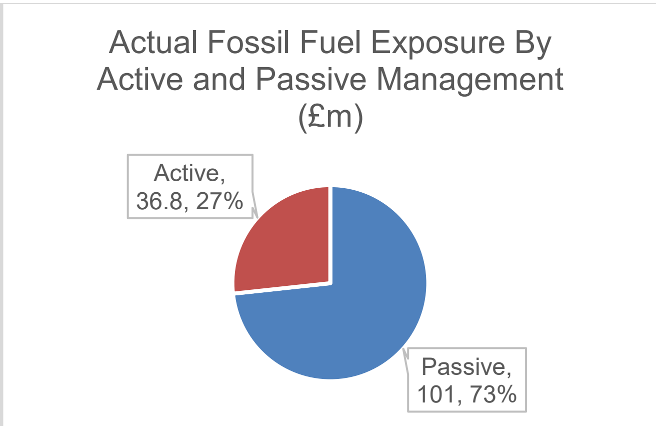
In light of these beliefs, and given the legal, regulatory, and practical constraints noted above, the Committee with its advisers has considered a number of possible routes to reduce carbon exposure within the Fund, including divestment, engagement, the use of low carbon indices and allocating to actively managed 'sustainable' funds.

The Committee currently regards full divestment from fossil fuels as an inferior option, as it is only possible as a one-off action and is likely to have limited effect. When shares in the relevant companies are sold, the Fund loses its ability to influence the company to change its business model, and the new shareholders are likely to be less interested in putting pressure on the company.

While the Fund is actively looking to reduce the carbon exposure from its passive investments, it will only do so when it is able to evaluate all the risks involved from partial or total exclusions. It continues actively to engage with fossil fuel companies collaboratively with other investors, and is considering a search for an active sustainable mandate in the expectation of making some positive financial return from climate change.

At the end of 2019/20 the ESPF had 4% of it holdings exposed to fossil fuel companies, the fund expects to reduce this exposure through its work programmes in the next financial year as part of its work on Responsible investment.





[1] https://www.ipcc.ch/sr15/

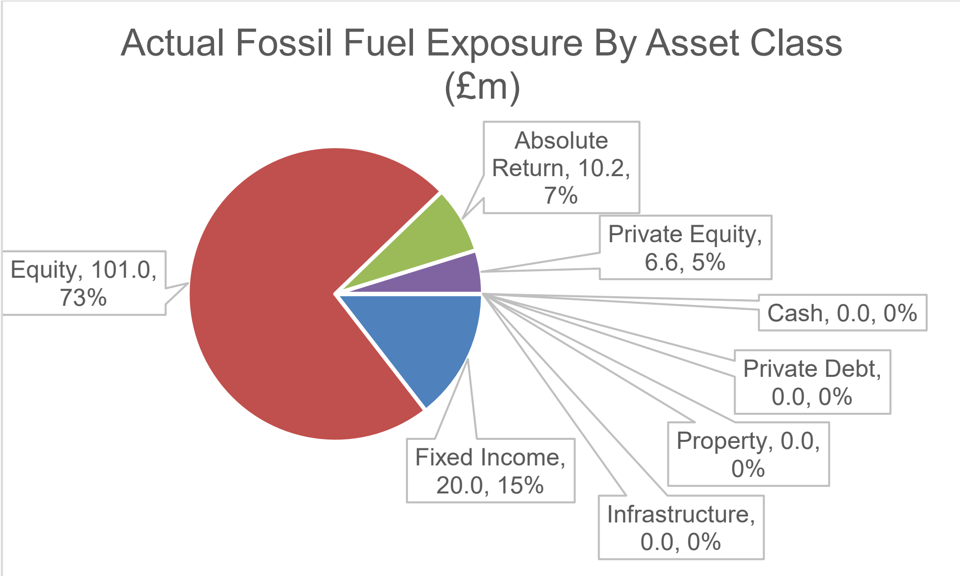


Table 1: Fund's Fossil Fuel exposure

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure* (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS – North America	4.9	7.7	5.0	-	Passive
UBS – Europe (ex UK)	5.9	7.1	6.0	(0.1)	Passive
UBS – Japan	5.4	1.0	5.4	-	Passive
UBS – Asia Pacific (ex Japan)	9.5	1.6	9.9	(0.4)	Passive
UBS – Emerging Markets	9.7	3.5	9.8	(0.2)	Passive
UBS – UK	13.9	30.8	14.5	(0.1)	Passive
UBS – RAFI	11.4	41.3	11.5	(0.2)	Passive
UBS – Climate Aware	5.0	8.0	6.0	(1.1)	Passive
Longview - Global Equity	-	-	6.9	(6.9)	Active
Harbourvest - Private Equity	3.3	3.6	6.9	(3.6)	Active
Adams Street - Private Equity	2.2	3.0	6.9	(4.7)	Active
Newton - Absolute Return	1.2	5.1	-	-	Active
Ruffer - Absolute Return	1.2	5.1	-	-	Active
Schroders - Property	-	-	-	-	Active
UBS - Infrastructure	-	-	-	-	Active
Pantheon - Infrastructure	-	-	-	-	Active
M&G (InfraCapital) - Infrastructure	-	-	-	-	Active
M&G – Real Estate Debt	-	-	-	-	Active
M&G - UK Financing Fund	-	-	-	-	Active
M&G - Absolute Return Credit	2.6	6.1	10.3	(7.7)	Active
M&G - Corporate Bonds	9.6	13.9	-	9.6	Active
UBS - Over 5 Year IL Gilt Fund	-	-	-	-	Passive
Cash	-	-	-	-	Active
Total Fund	4.0	137.8	-	-	-

ESPF Asset Managers

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

- UBS are the Fund's largest single equity manager; all assets are managed passively against UK and Global equity market benchmarks. The allocation to the UBS All World Equity Fundamentally Weighted Index Fund offers additional diversification from the market capitalisation based passive management approach. In addition, the Fund invests in the UBS Climate Aware Fund which tracks an index with a climate change overlay.
- The Fund has one active global equity manager (Longview). The Committee maintains the belief that a blend of active and passive management of equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund's other mandates, due to their flexible, unconstrained management approach and wide range of underlying assets.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.
- Corporate bonds and absolute return credit assets are managed by M&G. Index-linked bonds are managed passively by UBS.
- The Fund's allocations to infrastructure and unquoted equities are currently divided between five managers, three within infrastructure and two within unquoted equities.
- M&G has been appointed to manage a real estate debt investment and starting drawing capital during the year.

Custodian

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

The responsibilities of the Custodian are:

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

Investment Performance

Actual and benchmark performance for each of the Fund's mandates is provided in the table below, over 12 months 3 years and 5 years[1]. Results are considered by the Pension Committee on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year			3 year (p.a.)			5 year (p.a.)		
	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*
ACCESS Pool									
Equities									
Longview – Global	(13.2)%	(6.7)%	(6.4)%	(9.8)%	(2.6)%	(7.2)%	-	-	-
Absolute Return									
Newton	(10.3)%	0.7%	(11.0)%	-	-	-	-	-	-
Ruffer	1.9%	1.1%	0.7%	-	-	-	-	-	-
Bonds									
M&G – Corporate	(7.5)%	(8.1)%	0.6%	-	-	-	-	-	-
Equities									
UBS – UK Equity	(18.2)%	(18.5)%	0.3%	(9.1)	(9.1)%	(0.1)%			
UBS – Regional	(6.5)%	(6.5)%	(0.1)%	(0.2)%	(0.2)%	0.0%	-	-	-
UBS - Fundamental Indexation	(15.4)%	(14.8)%	(0.6)%	(5.8)%	(5.2)%	(0.5)%	-	-	-
UBS – Climate Aware	(5.7)%	(5.4)%	(0.3)%	(1.5)%	(1.5)%	(0.1)%	-	-	-
Bonds									
UBS - 5yr ILG	2.3%	2.4%	(0.1)%	6.3%	6.3%	0.0%	-	-	-
M&G - Absolute Return	(4.9)%	4.0%	(8.8)%	(0.4)%	2.4%	(2.8)%	1.1%	1.7%	(0.3)%
Other Investments									
Schroder – Property	(1.3)%	0.0%	(1.3)%	4.8%	4.9%	(0.1)%	5.5%	6.0%	(0.4)%
M&G – Infrastructure	3.2%	3.5%	(0.3)%	7.0%	3.3%	3.6%	-	-	-
Pantheon – Infrastructure	8.2%	3.5%	4.7%	6.1%	3.5%	2.6%	-	-	-
UBS – Infrastructure	5.8%	3.5%	2.3%	3.7%	2.0%	1.7%	5.4%	1.4%	3.9%
Adams Street - Private Equity	9.5%	(5.5)%	15.0%	12.2%	2.5%	9.6%	13.6%	6.5%	7.1%
HarbourVest - Private Equity	11.8%	(5.5)%	17.3%	13.7%	2.5%	11.2%	15.2%	7.2%	8.0%
M&G – Real Estate Debt VI	0.9%	4.8%	(3.9)%	-	-	-	-	-	-
Cash account	0.3%	0.6%	(0.4)%	(1.9)%	0.5%	(2.3)%	(1.4)%	0.4%	(1.8)%

*Relative performance is calculated on a geometric basis as opposed to the simpler arithmetic method the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.

[1] The table shows since inception returns in place of one year, three year and five-year performance for some of the managers, if the mandate has been in place for a shorter period.

5. Scheme Administration

Service Delivery

East Sussex County Council as Administering Authority for the East Sussex Pension Fund undertake the day to day pensions administration through Orbis, which is a shared services partnership currently covering the three councils of East Sussex, Surrey and Brighton and Hove.

The Orbis pensions administration team are responsible for

- administering the LGPS Scheme on behalf of the ESPF scheme employers in accordance with relevant legislation and Pension Committee decisions, also provision of services in connection with the uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the LGPS and provision of early retirement estimates;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- administration of new starters, including transfers in;
- administration and calculations relating to leavers;
- payment of pensions and other entitlements.

Communication to employers and members of administration is carried out where possible through access to the MyPensionsPortal for members to view their Annual benefit statements, nominations, personal details and carry out benefit calculations. The Orbis team also send annual newsletters to scheme member and employers.

The Pension Fund website www.eastsussexpensionfund.org provides scheme members and employers access to up to date information on the LGPS. Alongside this website, the East Sussex County Council also provides information on their website around how the Pension Fund is governed www.eastsussex.gov.uk/yourcouncil/pensions/governance/

Administration of the pensions fund is discussed quarterly at Pensions Committee to ensure the service is managed and governed well and key performance indictors reviewed at each meeting. In addition, Pensions Board consider the activities of the Pensions Administration team at each meeting. During 2019/20 ESPF set up an annual benefit working group as part of its Data Improvement Programme to deliver cleansing of employer common and specific data to ensure complete and accurate membership records. The ESPF looks to achieve value for money in the administration of the Fund by providing the service in a cost effective and efficient manner utilising technology appropriately. Achievement of KPIs and high services levels helps the fund monitor the effectiveness of the fund.

Internal Dispute Resolution Procedure

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

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

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

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

	2019/20
First Stage	5
Upheld	4
Declined	1
Ongoing	-
Second Stage	-
Upheld	-
Declined	-
Ongoing	-

Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Death notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	100%
Award dependent benefits (Death Grants)	High	within 5 days	95%	98%
Retirement notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	97%
Payment of lump sum made	High	within 5 days	95%	98%
Calculation of spouses benefits	Medium	within 5 days	90%	99%
Transfers In - Quote (Values)	Low	within 10 days	90%	98%
Transfers In - Payments	Low	within 10 days	90%	99%
Transfers Out - Quote	Low	within 25 days	90%	99%
Transfers Out - Payments	Low	within 25 days	90%	98%
Employer estimates provided	Medium	within 7 days	95%	90%
Employee projections provided	Low	within 10 days	95%	93%
Refunds	Low	within 10 days	95%	99%
Deferred benefit notifications	Low	within 25 days	95%	100%

	2018/19	2019/20
Number Of Complaints	9	5

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund 2018/19 £	East Sussex Pension Fund 2019/20 £	Benchmark Unit Costs £
Excluding investment management expenses	22.09	30.07	38.69
Including investment management expenses	187.26	225.65	228.26

Key staffing indicators

At 31 March 2019, staffing numbers within Pension Administration were 17.6 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,363.

With an average cases per member of staff of 1:499

Membership

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

Note 28 to the accounts provide a list of all organisations currently contributing to the Fund. It includes their contribution rates, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

	Active	Ceased	Total
Scheduled body	95	13	108
Admitted body	33	21	54
Total	**128**	**34**	**162**

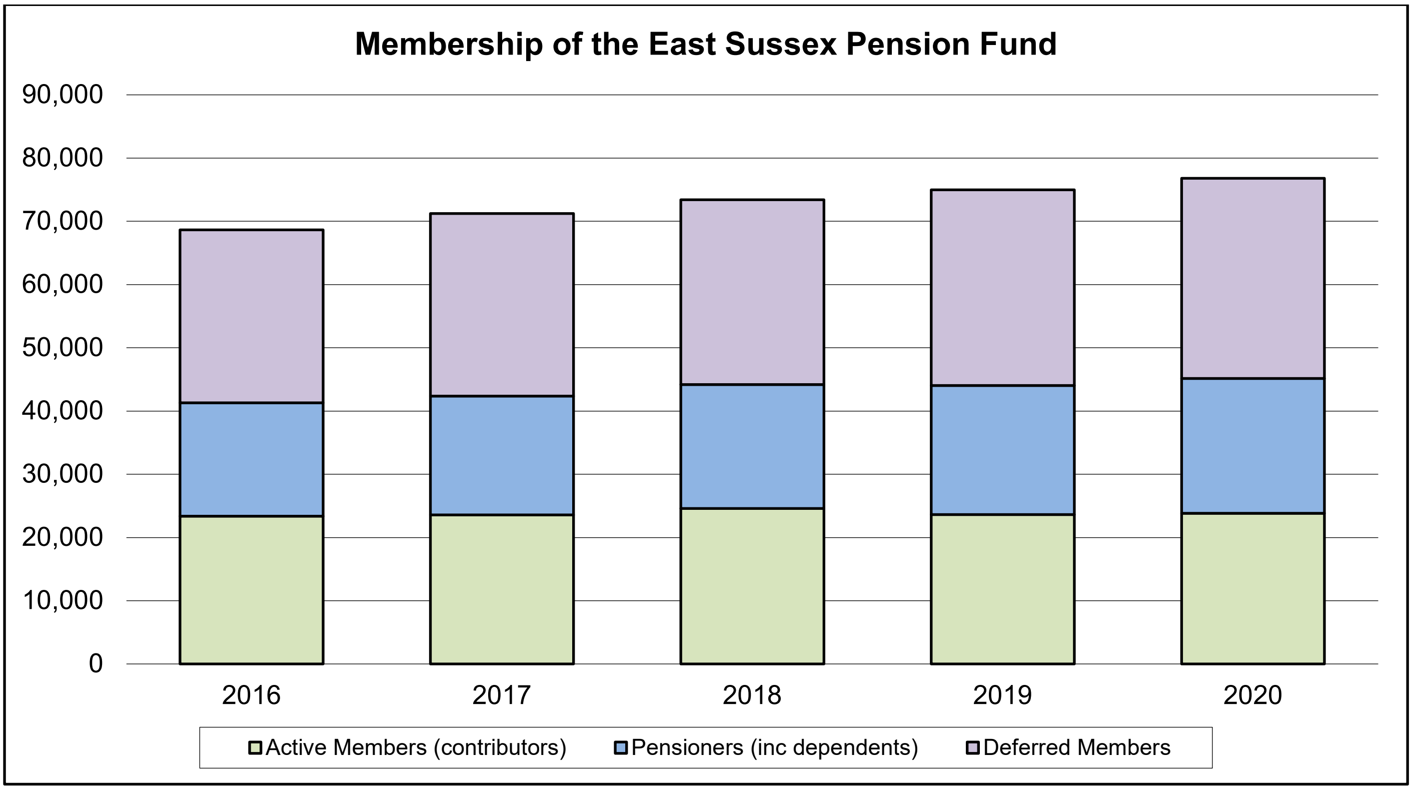
During 2019/20 the number of contributing members within the Pension Fund increased by 0.8% from 23,646 to 23,835. In summary, the number of members contributing to the Scheme is:

	2018/19	2019/20
East Sussex County Council	7,978	7,980
Scheduled Bodies	15,332	15,561
Admitted Bodies	336	294
Total	**23,646**	**23,835**

The number of pensioners in receipt of payments from the Fund increased from 20,403 to 21,335 (or 4.6%).

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

	March 2016	March 2017	March 2018	March 2019	March 2020
Active Members (contributors)	23,367	23,567	24,570	23,646	23,835
Pensioners (inc dependents)	17,942	18,812	19,597	20,403	21,335
Deferred Members	27,344	28,853	29,253	30,916	31,622
Total	**68,653**	**71,232**	**73,420**	**74,965**	**76,792**

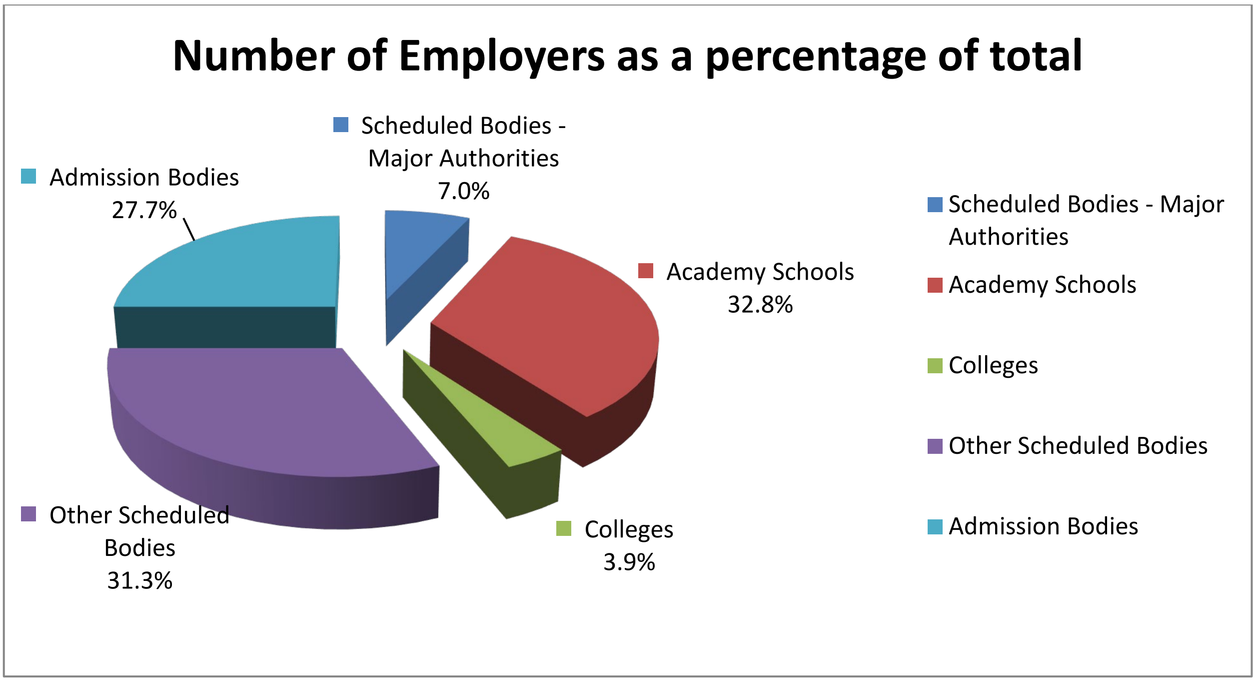


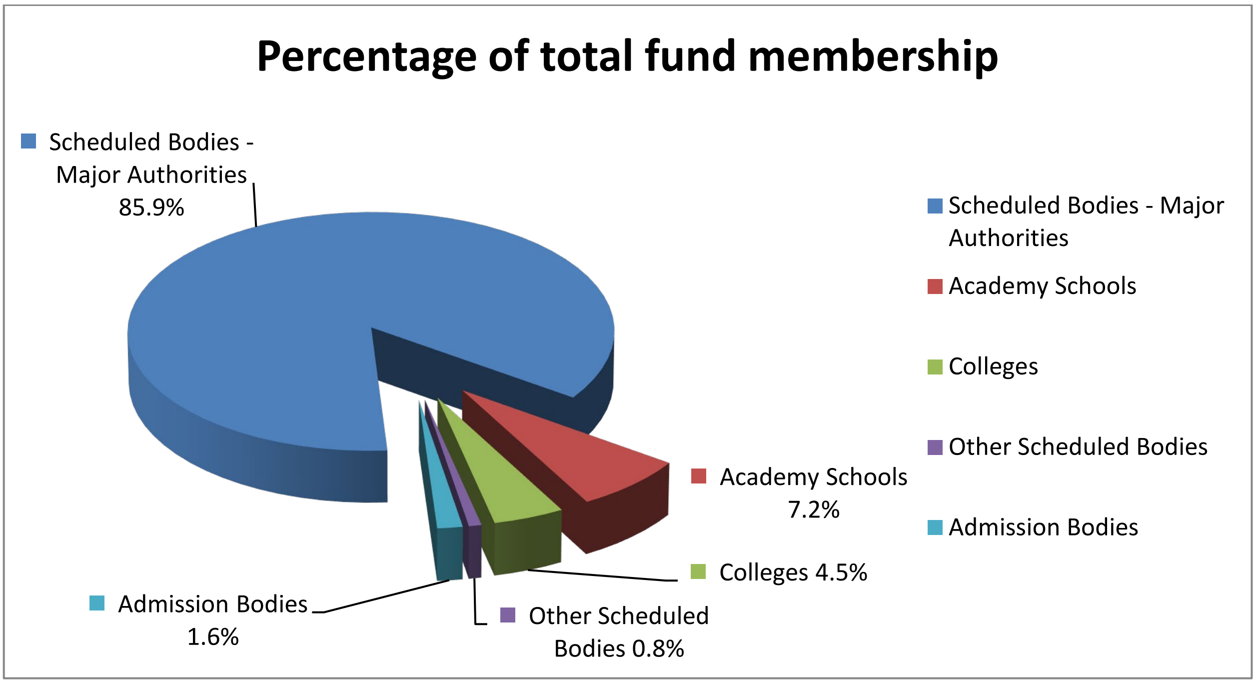
Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 76,000 individuals employed by 128 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

Employer statistics by Employer type

Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies - Major Authorities	7.0%	85.9%	9
Academy Schools	32.8%	7.2%	42
Colleges	3.9%	4.5%	5
Other Scheduled Bodies	31.3%	0.8%	40
Admission Bodies	25.0%	1.6%	32

Note - all percentages have been rounded to the nearest one decimal place





New pensioners by pensioner type

New pensioner type	Number of new pensioner in group
Normal Retirments	452
Redundancies	141
Ill Helath	57
Employee's Choice of Early Pensnsion	616
Total New Pensioners	1,266

2019 Annual Benefit Statement

The ESPF is required to produce an Annual Benefit Statement (ABS) before the 31st of August each year for all active and deferred members. At 31 March 2019, the number of active members in the scheme was 23,646 and there are 30,916 deferred members. The number of members who were due to receive an ABS but we failed to issue prior to the deadline was 2,300 Active members and 15,815 deferred members – many of these due to no address on record. A formal breach report was submitted to the regulator on 26th November 2019. As a result of the breach the Pension Committee resolved to carry out a the data cleansing and improvement programme which was agreed by the Committee on 25 November 2019 with a view to completion of the programme by 31 March 2020. In addition to this, the fund resolved to change to the Funds administration strategy, better outlining the responsibilities or employers, the administering authority and setting out a service level agreement for the administrator. The Data improvement Programme comprised a comprehensive review of scheme member data held by scheme employers, to reconcile this with that held on the administrator's records to ensure appropriate procedures are in place to support scheme employers' submissions for the future. The oversight and scrutiny of the Data Improvement Programme was delegated to the Annual Benefit Statement (ABS) 2020 Working Group (a working group comprising Pension Board and Pension Committee members together with the Chief Finance Officer of East Sussex County Council). The Fund's performance in relation to ABS has been notably stronger in 2020 following the conclusion of the data improvement programme, a close report was issued to the regulator on the 2018 and 2019 ABS breaches in September 2020 and no breach has been reported for the March 2020 exercise.

6. Actuarial report on funds

The East Sussex County Council ("the Administering Authority") carried out an actuarial valuation of the East Sussex Pension Fund. ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

The actuarial valuation is a risk management exercise with the purpose of reviewing the current funding plans and setting contribution rates for the Fund's participating employers for the period from 1 April 2020 to 31 March 2023. The report can be downloaded here which summarises the outcomes of the valuation and the underlying advice provided to the Administering Authority throughout the valuation process.

For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.

The resulting funding position is as follows:

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	994	1,061
Deferred Pensioners	604	736
Pensioners	1,414	1,588
Total Liabilities	**3,012**	**3,386**
Assets	**2,771**	**3,633**
Surplus / (Deficit)	**(240)**	**247**
Funding Level	**92%**	**107%**

There has been an improvement in the reported funding level since 31 March 2016 from 92% to 107% and a change in the funding deficit from £240m to a surplus of £247m.

A breakdown of the key factors that have influenced the reported funding position from 31 March 2016 to 31 March 2019 are detailed below.

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	**2,771**	**3,012**	**(240)**
Cashflows			
Employer contributions paid in	290		290
Employee contributions paid in	86		86
Benefits paid out	(376)	(376)	0
Net transfers into / out of the Fund*	(23)		(23)
Other cashflows (e.g. Fund expenses)	(5)		(5)
Expected changes in membership			
Interest on benefits already accrued		376	(376)
Accrual of new benefits		339	(339)
Membership experience vs expectations			
Salary increases greater than expected		21	(21)
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	0	12	(12)
Ill health retirement gain		(5)	5
Early leavers greater than expected		0	0
Pensions ceasing greater than expected		(1)	1
Commutation less than expected		10	(10)
Other membership experience		10	(10)
Changes in market conditions			
Investment returns on the Fund's assets	890		890
Changes in future inflation expectations		95	(95)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(5)	5
Change in longevity assumptions		(94)	94
Change in salary increase assumption		(18)	18
Change in discount rate		12	(12)
This valuation at 31 March 2019	**3,633**	**3,386**	**247**

7. Governance

Pensions Committee

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

Pension Board

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role.

ACCESS Pool Joint Committee

The ACCESS Pool operates a Joint Committee which has been set up through an Inter Authority Agreement (IAA) which was formalised and executed by each Individual Authority between May and June 2017 and came into effect on the 31 July 2017 at the first formal Joint Committee meeting. The role of the ACCESS Joint Committee, which has one representative from each Fund is to:

- Ensure pool delivers value for money;
- Appointment and termination of the Operator;
- Ensures pool meets needs of individual funds e.g. sub-funds the operator must provide to support individual fund strategies;
- Set pool level policies e.g. sharing of costs;
- Monitor Operator performance against KPIs;
- Monitor investment performance;

Committee membership and attendance

During the year ended 31 March 2020 there were 5 meetings of the Pension Committee, 3 meetings of the Pension Board and one annual employers forum.

Member attendance at committee meetings during 2019/20

2019/20 Pension Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox (Chairman)	5/5
	Simon Elford	3/5
	Nigel Enever	5/5
	David Tutt	3/5
	Trevor Webb	2/5

Member attendance at Board meetings during 2019/20

2019/20 Pension Board Members		
		Nos. of meetings attended
Independent Chairman:	Ray Martin	3/3
Employer Representative:		
Brighton & Hove City Council	Councillor Carmen Appich	2/3
Districts & Borough Councils	Councillor Chris Collier*	1/1
	Councillor Doug Oliver*	1/1
Educational Bodies	Stephen Osborn	3/3
Employee Representative:		
Active & Deferred	Niki Palermo	3/3
Active & Deferred	Lynda Walker	3/3
Pensioners	Diana Pogson	3/3

*Councillor Doug Oliver was replaced by Concillor Chris Collier during the year, one meeting took place when this post was vacant.

Member attendance at ACCESS Pool joint committee meetings during 2019/20

2019/20 Joint Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox	3/4

The Knowledge and Skills Framework

Objectives The Funds' objectives relating to knowledge and understanding are to:

- Ensure the Fund is appropriately managed and those individuals responsible for its management and administration have the appropriate knowledge and expertise;
- Ensures that there is the appropriate level of internal challenge and scrutiny on decisions and performance of the Fund
- Ensure the effective governance and administration of the Fund; and
- Ensure decisions taken are robust and based on regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Housing, Communities and Local Government.

CIPFA Knowledge and Skills Framework – Pension Fund Committees Although there is currently no legal requirement for knowledge and understanding for members of the Pension Committee it is the Fund's opinion that members of the Pension Committee should have no less a degree of knowledge and skills than those required in legislation by the Local Pension Board. As at date of writing, the ongoing SAB 'good governance' project signals a much stronger requirement on Pension Committee members knowledge and understanding.

The CIPFA framework, that was introduced in 2010, covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

Under each of the above headings the Framework sets out the knowledge required by those individuals responsible for Fund's management and decision making.

CIPFA Technical Knowledge and Skills Framework – Local Pension Boards CIPFA extended the Knowledge and Skills Framework in 2015 to specifically include Pension Board members, albeit there is an overlap with the original Framework. The 2015 Framework identifies the following areas as being key to the understanding of local pension board members;

- Pensions Legislation;
- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial markets and product knowledge;
- Actuarial methods, standards and practices.

Links to The Scheme Advisory Board's Good Governance project In February 2019 the Scheme Advisory Board commissioned Hymans Robertson to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Following extensive consultation and engagement with the LGPS community the SAB published 2 reports. The following recommendations from the second report relate directly to the attainment of knowledge and skills;

- Key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
- A requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
- Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
- Relevant professional bodies to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, this Training Strategy recognises the principles behind the recommendations and seeks to embed them into the culture of the East Sussex Pension Fund.

The Pensions Regulator's E-learning toolkit The Pensions Regulator has developed an online toolkit to help those running public service schemes understand the governance and administration requirements set out in its code of practice 14 Governance and administration of public service pension schemes.

The toolkit covers 7 short modules, which are:

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

The modules of the Regulator's toolkit are by their very nature generic, having to cater for all public service pension schemes. While they give a minimum appreciation of the knowledge and understanding requirements set out in the Code of Practice they do not cater for the specific requirements of the individual public service schemes.

As a result the Regulator's toolkit does not cover knowledge and skills requirements in areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation.

Pension Committee under the constitution of East Sussex County Council, has the responsibility "To make arrangements for the investment, administration and management of the Pension Fund".

Members of the Committee must, therefore, have an understanding of all aspects of running the Fund and how to exercise their delegated powers effectively.

Members of the Pension Committee require an understanding of:

- their responsibilities as delegated under the constitution of East Sussex County Council as the administering authority for the fund;
- the requirements relating to pension fund investments;
- the management and administration of the Fund;
- controlling and monitoring the funding level; and
- effective governance and decision making in relation to the management and administration of the Fund.

There also exists a specific requirement under MiFID II, that those making investment decisions, must be able to demonstrate that they have the capacity to be treated as professional investors.

Expectations on Pension Committee Members

The role of Pension Committee member is an important one and there are certain expectations on those undertaking the role. These include;

- A commitment to attend and participate in training events and to adhere to the principles of the Training Strategy
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others

- Judge the information provided in a fair and open minded way that avoids pre-determining outcomes
- Operate within the terms of reference for the Pension Committee and the elected member code of conduct

Local Pension Board Under the constitution the Local Pension Board is required;

To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by The Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

The role of the Local Pension Board is to provide assistance to the administering authority to ensure that the fund is well run and complies with its legal responsibilities and best practice. The Local Pension Board does not replace the administering authority or make decisions which are the responsibility of the administering authority.

Local Pension Board members must be conversant with:

- the relevant LGPS Regulations and any other regulations governing the LGPS;
- guidance issued by The Pensions Regulator and other competent authorities, relevant to the LGPS;
- any policy or strategy documents as regards the management and administration of the Fund; and
- the law relating to pensions and such other matters as may be prescribed.

8. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

Restated 2018/19 £000	£000		Notes	2019/20 £000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(92,084)		From Employers		(99,018)	
(29,613)		From Members		(31,403)	
	(121,697)				(130,421)
	(6,113)	Transfers in from other pension funds	8		(8,298)
	(127,810)				**(138,719)**
	122,183	Benefits	9		125,670
	3,409	Payments to and on account of leavers	10		8,596
	125,592				**134,266**
	(2,218)	**Net (additions)/withdrawals from dealings with members**			**(4,453)**
	14,038	Management expenses	11		17,333
	11,820	**Net (additions)/withdrawals including fund management expenses**			**12,880**
		Returns on investments			
	(26,191)	Investment income	12		(26,546)
	272	Taxes on income	13a		59
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments	14a		166,725
	(260,652)	**Net return on investments**			**140,238**
	(248,832)	**Net (increase)/decrease in net assets available for benefits during the year**			**153,118**
	(3,383,380)	Opening net assets of the scheme			(3,632,212)
	(3,632,212)	**Closing net assets of the scheme**			**(3,479,094)**

b. Net Assets Statement for the year ended 31 March 2020

Restated 31 March 2019 £000		Notes	31 March 2020 £000
3,478,924	Investment assets	14	3,401,666
5,362	Other Investment balances	21	340
(10,232)	Investment liabilities	22	(475)
149,156	Cash deposits	14	63,715
3,623,210	**Total net investments**		**3,465,246**
12,153	Current assets	21	16,622
(3,151)	Current liabilities	22	(2,774)
3,632,212	**Net assets of the fund available to fund benefits at the year end.**		**3,479,094**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2020 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

XX September 2020

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2020

1: Description of fund

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

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The role of the Board is to assist the East Sussex Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in illiquid investments such as private equity, infrastructure and private debt. The Committee oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks.

b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

There are 128 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	133	128
Number of employees		
County Council	7,978	7,980
Other employers	15,668	15,855
Total	**23,646**	**23,835**
Number of pensioners		
County Council	9,318	9,500
Other employers	11,085	11,835
Total	**20,403**	**21,335**
Deferred pensioners		
County Council	14,008	13,860
Other employers	16,908	17,762
Total	**30,916**	**31,622**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions, which are set, based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 0.0% to 49.2% of pensionable pay.

d) Benefits

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

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

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code.

There were no amendments for 2019/20 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account he actuarial present value of promised retirement benefits The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Accounts have been prepared on a going concern basis.

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

ACCESS pool – There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee, which has let the management of the asset pool to Link Fund Solutions Ltd, appointed to provide a pooled operator service. There is no direct investment in the third party, only a contractual arrangement to provide services, so no investment balance to carry forward in the net asset statement.

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

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

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

i) **Administrative expenses**

All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

ii) **Oversight and governance costs**

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

iii) **Investment management expenses**

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments.

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

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019/20, £0.3m of fees is based on such estimates (2018/19: £0.2m).

Net assets statement

g) Financial assets

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

j) Cash and cash equivalents

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

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

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement are the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis.

l) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

m) Additional voluntary contributions

East Sussex Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2015. The value of unquoted private equities at 31 March 2020 was £228.5 million (£206.8 million at 31 March 2019).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

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

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

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

The items in the Net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. As a result of Coronavirus pandeminc there is a increase in the uncertainty around the mortalty provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: • A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). • A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). • A 0.25% change in mortality rates would increase the liability by approximately £25 million (0.7%).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £228.5 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Pooled Property Investments	As a result of the coronavirus impact, the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. An investment manager employed by the pension fund to provide investment valuations has declared a ‘material valuation uncertainty’ in respect of the Pooled Property Investments. These investments are valued at 31 March 2020 at £325.92m. The total value of the fund assets at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets.	Advice from the Fund Manager of the Pooled Property Portfolio is that the indicative effect of the Covid-19 pandemic on these valuations could result in a reduction of up to 10% in the reported value at year end which is £32.59m for the fund as a whole.

6: Events after the balance sheet date

The spread of Coronavirus pandemic had a significant impact on markets in the period prior to year-end and will continue to impact global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for Governments and their economies to navigate which may impact on the assets and / or liabilities of the Pension Fund.

There have been no events since 31 March 2020, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	Restated 2018/19 £000	2019/20 £000
By category		
Employee's contributions	29,613	31,403
Employer's contributions		
Normal contributions	74,626	80,302
Deficit recovery contributions	16,437	17,662
Augmentation contributions	1,021	1,054
Total	**121,697**	**130,421**
By authority		
Scheduled bodies	77,498	83,613
Admitted bodies	3,576	4,303
Administrative Authority	40,623	42,505
Total	**121,697**	**130,421**

8: Transfers in from other pension funds

	2018/19 £000	2019/20 £000
Group transfers	-	-
Individual transfers	6,113	8,298
Total	**6,113**	**8,298**

9: Benefits payable

	Restated 2018/19 £000	2019/20 £000
By category		
Pensions	99,457	104,544
Commutation and lump sum retirement benefits	19,722	18,555
Lump sum death benefits	3,004	2,571
Total	**122,183**	**125,670**
By authority		
Scheduled bodies	69,441	73,625
Admitted bodies	3,778	3,690
Administrative Authority	48,964	48,355
Total	**122,183**	**125,670**

10: Payments to and on account of leavers

	2018/19 £000	2019/20 £000
Refunds to members leaving service	412	389
Group transfers	-	-
Individual transfers	2,997	8,207
Total	**3,409**	**8,596**

11: Management expenses

	2018/19 £000	2019/20 £000
Administrative costs	916	1,106
Investment management expenses	12,382	15,019
Oversight and governance costs	740	1,208
Total	**14,038**	**17,333**

11a: Investment management expenses

	2018/19 £000	2019/20 £000
Management fees	11,750	14,746
Custody fees	124	54
Transaction costs*	508	219
Total	**12,382**	**15,019**

*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

During the year, the Pension Fund incurred management fees which were deducted at source for 2019/20 of £3.7m (£2.3m in 2018/19) on its private equity investments, fees of £1.3m (£1.3m in 2018/19) on its infrastructure investments, fees of £2.6m (£0.0m in 2018/19) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2018/19) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2018/19 £000	2019/20 £000
Income from bonds	1,055	154
Income from equities	8,526	1,507
Private equity income	1,547	1,531
Pooled property investments	11,921	11,972
Pooled investments - unit trusts and other managed funds	2,266	10,705
Interest on cash deposits	856	673
Class Actions	20	4
Total	**26,191**	**26,546**

13: Other fund account disclosures

13a: Taxes on income

	2018/19 £000	2019/20 £000
Withholding tax – equities	(177)	(59)
Withholding tax – pooled	(95)	-
Total	**(272)**	**(59)**

13b: External audit costs

	2018/19 £000	2019/20 £000
Payable in respect of external audit for 2018/19	20	3*
Payable in respect of external audit for 2019/20	-	27
Payable in respect of other services	-	5
Total	**20**	**35**

*The final fee for 2018/19 was agreed after the audit opinion was received for 2018/19.

14: Investments

	2018/19 £000	2019/20 £000
Investment assets		
Bonds	499,750	212,331
Equities	153,695	-
Pooled Investments	2,232,435	2,579,793
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivative contracts:		
Forward Currency Contracts	425	-
	3,479,349	**3,401,666**
Cash deposits with Custodian	149,156	63,715
Other Investment balances (Note 21)	4,937	340
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivative contracts:		
Forward Currency Contracts	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2020 £000
Bonds	**499,750**	68,143	(379,592)	24,030	**212,331**
Equities	**153,695**	81,336	(244,125)	9,094	**-**
Pooled investments	**2,232,435**	1,055,608	(493,067)	(215,183)	**2,579,793**
Pooled property investments	**339,442**	10,551	(15,342)	(16,522)	**318,129**
Private equity/infrastructure	**245,135**	57,631	(41,228)	29,875	**291,413**
Commodities	**6,125**	992	(7,925)	808	**-**
Multi Asset	**2,342**	6,030	(7,534)	(838)	**-**
	3,478,924	**1,280,291**	**(1,188,813)**	**(168,736)**	**3,401,666**
Derivative contracts					
■ Forward currency contracts	**(415)**	12,995	(12,095)	(485)	**-**
	3,478,509	**1,293,286**	**(1,200,908)**	**(169,221)**	**3,401,666**
Other investment balances:					
■ Cash deposits	**149,156**			2,496	**63,715**
■ Other Investment Balances	**4,937**				**340**
■ Investment Liabilities	**(9,392)**				**(475)**
Net investment assets	**3,623,210**			**(166,725)**	**3,465,246**

	Market value 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£000	**£000**	**£000**	**£000**	**£000**
Bonds	**497,920**	226,590	(173,971)	(50,789)	**499,750**
Equities	**363,116**	132,273	(370,742)	29,048	**153,695**
Pooled investments	**1,828,109**	1,456,879	(1,262,282)	209,729	**2,232,435**
Pooled property investments	**344,411**	21,721	(33,705)	7,015	**339,442**
Private equity/infrastructure	**200,960**	43,126	(44,550)	45,599	**245,135**
Commodities	**4,487**	10,836	(9,211)	13	**6,125**
Multi Asset	**3,921**	7,763	-	(9,342)	**2,342**
	3,242,924	**1,899,188**	**(1,894,461)**	**231,273**	**3,478,924**
Derivative contracts					
■ Forward currency contracts	**480**	6,452	(8,160)	813	**(415)**
	3,243,404	**1,905,640**	**(1,902,621)**	**232,086**	**3,478,509**
Other investment balances:					
■ Cash deposits	**133,789**			2,647	**149,156**
■ Other Investment Balances	**1,777**				**4,937**
■ Investment Liabilities	**(3,198)**				**(9,392)**
Net investment assets	**3,375,772**			**234,733**	**3,623,210**

14b: Analysis of investments

	2018/19 £000	2019/20 £000
Bonds		
UK		
Corporate quoted	137,675	-
Public sector quoted	295,107	212,331
Overseas		
Public sector quoted	66,968	-
	499,750	**212,331**
Equities		
UK		
Quoted	23,830	-
Unquoted	-	-
Overseas		
Quoted	129,865	-
	153,695	**-**
Pooled funds - additional analysis		
UK		
Unit trusts	288,663	396,834
Overseas		
Unit trusts	1,943,772	2,182,959
	2,232,435	**2,579,793**
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivatives	425	-
	593,469	**609,542**
Cash deposits	149,156	63,715
Other investment balances (Note 21)	4,937	340
	154,093	**64,055**
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivatives	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

14c: Investments analysed by fund manager

	Market value 31 March 2019		Market value 31 March 2020	
	£000	%	£000	%
Investments in the ACCESS Pool				
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
ACCESS - Absolute Return (Ruffer)	-	-	418,469	12.1%
ACCESS - Real Return (Newton)	-	-	414,784	12.0%
ACCESS - Corporate Debt (M&G)	-	-	144,259	4.2%
	274,988	**7.6%**	**1,216,352**	**35.2%**
Investments held directly by the Fund				
Prudential M&G	137,680	3.8%	-	-
East Sussex Pension Fund Cash	73,289	2.0%	24,736	0.7%
UBS Infrastructure Fund	19,522	0.5%	16,720	0.5%
Prudential Infracapital	1,969	0.1%	20,676	0.6%
Pantheon	14,770	0.4%	30,109	0.9%
M&G UK Financing Fund	738	0.0%	-	-
Schroders Property*	360,424	9.9%	343,707	9.9%
Harbourvest Strategies	98,066	2.7%	106,192	3.1%
Adams St Partners	115,216	3.2%	122,874	3.5%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
Ruffer LLP**	402,202	11.1%	-	-
Newton Investment Management	422,002	11.7%	-	-
Longview Partners	349	0.0%	-	-
UBS Passive Funds	1,450,712	40.1%	1,305,987	37.6%
M&G Real Estate Debt VI	-	-	38,793	1.1%
	3,348,222	**92.4%**	**2,248,894**	**64.8%**
	3,623,210		**3,465,246**	

* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.
** Ruffer LLP managed a segregated mandate for East Sussex Pension Fund, the Fund was invested directly into the underlying assets which Ruffer were responsible for investing.

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

Security	Market Value 31 March 2019	% of total fund	Market value 31 March 2020	% of total fund
	£000		£000	
ACCESS - Absolute Return (Ruffer)	-	0.0%	418,469	12.0%
ACCESS - Real Return (Newton)	-	0.0%	414,784	11.9%
UBS Fundamental Index	429,415	11.9%	363,155	10.4%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
UBS UK Equity	271,296	7.5%	221,992	6.4%
UBS Over 5 year Index Gilt Linked	207,494	5.7%	212,331	6.1%
Newton Real Return (Pooled Fund)	422,001	11.6%	-	0.0%

14d: Stock lending

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

15: Analysis of derivatives

Objectives and policies for holding derivatives

Derivatives can be used to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

a) Futures

The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. The fund can participate in forward currency contracts in order to reduce the volatility associated with fluctuating currency rates.

c) Options

The fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. The fund buys equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
	-	-	-	-	-	-
					-	-
Net forward currency contracts at 31 March 2020						**-**
Prior year comparative						
Open forward currency contracts at 31 March 2019					425	(840)
Net forward currency contracts at 31 March 2019						**(415)**

16: Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques, which represent the highest and best price available at the reporting date

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not Required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not Required	Not Required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not Required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not Required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required
Pooled investments – Equity and bonds Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.	Not Required
Pooled investments – Property Funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.	The significant inputs and assumptions are developed by the respective fund manager.	Valuations could be affected by the frequency of the independent valuations between the funds.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Unquoted equity – Private Equity / Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Observable inputs are subject to judgment by the respective manager, but are applied in accordance with the appropriate industry guidelines. Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Pooled Investment (a)	7%	30,583	32,759	28,407
Pooled property investments (b)	14%	318,129	362,031	274,227
Private Equity/Infrastructure (c)	27%	291,413	370,095	212,731
Total		**640,125**	**764,884**	**515,366**

(a) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 7% is caused by how this value is measured.

(b) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 14% is caused by how this value is measured.

(c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 27% is caused by how this profitability is measured.

16a: Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

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

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

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

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

Within the East Sussex Pension Fund's investments those that meet this criterion are the Funds illiquid investments in Pooled property Funds, Private Equity/Infrastructure and some equity investments.

The pricing policies for these investments are set by the Fund's Investment Managers that has invested into these assets.

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

Values at 31 March 2020	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	222,079	2,539,802	640,125	3,402,006
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(475)	-	(475)
Net investment assets	**222,079**	**2,539,327**	**640,125**	**3,401,531**

Values at 31 March 2019	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	554,112	2,311,927	618,247	3,484,286
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(10,232)	-	(10,232)
Net investment assets	**554,112**	**2,301,695**	**618,247**	**3,474,054**

16b: Transfers between levels 1 and 2

During 2019/20 the fund has not transferred any financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

Period 2019/20	**Market value 1 April 2019** **£000**	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	**Market value 31 March 2020** **£000**
Equities	**33,670**	-	-	4,344	(31,669)	8,716	(15,061)	**-**
Pooled investments	**-**	-	-	44,179	(14,239)	643	-	**30,583**
Pooled property investments	**339,442**	-	-	10,551	(15,342)	(22,256)	5,734	**318,129**
Private Equity/Infrastructure	**245,135**	-	-	57,631	(35,970)	1,863	22,754	**291.413**
Total	**618,247**	**-**	**-**	**116,705**	**(97,220)**	**(11,034)***	**13,427***	**640,125**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	**Change in market value during the year**
1 and 2	(269,121)	100,003	**(169,118)**
3	(11,034)	13,427	**2,393**
Total	**(280,155)**	**(113,430)**	**(166,725)**

Period 2018/19	Market value 1 April 2018 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31 March 2019 £000
Equities	**19,801**	-	-	20,073	-	(6,204)	-	**33,670**
Pooled property investments	**344,411**	-	-	8,621	(20,605)	(904)	7,919	**339,442**
Private Equity/Infrastructure	**201,918**	-	-	43,126	(40,978)	17,473	23,596	**245,135**
Total	**566,130**	**-**	**-**	**71,820**	**(61,583)**	**10,365***	**31,515***	**618,247**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
1 and 2	58,452	134,401	**192,853**
3	10,365	31,515	**41,880**
Total	**68,817**	**165,916**	**234,733**

17: Financial instruments

17a: Classification of financial instruments

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

Restated 31 March 2019				31 March 2020		
Fair value through profit and loss	**Assets at amortised cost**	**Liabilities at amortised cost**		**Fair value through profit and loss**	**Assets at amortised cost**	**Liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
499,750	-	-	Bonds	212,331	-	-
153,695	-	-	Equities	-	-	-
2,232,435	-	-	Pooled investments	2,579,793	-	-
339,442	-	-	Pooled property investments	318,129	-	-
245,135	-	-	Private equity/infrastructure	291,413	-	-
6,125	-	-	Commodities	-	-	-
2,342	-	-	Multi Asset	-	-	-
425	-	-	Derivative contracts	-	-	-
-	149,156	-	Cash	-	63,715	-
-	499	-	Cash held by ESCC*	-	1,746	-
4,937	-	-	Other investment balances	340	-	-
-	11,654	-	Debtors *	-	14,876	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,402,006**	**80,337**	**-**
			Financial liabilities			
(840)	-	-	Derivative contracts	-	-	-
(9,392)	-	-	Other investment balances	(475)	-	-
-	-	-	Cash held by ESCC	-	-	-
-	-	(3,151)	Creditors	-	-	(2,774)
(10,232)	**-**	**(3,151)**	**Total Financial Liabilities**	**(475)**	**-**	**(2,774)**
3,474,054	**161,309**	**(3,151)**	**Total Financial Instruments**	**3,401,531**	**80,337**	**(2,774)**

*Reconciliation to Current Assets Note 21

	2018/19 £000	2019/20 £000
Cash held by ESCC	499	1,746
Debtors	11,654	14,876
Current Assets	**12,153**	**16,622**

17b: Net gains and losses on financial instruments

	31 March 2019 £000	31 March 2020 £000
Financial assets		
Fair value through profit and loss	225,623	(167,355)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	2,995	665
Financial liabilities		
Fair value through profit and loss	6,115	(35)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	**234,733**	**(166,725)**

18: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	7%
UK equities	28%
Global equities	28%
Absolute Return	14%
Pooled property investments	14%
Private Equity	28%
Infrastructure funds	20%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset Type	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Index Linked	212,331	231,441	193,221
Other Bonds	413,943	443,397	384,489
UK equities	221,992	284,150	159,834
Global equities	1,110,605	1,421,574	799,636
Absolute Return	833,253	949,908	716,598
Pooled property investments	318,129	362,031	274,227
Private Equity	228,472	292,444	164,500
Infrastructure funds	62,941	75,529	50,353
Net derivative assets	-	-	-
Total assets available to pay benefits	**3,401,666**	**4,060,474**	**2,742,858**

Asset Type	Values at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Index Linked	207,489	226,163	188,815
Other Bonds	388,958	412,279	365,637
UK equities	272,028	318,273	225,783
Global equities	1,247,034	1,459,030	1,035,038
Absolute Return	779,575	880,920	678,230
Pooled property investments	339,442	386,964	291,920
Private Equity	211,928	271,268	152,588
Infrastructure funds	32,469	38,963	25,975
Net derivative assets	(414)	(414)	(414)
Total assets available to pay benefits	**3,478,509**	**3,993,446**	**2,963,572**

Interest rate risk

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

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

The fund’s direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2020	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	63,715	63,715	63,715
Cash balances	1,746	1,746	1,746
Fixed interest securities	413,943	418,082	409,804
Index linked securities	212,331	212,331	212,331
Total change in assets available	**691,735**	**695,874**	**687,596**

Asset type	Carrying amount as at 31 March 2019	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	149,156	149,156	149,156
Cash balances	499	499	499
Fixed interest securities	404,890	408,939	400,841
Index linked securities	346,143	346,143	346,143
Total change in assets available	**900,688**	**904,737**	**896,639**

Income Source	Interest receivable 2019/20	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	673	1,328	18
Fixed interest securities	6,665	6,665	6,665
Index linked securities	169	2,292	(1,954)
Total change in assets available	**7,507**	**10,285**	**4,729**

Income Source	Interest receivable 2018/19	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	856	2,353	(641)
Fixed interest securities	2,605	2,605	2,605
Index linked securities	700	4,161	(2,761)
Total change in assets available	**4,161**	**9,119**	**(797)**

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

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements not more than 13%. A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2020 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas unit trusts	2,182,959	218,296	2,401,255	1,964,663
Total change in assets available	**2,182,959**	**218,296**	**2,401,255**	**1,964,663**

Currency exposure - asset type	Values at 31 March 2019 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas index linked	51,036	6,635	57,671	44,401
Overseas fixed interest	15,932	2,071	18,003	13,861
Overseas quoted securities	129,865	16,882	146,747	112,983
Overseas unit trusts	1,675,160	217,771	1,892,931	1,457,389
Total change in assets available	**1,871,993**	**243,359**	**2,115,352**	**1,628,634**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence, the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in recent years.

Summary	Asset value as at 31 March 2019 £000	Asset value as at 31 March 2020 £000
UK Treasury bills	86	86
Bank current accounts		
NT custody cash accounts	149,070	63,629
Total overseas assets	**149,156**	**63,715**

c) Liquidity risk

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

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

All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

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

19: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2019. 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 2019 valuation shows the fund has a past service deficit, being 107% funded in respect of past liabilities. This compares with 92% funded at the 2016 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2019/20

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 71% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £3,633 million, were sufficient to meet 107% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £247 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Figures assume members aged 45 as at the 2019 valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

20: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund ("the Fund").

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

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

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

Present value of Promised Retirement Benefits

Year ended	31 March 2019	31 March 2020
Active members (£m)	2,277	1,634
Deferred pensions (£m)	1,039	1,023
Pensioners (£m)	1,552	1,721
Total	**4,868**	**4,378**

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £449m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £125m.

Financial assumptions

Year ended	31 Mar 2019 % p.a.	31 Mar 2020 % p.a.
Pension Increase Rate	2.5%	1.9%
Salary Increase rate	2.9%	1.9%
Discount Rate	2.4%	2.3%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2019.

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

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

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	9%	384
0.5% increase in salary increase rate	1%	33
0.5% decrease in discount rate	10%	420

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1-year increase in life expectancy would approximately increase the liabilities by around 3-5%.

21: Current assets

	31 March 2019 £000	31 March 2020 £000
Other Investment Balances		
Sales inc Currency	3,313	-
Investment Income Due	1,704	193
Recoverable Taxes	345	147
Total	**5,362**	**340**

	31 March 2019 £000	31 March 2020 £000
Current Assets		
Contributions receivable from employers and employees	10,167	13,436
Sundry Debtors	1,487	1,440
Cash	499	1,746
Total	**12,153**	**16,622**

22: Current liabilities

	31 March 2019 £000	31 March 2020 £000
Investment Liabilities		
Purchases including currency	(8,893)	-
Managers Fees	(1,339)	(475)
Total	**(10,232)**	**(475)**

	Restated 31 March 2019 £000	31 March 2020 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(574)	(264)
Cash	-	-
Professional Fees	(55)	(434)
Administration Recharge	(1,046)	(1,194)
Sundry Creditors	(1,476)	(882)
Total	**(3,151)**	**(2,774)**

23: Additional voluntary contributions

	Market value 31 March 2019 £000	Market value 31 March 2020 £000
Prudential	16,821	21,221

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2019/20 some members of the pension scheme paid voluntary contributions and transfers in of £2.277m (£2.580m 2018/19) to Prudential to buy extra pension benefits when they retire. £3.050m was disinvested from the AVC provider in 2019/20 (£2.303m 2018/19). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

24: Agency Services

The East Sussex Pension Fund pays discretionary awards to former employees on behalf of some employers in the Fund. The amounts paid are provided as a service and are fully reclaimed from the employer bodies. The sums are disclosed below.

	2018/19 £000	2019/20 £000
East Sussex County Council	4,905	4,899
Brighton & Hove City Council	2,349	2,291
Eastbourne Borough Council	345	304
Magistrates	179	209
Wealden District Council	212	176
Hastings Borough Council	168	174
Rother District Council	104	115
Lewes District Council	78	73
South East Water	61	35
Brighton University	28	26
Mid-Sussex District Council	-	19
Westminster (used to be LPFA)	17	18
East Sussex Fire Authority	16	17
Capita Hartshead	16	16
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	5	6
Eastbourne Homes	3	6
West Midlands Pension Fund	5	5
West Sussex County Council*	1,060	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
Newhaven TC	1	1
East Sussex College Group	1	1
Plumpton College	-	1
Total	**9,577**	**8,420**

* Brighton and Hove City College transferred to West Sussex County Council on the 1 April 2017 East Sussex are still administering the Brighton and Hove City College members at the request of West Sussex until the records were transferred to their administrators March 2019.

25: Related party transactions

East Sussex County Council

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently, there is a strong relationship between the council and the pension fund.

Each member of the Pension Committee is required to declare their interests at each meeting.

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

The Council incurred costs in administering the fund and charged £1.2m to the fund in 2019/20 (£1.0m in 2018/19). The Council`s contribution to the fund was £42.5m in 2019/20 (£45.9m in 2018/19). All amounts due to the fund were paid in the year. At 31 March 2020 the Pension Fund bank account was in debit by £1.7m. The average throughout the year was £6.0m (£4.3 in 2018/19).

25a: Key management personnel

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

	31 March 2019 £000	31 March 2020 £000
Short-term benefits	17	18
Post-employment benefits	3	3
Total	**20**	**21**

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £322.0m (31 March 2019: £200.7m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, typically over a period of between four and six years from the date of each original commitment.

At 31 March 2020, the unfunded commitment was £158.4m for private equity, £133.5m for infrastructure and £30.1 for private debt. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2020.

Exit Payments

There were 12 employers whose contracts were due to end by the 31 March 2020 where an exit credit may need to be paid out. The Fund needs to obtain final information from the employers and then will need to commission the final cessation report from the actuaries to ascertain if an exit payment is due for these employers.

GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has nearly completed Stage 2, which reviews data inconsistencies, raised issues with HMRC and agrees outcomes, with 100% of the matching work completed. GMP elements of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3%. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3%.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. Stage 3 of the GMP Reconciliation Project, i.e., Rectification will amend LGPS pensions in line with the reconciled Stage 2 GMP information. This stage will also involve a significant member communication exercise to explain the changes taking place.

We are not in a position to be able to finalise the GMP reconciliation at this point we received with the final Scheme Reconciliation Service data cut, showing the final position of membership and liabilities held on their records from HMRC in July 2020. The contracted provider Mercers are currently performing a final reconciliation on this data with a report due to go to the November Pension Committee meeting for consideration. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2020.

27: Contingent assets

There are 9 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 12 other admitted bodies are covered by:

- 8 guarantees by local authorities participating in the Fund;
- 3 Parent company guarantee;
- 1 deposit held by East Sussex County Council

At 31 March 2020, the Fund has invested £367.4 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £29.9 million in the M&G real estate debt fund VI and £71.4 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful, this may be of material benefit to the Fund. The amount, which may be recoverable, is not currently quantifiable.

28: Impairment losses

During 2019/20, the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.1	5,448	20.8	-	20.3	-
East Sussex County Council	17.1	7,254	17.6	6,141	17.6	5,568
East Sussex Fire and Rescue Service	17.0	247	17.9	164	17.9	137
Eastbourne Borough Council	16.9	654	19.9	-	19.4	-
Hastings Borough Council	17.3	594	17.6	538	17.6	508
Lewes District Council	18.0	551	24.1	-	23.6	-
Rother District Council	17.3	596	26.1	-	25.6	-
University of Brighton	16.75	741	18.2	-	17.7	-
Wealden District Council	17.2	655	17.6	576	17.6	538
Other Scheduled Bodies						
Arlington Parish Council	22.6	-	22.1	-	21.6	-
Battle Town Council	17.4	6	22.1	-	21.6	-
Berwick Parish Council	22.6	-	22.1	-	21.6	-
Buxted Parish Council	22.6	-	22.1	-	21.6	-
Camber Parish council	22.6	-	22.1	-	21.6	-
Chailey Parish Council	22.6	-	22.1	-	21.6	-
Chiddingly Parish Council	22.6	-	22.1	-	21.6	-
Conservators of Ashdown Forest	17.4	17	22.1	-	21.6	-
Crowborough Town Council	17.4	14	22.1	-	21.6	-
Danehill Parish Council	22.6	-	22.1	-	21.6	-
Ditchling Parish Council	22.6	-	22.1	-	21.6	-
Ewhurst Parish Council	22.6	-	22.1	-	21.6	-
Fletching Parish Council	22.6	-	22.1	-	21.6	-
Forest Row Parish Council	17.4	4	22.1	-	21.6	-
Frant Parish Council	22.6	-	22.1	-	21.6	-
Hadlow Down Parish Council	22.6	-	22.1	-	21.6	-
Hailsham Town Council	17.4	17	22.1	-	21.6	-
Hartfield Parish Council	22.6	-	22.1	-	21.6	-
Heathfield & Waldron Parish Council	17.4	5	22.1	-	21.6	-
Herstmonceux Parish Council	22.6	-	22.1	-	21.6	-
Hurst Green Parish Council	22.6	-	22.1	-	21.6	-
Icklesham Parish Council	22.6	-	22.1	-	21.6	-
Isfield Parish Council	22.6	-	22.1	-	21.6	-
Lewes Town Council	17.4	19	22.1	-	21.6	-
Maresfield Parish Council	17.4	1	22.1	-	21.6	-
Newhaven Town Council	17.4	6	22.1	-	21.6	-
Newick Parish Council	22.6	-	22.1	-	21.6	-
Peacehaven Town Council	17.4	10	22.1	-	21.6	-
Pett Parish Council	22.6	-	22.1	-	21.6	-
Plumpton Parish Council	22.6	-	22.1	-	21.6	-
Ringmer Parish Council	22.6	-	22.1	-	21.6	-
Rye Town Council	17.4	2	22.1	-	21.6	-
Salehurst & Robertsbridge Parish Council	22.6	-	22.1	-	21.6	-
Seaford Town Council	17.4	8	22.1	-	21.6	-
Sussex Inshore Fisheries & Conservation Authority	22.6	-	22.1	-	21.6	-
Telscombe Town Council	17.4	5	22.1	-	21.6	-
Uckfield Town Council	17.4	17	22.1	-	21.6	-
Wartling Parish Council	22.6	-	22.1	-	21.6	-

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Westham Parish Council	17.4	2	22.1	-	21.6	-
Willingdon and Jevington Parish Council	17.4	2	22.1	-	21.6	-
Wivelsfield Parish Council	17.4	2	22.1	-	21.6	-
Academy Schools						
Annecy Catholic Primary Academy	15.3	-	15.5	-	15.0	-
Aquinas Trust	21.5	-	21.0	-	20.5	-
ARK Schools Hastings	21.1	-	20.6	-	20.1	-
Aurora Academies Trust	20.9	-	20.4	-	19.9	-
Beacon Academy	23.5	-	23.0	-	22.5	-
Bexhill Academy	23.4	-	22.9	-	22.4	-
Bilingual Primary School	16.1	-	15.6	-	15.1	-
Breakwater Academy	17.5	-	17.0	-	16.5	-
Burfield Academy (Hailsham Primary)	20.5	-	20.0	-	19.5	-
Cavendish Academy	21.0	-	20.5	-	20.0	-
Diocese of Chichester Academy Trust	24.9	-	24.4	-	23.9	-
Eastbourne Academy	21.7	-	21.2	-	20.7	-
Falmer (Brighton Aldridge Community Academy)	20.5	-	20.0	-	19.5	-
Gildredge House Free School	20.1	-	19.6	-	19.1	-
Glyne Gap Academy	21.9	-	21.4	-	20.9	-
Hailsham Academy	20.5	-	20.0	-	19.5	-
Hawkes Farm Academy	16.9	-	16.4	-	15.9	-
High Cliff Academy	20.5	-	20.0	-	19.5	-
Jarvis Brook Academy	15.0	-	14.5	-	14.0	-
King's Church of England Free School	16.7	-	16.2	-	15.7	-
Langney Primary Academy	14.7	-	13.4	-	12.9	-
Ore Village Academy	19.0	-	18.5	-	18.0	-
Parkland Infant Academy	15.9	-	14.8	-	14.3	-
Parkland Junior Academy	15.2	-	14.4	-	13.9	-
Pebsham Academy	20.0	-	19.5	-	19.0	-
Phoenix Academy	20.9	-	20.4	-	19.9	-
Portslade Aldridge Community Academy	20.4	-	19.9	-	19.4	-
King's Academy Ringmer	21.3	-	20.8	-	20.3	-
SABDEN Multi Academy Trust	24.1	-	23.6	-	23.1	-
Seaford Academy	21.6	-	21.1	-	20.6	-
Seahaven Academy	22.0	-	21.5	-	21.0	-
Shinewater Primary Academy	15.3	-	14.5	-	14.0	-
Sir Henry Fermor Academy	15.3	-	14.8	-	14.3	-
The South Downs Learning Trust	12.7	-	12.2	-	11.7	-
The Southfield Trust	14.9	-	14.4	-	13.9	-
Torfield & Saxon Mount Academy Trust	23.1	-	22.6	-	21.1	-
University of Brighton Academies Trust	20.5	-	20.0	-	19.5	-
White House Academy	18.0	-	17.5	-	17.0	-
Colleges						
Bexhill College	16.6	38	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	17.2	38	19.8	-	19.8	-
East Sussex College Group	17.2	171	20.7	-	20.7	-
Plumpton College	16.7	73	18.9	-	18.9	-
Varndean Sixth Form College	17.5	25	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	21.2	-	33.0	11	33.0	-
Biffa Muncipal Ltd	-	-	28.8	-	28.8	-
Brighton and Hove CAB	28.7	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	20.7	-	0.0	-	0.0	0.0

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Care Outlook Ltd	35.0	-	0.0	-	0.0	0.0
Care Quality Commission	41.6	231	49.2	92	49.2	92
De La Warr Pavilion Charitable Trust	43.7	207	4.8	-	4.8	-
Eastbourne Homes - SEILL	21.9	-	19.2	-	19.2	-
Eastbourne Leisure Trust	25.8	18	0.0	-	0.0	0.0
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	24.5	2	29.2	13	29.2	13
EBC - Towner	11.5	-	31.0	7	31.0	7
ESCC - Care at Home Services	-	-	0.0	-	0.0	0.0
ESCC - NSL Ltd	-	-	3.6	-	3.6	-
Grace Eyre	27.5	-	0.0	-	0.0	0.0
Halcrow Group Ltd	23.6	-	5.4	-	5.4	-
Hardings Catering Ltd	-	-	32.4	1	32.4	-
Just Ask Estates Ltd	31.4	-	32.6	3	32.6	-
Optivo	39.2	1,221	45.8	920	45.8	920
Sussex County Sports Partnership	21.0	-	48.6	97	48.6	97
Sussex Housing & Care	35.9	67	0.0	-	0.0	-
Telent Technology Services Ltd	24.9	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	18.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	9.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	27.1	91	15.8	-	15.8	-
Wealden Leisure Ltd - Portslade Sports Centre	12.3	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	6.7	-	0.0	-	0.0	-

30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC), which measures the performance of the Fund compared with 58 other local authority pension funds. Pension Fund investment is a long-term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	(4.3)	1.6	5.1	6.8
Benchmark	(5.0)	1.2	4.4	5.8
Relative	0.7	0.4	0.7	1.0

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	(4.3)	1.6	5.1	6.8
Local Authority Average	(4.8)	1.9	5.2	6.9
Relative	0.5	(0.3)	(0.1)	(0.1)

The Fund outperformed the (weighted) average local authority fund over the year by 1.3% (0.7% outperformance 2018/19), ranking the East Sussex Fund in the 48nd percentile (23rd 2018/19) in the local authority universe. Over three years the fund performed inline (0.7% underperformance 2018/19) and was placed in the 55th percentile (65th 2018/19). Over five years the fund outperformed by 0.1% (0.2% outperformance in 2018/19) and was placed in the 37th percentile (32nd 2018/19). Over ten years the fund years, the fund underperformed by 0.1% (0.3% underperformance 2018/19) and was placed in the 45th percentile (60th 2018/19).

Relative performance is calculated on a geometric basis as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

As opposed to the simpler arithmetic method, the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.

31: Prior Period Adjustments

Fund Account

The 2018/19 contributions from employers and benefits totals have been restated to £92,084k and £122,183k respectively. The net (additions)/withdrawals from dealings with members, net (additions)/withdrawals including fund management expenses, net (increase)/decrease in net assets available for benefits during the year and the closing net assets of the schemes have all been adjusted by £651k to £2,218, £11,820, £248,832 and £3,632,212 respectively. This is due to the removal of unfunded pension payments from the Fund Account and a liability raised for this in the Net Asset Statement.

2018/19			Restated 2018/19		Change
£000	£000		£000	£000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions			
(101,093)		From Employers	(92,084)		9,009
(29,613)		From Members	(29,613)		-
	(130,706)			(121,697)	-
	(6,113)	Transfers in from other pension funds		(6,113)	-
	(136,819)			(127,810)	9,009
	130,541	Benefits		122,183	(8,358)
	3,409	Payments to and on account of leavers		3,409	-
	133,950			125,592	(8,358)
	(2,869)	**Net (additions)/withdrawals from dealings with members**		**(2,218)**	**651**
	14,038	Management expenses		14,038	-
	11,169	**Net (additions)/withdrawals including fund management expenses**		**11,820**	**651**
		Returns on investments			
	(26,191)	Investment income		(26,191)	-
	272	Taxes on income		272	-
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments		(234,733)	-
	(260,652)	**Net return on investments**		**(260,652)**	**-**
	(249,483)	**Net (increase)/decrease in net assets available for benefits during the year**		**(248,832)**	**651**
	(3,383,380)	Opening net assets of the scheme		(3,383,380)	-
	(3,632,863)	**Closing net assets of the scheme**		**(3,632,212)**	**651**

Net Assets Statement

The 31 March 2019 balances for current liabilities and net assets of the fund available to fund benefits at the year end have been restated due to the removal of unfunded pensions from the Fund Account to £3,151k and £3,632,212k respectively a movement of £651k.

31 March 2019 £000		Restated 31 March 2019 £000	Change £000
3,478,924	Investment assets	3,478,924	-
5,362	Other Investment balances	5,362	-
(10,232)	Investment liabilities	(10,232)	-
149,156	Cash deposits	149,156	-
3,623,210	**Total net investments**	**3,623,210**	-
12,153	Current assets	12,153	-
(2,500)	Current liabilities	(3,151)	(651)
3,632,863	**Net assets of the fund available to fund benefits at the year end.**	**3,632,212**	**(651)**

Note 7

The 2018/19 employers normal contributions have been restated to £74,626k with the breakdown by Scheduled bodies, Admitted bodies and Administrative Authority have been restated to £77,498k, £3,578k and £40,623k respectively. Due to the removal of reimbursements for unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Employee’s contributions	29,613	29,613	-
Employer’s contributions			
Normal contributions	83,635	74,626	9,009
Deficit recovery contributions	16,437	16,437	0
Augmentation contributions	1,021	1,021	0
Total	**130,706**	**121,697**	**9,009**
By authority			
Scheduled bodies	81,178	77,498	3,680
Admitted bodies	3,582	3,576	6
Administrative Authority	45,946	40,623	5,323
Total	**130,706**	**121,697**	**9,009**

Note 9

The 2018/19 pensions and commutation and lump sum retirement benefits have been restated to £99,457k and £19,722K respectively. The breakdown by scheduled bodies, admitted bodies and administrative authority have been restated to £69,441k, £3,778k and £48,964k respectively. Due to the removal of unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Pensions	107,805	99,457	8,348
Commutation and lump sum retirement benefits	19,732	19,722	10
Lump sum death benefits	3,004	3,004	-
Total	**130,541**	**122,183**	**8,358**
By authority			
Scheduled bodies	72,886	69,441	3,445
Admitted bodies	3,808	3,778	30
Administrative Authority	53,847	48,964	4,883
Total	**130,541**	**122,183**	**8,358**

Note 17

The 2018/19 creditors balance has been changed to £3,151k due to the creation of a creditor for unfunded pension payments.

31 March 2019 Fair value through profit and loss	31 March 2019 Assets at amortised cost	31 March 2019 Liabilities at amortised cost		Restated 31 March 2019 Fair value through profit and loss	Restated 31 March 2019 Assets at amortised cost	Restated 31 March 2019 Liabilities at amortised cost	Change
£000	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
			Financial Assets				
499,750	-	-	Bonds	499,750	-	-	-
153,695	-	-	Equities	153,695	-	-	-
2,232,435	-	-	Pooled investments	2,232,435	-	-	-
339,442	-	-	Pooled property investments	339,442	-	-	-
245,135	-	-	Private equity/infrastructure	245,135	-	-	-
6,125	-	-	Commodities	6,125	-	-	-
2,342	-	-	Multi Asset	2,342	-	-	-
425	-	-	Derivative contracts	425	-	-	-
-	149,156	-	Cash	-	149,156	-	-
-	499*	-	Cash held by ESCC*	-	499	-	-
4,937	-	-	Other investment balances	4,937	-	-	-
-	11,654*	-	Debtors *	-	11,654	-	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,484,286**	**161,309**	**-**	-
			Financial liabilities				
(840)	-	-	Derivative contracts	(840)	-	-	-
(9,392)	-	-	Other investment balances	(9,392)	-	-	-
-	-	-	Cash held by ESCC	-	-	-	-
-	-	(2,500)	Creditors	-	-	(3,151)	(651)
(10,232)	**-**	**(2,500)**	**Total Financial Liabilities**	**(10,232)**	**-**	**(3,151)**	**(651)**
3,474,054	**161,309**	**(2,500)**	**Total Financial Instruments**	**3,474,054**	**161,309**	**(3,151)**	**(651)**

Note 22

The 2018/19 sundry creditors balance has been changed to £1,476k due to the creation of a creditor for unfunded pension payments.

	31 March 2019	Restated 31 March 2019	Change
	£000	**£000**	**£000**
Current Liabilities			
Pension Payments (inc Lump Sums)	(574)	(574)	-
Cash	-	-	-
Professional Fees	(55)	(55)	-
Administration Recharge	(1,046)	(1,046)	-
Sundry Creditors	(825)	(1,476)	(651)
Total	**(2,500)**	**(3,151)**	**(651)**

9. Asset pools

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities:

1. Cambridgeshire
2. Kent
3. Hampshire
4. West Sussex
5. Norfolk
6. Essex
7. Northamptonshire
8. Hertfordshire
9. Suffolk
10. Isle of Wight

Collectively the pool has assets of £44 billion (of which 49% has been pooled) serving 3,534 employers with over 1.1 million members including 288,248 pensioners.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Objectives

1. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
2. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
3. Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

Principles

Governance

The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Section 151 Officers Group, Officer Working Group and the ACCESS Support Unit.

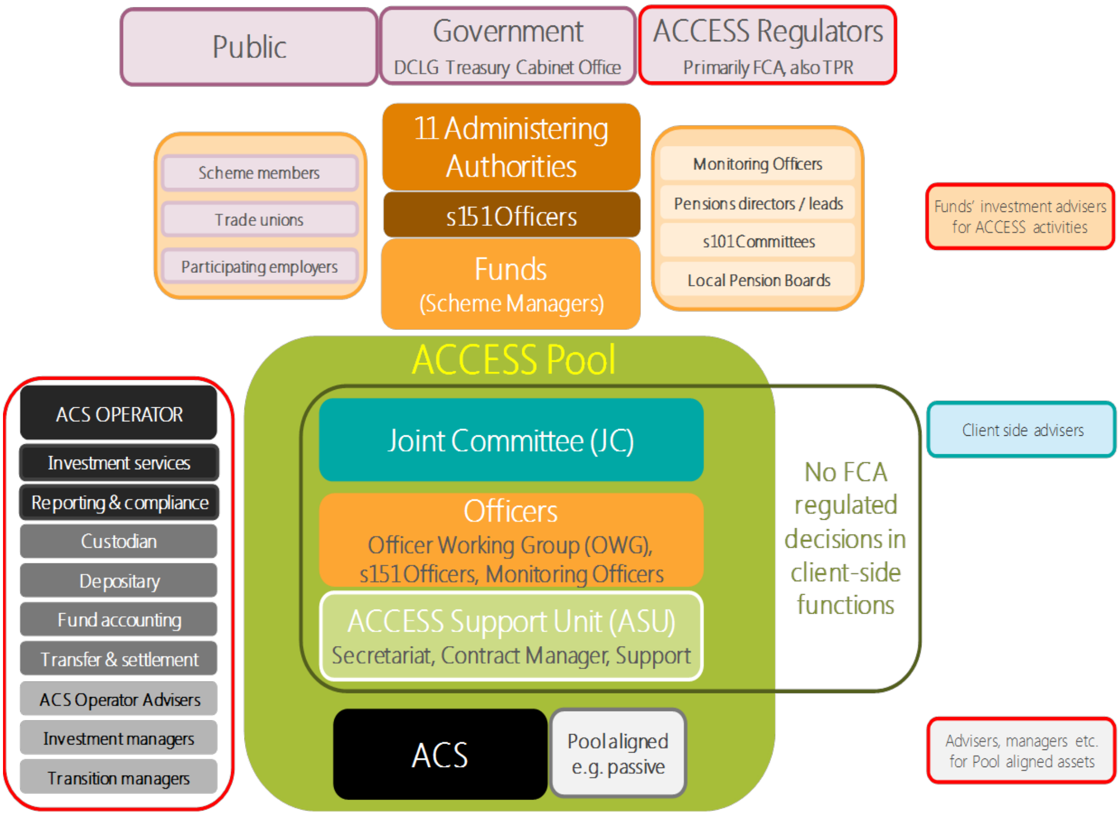
The Section 151 Officers of ACCESS Authorities provide advice to the Joint Committee in response to its decisions ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers within the ACCESS Pension Funds.

Strategic oversight and scrutiny responsibilities remain with the Administrating Authorities as does all decision making power to their own Funds asset allocation and the pooling of assets that each Fund holds within the arrangements developed by the ACCESS Pool.

The diagram below sets out the overarching ACCESS governance arrangements.



The Operator

Link Fund Solutions Ltd were appointed in 2018 to provide a pooled operator service overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies

Pool Aligned Assets: UBS

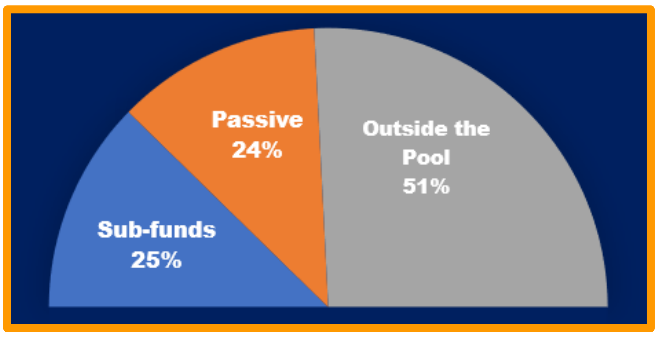
Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing the pool and moving assets into the pool and regularly submitted progress reports to Government. These are all published on the pool's website (www.accesspool.org).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the first milestone of having £27.2 billion assets pooled with estimated savings of £13.6 million by March 2021.

As at 31 March 2020, 49% of assets have been pooled:



Pooled Assets

As at 31 March 2020, ACCESS has pooled the following assets:

	£ billion
Passive investments*	10.5
UK Equity Funds	1.6
Global Equity Funds	7.2
UK Fixed Income	0.8
Diversifed Growth	1.3
Total Pooled Investments	**21.4**

*The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2019/20

- Recruitment of an interim Director to lead the ACCESS Support Unit.
- Establishment of business as usual functions of the ACCESS Support Unit being undertaken by the ACCESS Support Unit officers and technical leads officers.
- Approval and launch of a range of sub-funds further rationalising the existing range of mandates whilst reflecting the strategic asset allocation needs of the ACCESS Funds.
- Re-procurement of a legal advisor for ACCESS.
- Provision of updates of progress of pooling to Government and responding to consultations.
- Commencement of a review of Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the first investor day for members and officers of the individual funds to hear from the investment managers in the ACCESS pool.
- Commencement of a review to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

Objectives for 2020/21

ACCESS is well placed to continue to develop the pool and progress will continue unbated despite the restrictions imposed by the COVID-19 lockdown. Virtual meetings are well established and productive. It is anticipated that 2020/21 will see key activities within the following themes:

- Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).
- Alternative / non listed assets: the initial implementation of pooled alternative assets.
- Passively managed assets: ongoing monitoring and engagement with UBS.
- Governance: the application of appropriate forms of governance throughout ACCESS.
- ACCESS Support Unit (ASU): the size and scope of the ASU will be kept under review.

Financial Management Expected v Actual Costs and Savings

The table below summarises the financial position for 2019/20 along with the cumulative position since the commencement of ACCESS activity in early 2016.

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the 11 Authorities. 2019/20 saw an underspend primarily due to lower than anticipated costs of external advice combined with the establishment of the ACCESS Support Unit reducing the reliance on external project management support.

	2019/20		**2019/20**	
	Actual	**Budget**	**Actual**	**Budget**
	In Year	**In Year**	**Cumulative to date**	**Cumulative to date**
	£'000	**£'000**	**£'000**	**£'000**
Set Up Costs	-	-	1,824	1,400
Transition Costs	-	-	674	2,499
Ongoing Operational Costs	811	1,203	2,208	2,469
Operator & Depository Costs	3,247	2,000	3,632	2,500
Total Costs	**4,058**	**3,203**	**8,338**	**8,868**
Pool Fee Savings	(13,456)	(13,200)	(20,515)	(18,450)
Net (Savings Realised)/Costs	**(9,398)**	**(9,997)**	**(12,177)**	**(9,582)**

Operator and depositary fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator. The initial ACCESS business plan to MHCLG anticipated Operator costs of 2bps.

The 2019/20 fee savings have been calculated using the CIPFA price variance methodology and based on the asset values as at 31 March 2020. This approach highlights the combined level of investment fee savings, across all ACCESSS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the MHCLG submission whilst delivering savings ahead of the timeline contained in the original proposal.

Investment management costs split between pooled and non-pooled assets

	ACCESS Pool*		**Non-ACCESS Pool**		**Total**
	Direct	**Indirect**	**Direct**	**Indirect**	
Management Fee £000	**472**	**2,580**	**2,482**	**8,069**	**13,603**
Transaction Costs £000	**30**	**-**	**189**	**-**	**219**
Custody £000	**-**	**-**	**54**	**-**	**54**
Other Costs £000	**27**	**-**	**1,116**	**-**	**1,143**
Total £000	**529**	**2,580**	**3,841**	**8,069**	**15,019**

* This includes pool aligned assets such as the jointly procured passive manager for ACCESS authorities.

Environmental, Social and Governance (ESG) and Responsible Investment (RI)

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

Over the course of the last year a number of ACCESS Authorities have reviewed and developed their individual ESG /RI policies. Building on this ACCESS will, in the current year review its own ESG /RI guidelines to reflect both the requirements of the Authorities and the expectations associated with this fundamental aspect of institutional investment.

The ACCESS pool has a set of voting guidelines which seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies.

The voting guidelines sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies. During the year ACCESS voted at 383 meetings on 6,000 resolutions.

10. Pensions administration strategy report

The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pension Administration Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

The Pensions Administration Strategy document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. In particular it sets out:

- The roles and responsibilities of both the Fund and the employers within the Fund.
- The level of service the Fund and employers will provide to each other
- The performance measures used to evaluate the level of service

This administration strategy statement will be reviewed in line with each valuation cycle and the next review will be as at 1 April 2020. All scheme employers will be consulted before any changes are made to this document. The latest version of this administration strategy statement will always be available on the ESCC website: https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/ and the ESPF website: http://www.eastsussexpensionfund.org/east-sussex-pension-fund/about-us/forms-and-publications/

11. Funding strategy statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013, CIPFA guidance and in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser. The FSS sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- actuarial factors for valuing individual transfers, early retirement costs and costs of buying added service; and
- the Fund's Investment Strategy Statement

The Funding Strategy Statement was reviewed during the year to reflect funding principles agreed for the 2019 actuarial valuation, with the new version signed off in March 2020. The FSS can be found in full at www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/. The new funding principles applied to employer contributions payable from 1 April 2020.

Contribution rates payable by participating employers over the year to 31 March 2019 were set at the 2016 valuation in line with the principles summarised in the Funding Strategy Statement dated February 2019. Similarly, the approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers has been in line with that Funding Strategy Statement.

The Fund monitors the change in the funding position at a whole Fund level on a regular basis.

The next review of the Funding Strategy Statement will take place over the 2022/23 year as part of the 2022 valuation exercise.

The FSS that was in place in relation to 2019/20 is included as an appendix to this report.

12. Investment strategy statement

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment strategy for their Fund.

They must consult with persons they deem appropriate when drawing up their statement. Any material change in investment strategy must be included in a revised Investment Strategy Statement (ISS). 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. 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 ISS was first published in February 2017 when it replaced the Fund's Statement of Investment Principles. The statement is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund (the latest version is available on the website).
https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

The Committee of the East Sussex Pension Fund has an overriding statutory and fiduciary duty to ensure it has sufficient funds available to pay pensions. In light of that obligation, and in order to maximise investment return, the Fund has a diverse range of investments and does not restrict investment managers from choosing certain stocks taking into consideration that the Fund's investment strategy is regularly monitored.

Responsible Investment

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in its ISS. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The investment strategy of the Fund is documented in its Investment Strategy Statement, as part of this document we have included our Responsible Investment (RI) Policy, which describes the Fund's core principles of responsible investment and how we will ensure that these are met. Our core principles are:

- We will apply long-term thinking to deliver long-term sustainable returns.
- We will seek sustainable returns from well-governed assets.
- We will use an evidence-based long-term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
- We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.

The RI Policy also states the Fund's position on engagement versus exclusion:

East Sussex Pension Fund has never sought to implement a policy that explicitly excludes certain types of investments, companies or sectors except where they are barred by UK law. The Fund believes that its influence as a shareholder is better deployed by engaging with companies, in order to influence behaviour and enhance shareholder value. The Fund believes that this influence would be lost through a divestment or screening approach. Ultimately the Fund will always retain the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk. Under pooling, it is likely that any such decision will need to be made in conjunction with other members of the ACCESS pool.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns. It does this primarily through:

- Membership of representative bodies including LAPFF, IIGCC, Climate action 100+;
- Membership of the Pensions and Lifetime Savings Association (PLSA);
- Giving support to shareholder resolutions where these reflect concerns which are shared and affect the Fund's interests;
- Joining wider lobbying activities when appropriate opportunities arise.

The Pension Committee over the last 3 years has allocated considerable time to consider the potential impact of climate change on the Fund's investments. In so doing, the Committee has:

- commissioned a carbon footprint measurement service that provided data on the levels of carbon emissions,
- committed to putting 15% of the Funds passive equity investments into the UBS Climate Aware Fund, and it is anticipated that the investment in the Climate Aware Fund will reduce the CO^2 emissions of the East Sussex Pension Fund,
- been recognised tier 1 signatory to the UK Stewardship Code by the Financial Reporting Council (FRC),

- shortlisted for the 2018 LAPF Investment Awards for Best Approach to ESG/Impact Investing,

The committee will continue to monitor developments in this area and the long-term implications for the financial health of the Fund.

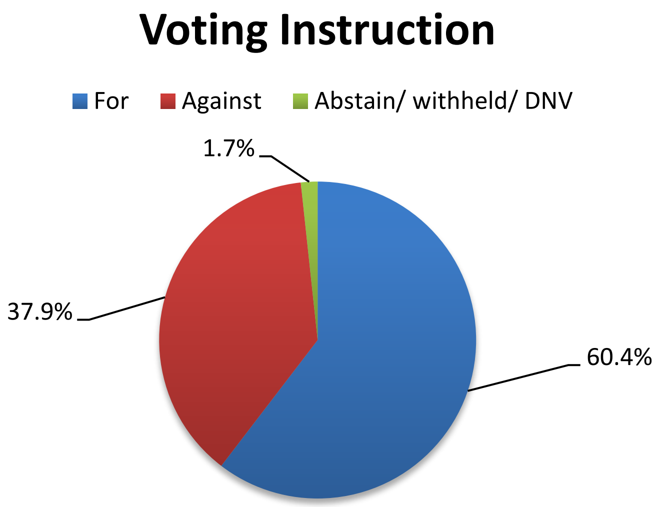
Voting

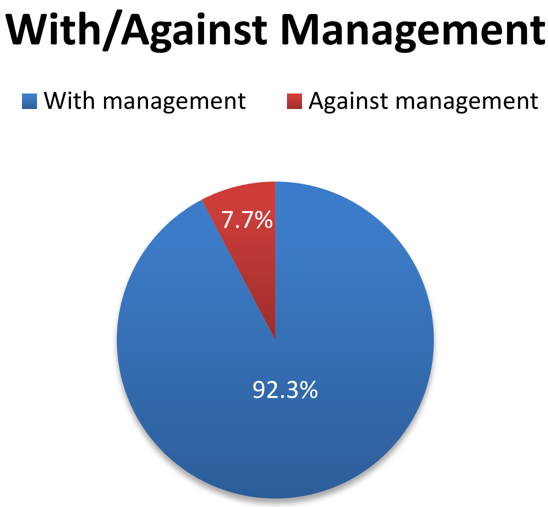
The Fund expects its investment managers to monitor investee companies, engage with company management where necessary and report on voting, governance and engagement activity.

Active mandate

Longview are currently responsible for the Fund's actively managed equity mandate. The table below summarises the combined voting statistics for the Fund's Global equity mandate over the year:

Number of vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
38	520	60.4%	37.9%	1.7%	60.8%	39.2%





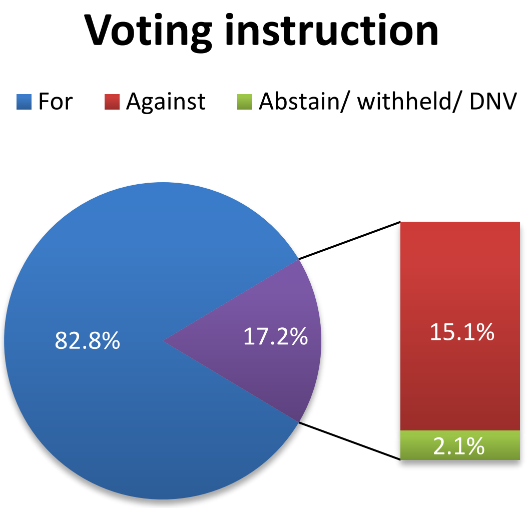
It should be noted that given the nature of the actively managed Longview fund, there are significantly less stocks held in the portfolio, resulting in less vote-able meetings.

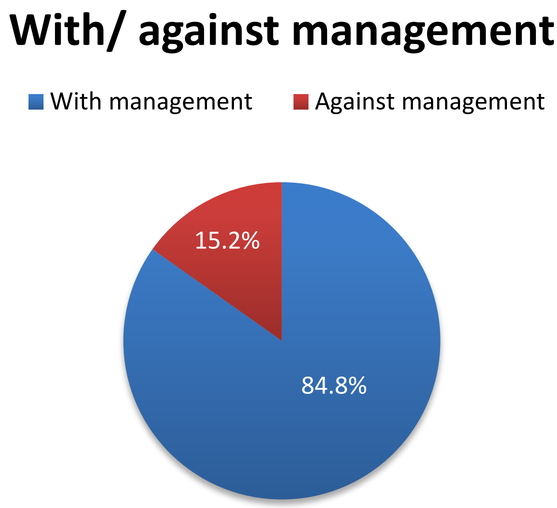
Votes were withheld in nine cases relating to the election of board directors. Longview voted against management on 204 proposals covering a range of issues, such as ongoing compensation concerns and the election of individuals that, in Longview's opinion, serve on too many boards. As requested by the Fund, Longview voted against any proposal to authorise political donations.

Passive mandates

UBS are responsible for the Fund's passively managed equity mandates. The table below summarises the combined voting statistics over the year for the regions that the Fund's equity mandate is invested in.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
5,303	55,420	82.8%	15.1%	2.1%	84.8%	15.2%



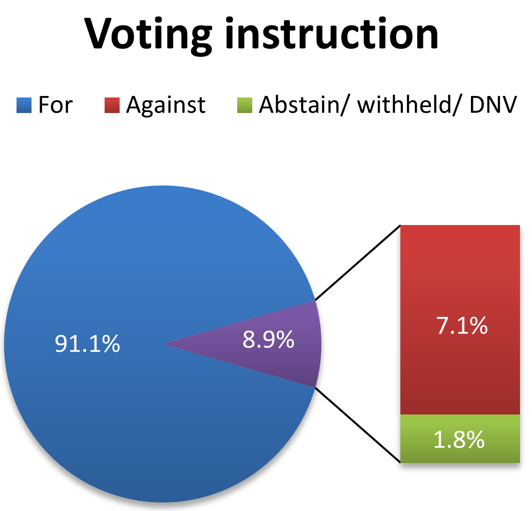


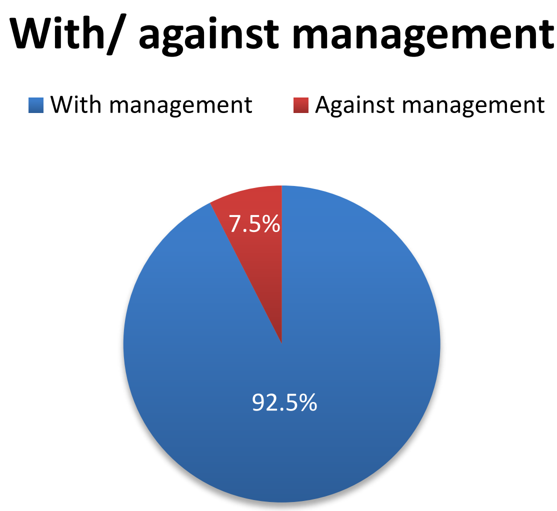
UBS voted against management on 8,424 proposals covering a range of issues, such as candidates proposed for director not being sufficiently independent and rights issues.

Ruffer Absolute Return fund

Ruffer are responsible for one of the Fund's two absolute return mandates. The table below summarises the voting statistics over the year for the equity holdings that the Fund is invested in through the Ruffer mandate.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
47	610	91.0%	7.1%	1.8%	92.5%	7.5%





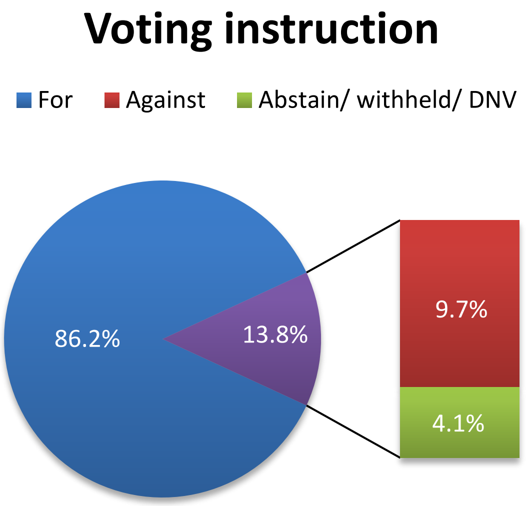
Ruffer voted against management on 46 proposals covering a range of issues, such as executive remuneration and election of non-executive directors.

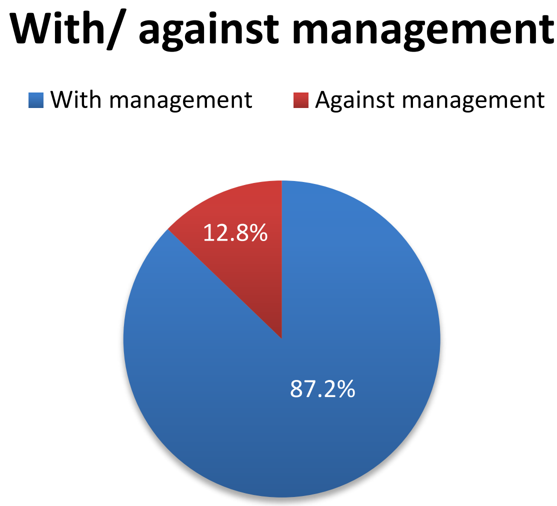
Newton Absolute Return fund

Newton are responsible for one of the Fund's two absolute return mandates. The table below summarises the voting statistics over the year for the equity holdings that the Fund is invested in through the Newton mandate.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management

68	925	86.4%	9.7%	4.1%	87.2%	12.8%





13. Communications policy statement

The Local Government Pension Scheme Regulations 2013 (Regulation 61) requires each pension fund administering authority to prepare and publish a policy statement setting out its approach to communicating with scheme members, representatives of members, prospective members and scheme employers.

The East Sussex Pension Fund policy statement sets out our existing communication activities.

This Policy can be seen on the East Sussex County Council Website.
https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

14. External auditor’s report

Independent auditor’s report to the members of East Sussex County Council on the pension fund financial statements of East Sussex Pension Fund

Opinion

We have audited the financial statements of East Sussex Pension Fund (the ‘pension fund’) administered by East Sussex County Council (the ‘Authority’) for the year ended 31 March 2020 which comprise the Pension Fund Account, the Net Assets Statement and Notes to the Pension Fund Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund’s assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund’s financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Financial Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer’s use of the going concern basis of accounting in the preparation of the pension fund’s financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the pension fund’s financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund’s financial statements are authorised for issue.

In our evaluation of the Chief Financial Officer’s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, as a result of the impact of Covid-19, the property market remains uncertain. Therefore, capital values and income generation of investments in the pension funds Pooled Property portfolio may change rapidly in the short to medium term. A material valuation uncertainty has therefore been disclosed, on advice from the Fund Manager, in the pension fund's major sources of estimation uncertainty in respect of the Pooled Property Investments. Our opinion is not modified in this respect.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, and the Annual Report, for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the 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 Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Chief Financial Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Darren Wells, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London
31 January 2021

Appenix 1

HYMANS ROBERTSON

East Sussex Pension Fund

Funding Strategy Statement

February 2019

PUBLIC SECTOR

Contents

1 Introduction

1.1 What is this document?

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").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 27 February 2017.

1.2 What is the East Sussex Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the East Sussex Fund, in effect the LGPS for the East Sussex area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;

- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Funding strategy and links to investment strategy Section 4).

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- A member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full.
- An employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund.
- An Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money.
- A Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. The regulatory background, including how and when the FSS is reviewed,

B. Who is responsible for what,

C. What issues the Fund needs to monitor, and how it manages its risks,

D. Some more details about the actuarial calculations required,

E. The assumptions which the Fund actuary currently makes about the future,

F. A glossary explaining the technical terms occasionally used here.

If you have any other queries, please contact East Sussex Pension Fund in the first instance.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.2 How does the actuary set the employer contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the employer contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation.

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have an older membership profile, or do not have tax-raising powers to increase contributions if investment returns under-perform.

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that employer contribution rates can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels.
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education.
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer

insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in return for a lower contribution rate that would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.
- Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.
- Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies**		**Transferee Admission Bodies**
Sub-type	**Major authorities**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing	"Gilts basis" - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future Working Lifetime		Shorter of: Future Working Lifetime of employees, and outstanding contract term
Probability of achieving target – Note (e)	66%	75%	66%	75% or 80% depending on employer risk	75%	See **Note (e)**
Primary rate approach	(see Appendix D – D.2)					
Secondary rate – Note (d)	Monetary Amount		% of payroll	Monetary amount		
Phasing of contribution changes	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	3 years		none
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
Treatment of surplus	Covered by stabilisation arrangement			Reduce contributions by spreading the surplus over the maximum time horizon		Reduce contributions by spreading the surplus over the remaining contract term.
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt or surplus payable	Cessation is generally assumed not to be possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. in the case of Town & Parish Councils), the cessation debt or surplus principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt or surplus will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt or surplus (if any) calculated on ongoing basis. Awarding Authority will be liable for any future deficits and contributions arising.

Note (a) (Basis for CABs closed to new entrants)

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority has set a higher funding target (i.e. using a discount rate set equal to gilt yields and extending the allowance for future improvements in longevity), in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see table below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring) or changes in the security of an employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Major authorities	Colleges	Academies
Max contribution increase in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.
Max contribution decrease in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 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 time horizons, for example where there were no new entrants.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

Note (d) (Secondary rate)

With the exception of Academies, the deficit recovery payments for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient deficit recovery payments being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: an employer approaching exit from the Fund, significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased or decreased contributions (by reviewing the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT.

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

v. As an alternative to (iv), the academy will have the option to elect to pay contributions at the ceding LEA rate plus 1% p.a. instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Historically, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

From 1 April 2019, the Fund's policy is that new outsourcings are set up under a "pass through" arrangement (although exceptions will be considered on a case-by-case basis at the Fund's discretion). Pass through arrangements allow for the pension risks to be shared between the letting employer and new contractor. Typically the majority of the pension risk is borne by the letting employer and thus the liability is retained on their balance sheet – as such the contractor would not be required to pay any deficit or receive any surplus at the end of the contract (subject to any agreed exceptions). However, there is some flexibility within a pass through arrangement. . In particular there are two different routes that the letting employer may wish to adopt. The Fund's default approach will be to set up pass through arrangements using a fixed contribution rate for all new contractors. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit or receive any surplus at the end of the contract term.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The Fund will consider these on case by case basis);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body).

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit (or surplus) will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required and makes it unlikely that any surplus would be paid to the employer.

b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look spread the payment subject to there being some security in place for the employer such as an indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

Further details of the Fund's arrangement for a ceasing employer are set out the Cessation Policy, which is available on request from the Administering Authority.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Non ill health early retirement costs

It is assumed that members' benefits 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). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Certain employers, all of which are subject to the stabilisation mechanism, pay an additional 0.75% of pay per annum to meet expected non-ill health early retirement strain costs. Non stabilised employers (and stabilised employers choosing not to pay the additional 0.75% p.a. of pay) are required to pay additional contributions ('strain') wherever an employee retires before attaining retirement age.

3.6 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

3.7 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

The Fund intends to offer ill health insurance to a subset of employers in the Fund. This is likely to be for smaller employers (e.g. CABs and academies) who are typically less able to cope with large and unexpected strain costs. The Fund will be contacting these employers in due course.

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

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 3 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.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on a regular basis and reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

APPENDIX A – REGULATORY FRAMEWORK

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-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."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 23 January 2017 for comment;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 18 November 2016 at which questions regarding the funding strategy could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, on 27 February 2017..

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/
- A copy sent by e-mail to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,

- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

APPENDIX B – RESPONSIBILITIES OF KEY PARTIES

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

operate the Fund as per the LGPS Regulations;

effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

collect employer and employee contributions, and investment income and other amounts due to the Fund;

ensure that cash is available to meet benefit payments as and when they fall due;

pay from the Fund the relevant benefits and entitlements that are due;

invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;

communicate appropriately with employers so that they fully understand their obligations to the Fund;

take appropriate measures to safeguard the Fund against the consequences of employer default;

manage the valuation process in consultation with the Fund's actuary;

provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

prepare and maintain a FSS and a SIP/ISS, after consultation;

notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 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;

have a policy and 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 Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

advise on the termination of employers' participation in the Fund; and

fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;

investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;

auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

APPENDIX C – KEY RISKS AND CONTROLS

C1 Types of risk

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

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
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. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

Risk	Summary of Control Mechanisms
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	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 (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

APPENDIX D – THE CALCULATION OF EMPLOYER CONTRIBUTIONS

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

0. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

1. within the determined time horizon (see note 3.3 Note (c) for further details),

2. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses 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 actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. 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, including but not limited to:

- the actual timing of employer contributions within any financial year;
- 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 analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

APPENDIX E – ACTUARIAL ASSUMPTIONS

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this was 1.6% at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

0. 1% p.a. until 31 March 2020, followed by

1. Retail Prices Index (RPI) per annum thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As was the case at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

APPENDIX F – GLOSSARY

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous

	to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Appendix 2

EAST SUSSEX PENSION FUND GOVERNANCE

POLICY STATEMENT

January 2018

Contents

Governance Policy Statement

Introduction

1. This is the Governance Policy Statement of the East Sussex Pension Fund, which is managed by East Sussex County Council ("The Council"), the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish, following such consultation as it considers appropriate, and keep under review a Governance Compliance Statement which must be revised following any material change in its delegation arrangements.
2. The Governance Compliance Statement of the East Sussex Pension Fund is comprised of the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduced a new framework for the governance and administration of public service pension schemes which is reflected in this Statement.
3. As Administering Authority, East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund of behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The Council may choose to delegate certain aspects of administering the Fund in accordance with the Local Governement Act 1972 and its own constitution. However, even where powers are delegated the Council remains ultimately responsibile for all aspects of the management of the Fund. The Local Government Pension Scheme Regulations 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.

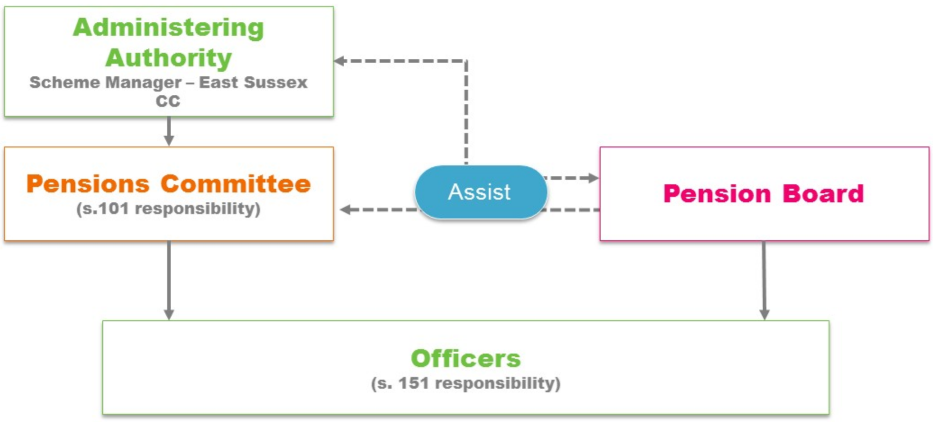
Governance of East Sussex Pension Fund

4. East Sussex County Council operates a Cabinet style decision-making structure. Under the Constitution, the Pension Committee has the delegated authority to exercise the powers of the County Council in respect of the pensions of all employees of the Council (except teachers), including the approval of the pension fund admission agreements. It also has authority for the management of the pension fund. The pension fund governance focuses on:

   - The effectiveness of the Pension Fund Committee, the Local Pension Board ("Board") and officers to where delegated function has been passed, including areas such as decision making processes, knowledge and competencies.
   - The establishment of policies and their implementation.
   - Clarity of areas of responsibility between officers and Pension Fund Committee/Board members.
   - The ability of the Pension Fund Committee/Board and officers to communicate clearly and regularly with all stakeholders.
   - The ability of the Pension Fund Committee/Board and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
   - The management of risks and internal controls to underpin the framework.

   The overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committee.

The East Sussex Pension Fund



Responsibilities of the Pensions Committee

The following powers have been delegated to the Pension Committee

(i) In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.

(ii) To exercise the powers and duties of the County Council in respect of:

- the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.

(iii) To make arrangements for the investment, administration and management of the Pension Fund.

(iv) To arrange for the appointment of investment managers and advisors.

(v) To agree Policy Statements as required under the Local Government Pension Scheme regulations.

(vi) To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.

(vii) To set the Investment Policy and review the performance of the Pension Fund's external investment managers.

(viii) To determine the fund management arrangements and to appoint fund managers and fund advisers.

(ix) To decide on the admission and cessation of bodies to the Pension Fund.

(x) To consider and agree actuarial variations.

(xi) To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.

(xii) To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership of the Pension Committee

5. The County Council appoints five members to the Committee in accordance with political balance provisions. All members of the Committee have voting rights.

6. In relation to Pension Matters, the Committee consider directly all issues relating to pension administration, such as changes in benefit regulation, admission agreements, the Pension Fund Investments, etc.

Frequency of meetings of the Pension Committee.

7. The Pension Committee meets at least 4 times a year. The full terms of reference are publicly available as part of the County Council constitution.

Operational Procedures of the Pension Committee.

8. The Pension Fund Committee receives and reviews quarterly reports from all its Investment Fund Managers and the independent Investment Adviser, Hymans Robertson. The Committee is also advised by an additional Independent Advisor. In addition, the Committee is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated Treasurer). The Committee also receives an annual report from the Fund's independent performance measurement provider which reviews the long-term performance of the Fund and of each of the Investment Fund Managers in relation to their targets. The Committee also holds a separate Annual Strategy Meeting at which its reviews the overall investment strategy of the Fund

Responsibilities of the East Sussex Pension Board

9. To help to ensure that the East Sussex Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

10. To provide assistance to East Sussex County Council as the Administering Authority and the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by the Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify

11. The role of the Board will be oversight of these matters and not decision making.

12. To secure effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

- Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.
- Retaining an overview of LGPS policy and strategy and performance information and the performance review timetable.
- Making representations and recommendations to the Pensions Committee as appropriate.
- Considering and responding to any government / Responsible Authority performance data request concerning the local fund.

Frequency of meetings of the East Sussex Pension Board.

13. The Pension Board meets at least 4 times a year. The full terms of reference are publicly available as part of the County Council constitution.

Operational Procedures of the Pension Board.

14. The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.

15. Insofar as it relates to its role, the Pension Board may also:

    - request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund
    - examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
    - access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc., access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

Membership of the Pension Board

16. In accordance with Regulation 107 of the LGPS Regulations 2013, a Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In considering the size of the East Sussex Pension Board, the Council has taken into consideration number of factors including:

    - The size of the Council's existing Pension Fund governing arrangement and decision making process.
    - The number of scheme members, number and size of employers within the Fund and any collective arrangements in place for them to make decisions or provide input in relation to Fund matters;
    - The direct and indirect cost of establishing and operating the Board.

17. Composition of the East Sussex Pension Board - The Pension Board shall consist of 7 members as follows:

    - Employer representative x 3

- Scheme member representative x 3
- Independent Chair x 1

Responsibilities of the East Sussex CC Governance Committee

18. The following are pension related responsibilities delegated to the Governance Committee;

- To determine the selection process for appointment to the Pension Board.
- To appoint to, and remove from, the Pension Board
- To agree the level of remuneration for Pension Board Members.

Consultation with Employing Authorities

19. All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by newsletter. They are encouraged to get in touch if they have questions.

20. In addition to these electronic briefings, the East Sussex Fund holds an annual employers forum to which all admitted bodies of the Fund are invited. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. The District Councils receive feedback from their representatives on the Pension Board and are also briefed on pension matters bi-monthly by the Fund's Treasurer at meetings of the East Sussex Financial Officers Association. Update briefings to these meetings are also circulated by email to all other employers in the East Sussex Pension Fund.

21. All employees receive periodic newsletter update on pension issues, especially on any changes affecting benefits. These updates are shared with all employers.

22. More detail on the approach to communication is covered in the separate Pension Fund Communication Statement.

Contact Details

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Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, and provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for "Scheme Administrator" functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund Governance and Investment implementation)

Funding

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective information flow; written plan policies

Including setting of a communication strategy, issuing of benefit statements, annual newsletters, and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Governance Principle: Effective committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (pension fund risk register approval) Chief Finance Officer (maintaining the pension fund risk register)

Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective board delegation; written plan policies

The Pension Fund Committee Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix A** to this document.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund administration, funding, investment, communication, risk management and the overall governance process surrounding the Fund.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective committee delegation

The Pension Fund Committee shall be made up of:

5 County Councillors appointed by the Governance committee according to the political makeup of the council including the chairman. Decision making quorum of 3 members.

Decision Making:

Governance Principle: Effective committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers. Each member of the Pension Fund Committee shall have full voting rights.

Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Fund Committee shall meet quarterly. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer, and any matters requested by members of the Pension Fund Board. Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency are evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

i) Pension Board

The Pension Board is established by the administering authority to assist in securing compliance with the LGPS Regulations, any other legislation relating to the governance and administration of the scheme, and any requirements imposed by the Pensions Regulator.

The Pension Fund Committee shall:

- Provide the Pension Board with adequate resources to fulfil its role.
- Consider and respond to reports from the Pension Board within a reasonable period of time.

The Pension Board

The role of the Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013, is to assist the Administering Authority:

- to secure compliance with:
  - i) The scheme regulations;
  - ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
  - iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
- to ensure the effective and efficient governance and administration of the LGPS Scheme.

Terms, Structure and Operational Procedures

The Pension Board's Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix B** to this document.

Review of Governance Policy Statement

Responsibility for this document resides with the Chief Finance Officer and will be reviewed by no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Appendix A

Pension Committee terms of reference and membership

1. In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.
2. To exercise the powers and duties of the County Council in respect of:
   - the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and
   - management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.
3. To make arrangements for the investment, administration and management of the Pension Fund.
4. To arrange for the appointment of investment managers and advisors.
5. To agree Policy Statements as required under the Local Government Pension Scheme regulations.
6. To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.
7. To set the Investment Policy and review the performance of the Pension Fund's external investment managers.
8. To determine the fund management arrangements and to appoint fund managers and fund advisers.
9. To decide on the admission and cessation of bodies to the Pension Fund.
10. To consider and agree actuarial variations.
11. To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.
12. To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership

Five members appointed in accordance with political balance provisions.

Appendix B

Constitution and terms of reference of the East Sussex Pension Board

1. Introduction

1.1 The Public Service Pensions Act 2013 requires the establishment of a Pension Board with the responsibility for "assisting the Scheme Manager" in securing compliance with all relevant pensions law, regulations and directions – as well as the relevant Pension Regulator's codes of practice. This role is one of providing assurance in and governance of the scheme administration.

1.2 The *scheme manager (East Sussex County Council – ESCC) will provide the necessary input into the Pension Board to support the Board to deliver on its assurance responsibilities. This may require their attendance at meetings at the request of the Board.

1.3 The terms of reference, membership of the Pension Board and any variations thereof are determined by the Scheme Manager, i.e. ESCC.

2. Objectives of the Pension Board

2.1 To help to ensure that the East Sussex Pension Fund (ESPF) is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

2.2 To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by the Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

2.3 To assist with securing effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

- o Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.
- o Retaining an overview of LGPS policy and strategy and business plan timetable.
- o Making representations and recommendations to the Pension Committee as appropriate.
- o Considering and, as required, responding to any Government / Responsible Authority performance data concerning the local fund.

2.4 The role of the Board will be oversight of these matters and not decision making.

3. Management and operation of the Pension Board

3.1 The Pension Board shall:

- meet at least 4 times per year
- have the power to establish sub committees or panels as required
- agree a programme of training and development for its members.

- provide the Scheme Manager (ESCC) with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
- ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- consider any issue raised by any Board Member in connection with the Board's work.
- produce an annual report outlining the work of the Board throughout the scheme year, which will help to –
  - inform all interested parties about the work undertaken by the Panel
  - assist the panel in reviewing its effectiveness and identifying improvements in its future operations.
- help to ensure that decisions made by ESCC are fully legally compliant, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;
- monitor administrative processes and supporting continuous improvements;
- ensure the scheme administrator supports employers to communicate the benefits of the LGPS Pension Scheme to scheme members and potential new members.

4. Membership - composition of the Pension Board

4.1 The Pension Board shall consist of:

a) **3 employer representatives** - employer representatives that can offer the breadth of employer representation for the ESPF. (Regulation 107 of the Pension Act permits elected members to sit on a local pension board. However, under Regulation 107(3), elected members or officers of ESCC (as the Scheme Manager), who are responsible for the discharge of any function under the Principal 2013 Regulations, may not sit on the Pension Board.)

b) **3 scheme member representatives** - member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners).

c) 1 Independent Chair

4.2 The Pension Board shall be chaired by an Independent Chair.

5. Appointment of members of the Pension Board

5.1 The appointment process has been approved by the Governance committee

5.2 All appointments to the Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair and Vice Chair.

6. Term of office

6.1 The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.

6.2 A Board member who wishes to resign shall submit their resignation in writing to the Pension Board Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.

6.3 The role of the Pension Board members requires the highest standards of conduct and the Code of Conduct of the East Sussex County Council will apply to the Board's members. The County Council's Standards Committee will monitor and act in relation to the application of the Code.

6.4 Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Board member, which will be in accordance with the Code of Conduct of the East Sussex County Council.

7. Independent Chair

7.1 The Independent Chair will be the independent member appointed for a term of 4 years by Governance Committee or such time as resolved by the Governance Committee. A job description approved by the Committee will be used to identify the candidate best suited to the role.

7.2 It will be the role of the Chair to -

- Settle with officers the agenda for a meeting of the Board
- Manage the meetings to ensure that the business of the meeting is completed
- Ensure that all members of the Board show due respect for process and that all views are fully heard and considered
- Strive as far as possible to achieve a consensus as an outcome
- Ensure that the actions and rationale for decisions taken are clear and properly recorded.

7.3 Removal of the independent chair will be in accordance with the Code of Conduct of the East Sussex County Council and the County Council's Standards Committee decision.

8. Support arrangements

8.1 ESCC will provide secretariat, administrative and professional support to the Pension Board and as such will ensure that:

- meetings are timetabled for at least four times per year
- adequate facilities are available to hold meetings
- an annual schedule of meetings is produced
- suitable arrangements are in place to hold additional meetings if required papers are distributed 7 days before each meeting except in exceptional circumstances
- minutes of each meeting are normally circulated 7 working days following each meeting.

9. Expert advice and information

9.1 The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.

9.2 Insofar as it relates to its role, the Pension Board may also:

- request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund

- examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
- access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc.,
- access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

10. Knowledge and Skills

10.1 Board members will be required to have the 'capacity' to carry out their duties and to demonstrate a high level of knowledge and of their role and understanding of:

- the scheme rules
- the schemes administration policies
- the Public Service Pensions Act (i.e. being conversant with pension matters relating to their role).

10.2 A programme of updates and training events will be organised. Board members will be encouraged to undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.

11. Minutes

11.1 The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.

12. Standards of Conduct

12.1 The main elements of East Sussex County Council's Code of Conduct shall apply to Board members.

13. Access to the Public and Publication of Pension Board information

13.1 Members of the public may attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.

13.2 Up-to-date information will be posted on the East Sussex Pension Fund website showing:

- Names and information of the Pension Board members
- How the scheme members and employers are represented on the Pension Board
- Responsibilities of the Pension Board as a whole
- Full terms of reference and policies of the Pension Board and how it operates.

14. Expense reimbursement, remuneration and allowances

14.1 All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the East Sussex Council's Constitution. The Chair's remuneration will be agreed on appointment. All costs will be recharged to the Pension Fund.

15. Accountability

15.1 The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the National Scheme

Advisory Board. The National Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the DCLG) and the Scheme Manager (in this case East Sussex County Council). The Pensions Regulator will report to the Responsible Authority (again, DCLG) but will also be a point of escalation for whistle blowing or similar issues.

15.2 In addition the Pension Board will continue to provide regular updates to the Pension Committee governance process. ESPF officers will be responsible for the contractual arrangements.

16. Decision Making Process

16.1 Employer representatives and scheme member representatives have voting rights albeit the Board is expected to operate on a consensus basis.

16.2 In the event of an equal number of votes being cast for or against a proposal there shall be no casting vote but the proposal shall be considered to have been rejected. The scheme manager shall be alerted when a decision is reached in this manner.

17. Attendance and quorum

17.1 Four of the voting members of the Pension Board shall represent the quorum for Board meetings to discharge business. The Chair or Vice Chair must be present for any meeting to proceed.

17.2 Advisors and co-opted persons do not count towards the quorum.

18. Conflicts of Interest

18.1 The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator’s code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member’s tenure.

Produced by:

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Further information can also be obtained from our website eastsussex.gov.uk or by writing to the Chief Finance Officer at the address left or by email to finance@eastsussex.gov.uk

Image by James Eades, Unsplash

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