East Sussex Pension Fund

ANNUAL REPORT AND ACCOUNTS

2021-2022

Contents

1. Welcome from Chair of Pension Committee

Welcome to the East Sussex Pension Fund Annual Report for 2021/22

As Chair of the East Sussex Pension Fund (the Fund) Pension Committee, I have the pleasure in introducing the Fund's Annual Report and Accounts for 2021/22. The accounts focus on the financial activity in 2021/22, but so much more has been achieved over the past year, including delivering the first full year of the Pensions Administration Team as an in-house service, and continuing to build and develop the overall Pension Team to provide a robust service to our members and employers, ensuring effective governance and embedding best practice and new ways of working. The Fund was recognised for all the hard work and changes it has implemented in the last couple of years by being awarded the Local Government Pension Scheme (LGPS) Fund of the Year (over £2.5bn) at the Local Authority Pension Fund (LAPF) Investment awards 2021 and was also highly commended for its climate strategy.

The Fund had £4,688m of funds under management at 31 March 2022 to meet the accrued benefits, with a funding position of 107% comparing assets to liabilities, putting it in a very strong position. The investment return for the year to 31 March 2022 was 10.6%, which was an outperformance of the benchmark by 0.5%, with returns outperforming the benchmark in each of the 1-, 3- and 5-year periods. The membership of the Fund at March 2022 was 81,291 people (active – 24,514, pensioner – 23,131 and deferred – 33,646) and 134 employer organisations.

The Pension Committee is responsible for managing the Fund, with the assistance of the Pension Board, Fund officers, external advisors, and investment managers. As a part of the outputs that emerged from its governance review, the Fund fully implemented a major restructure of team resources in recognition of increasing regulatory demands on LGPS Funds and increased reporting requirements to ensure that the Fund has sufficient resources to implement its strategies and policies. Recruitment in all sectors is challenging, however, even with a number of vacancies, the Fund retained its high service standards as assessed by its Key Performance indicators.

The Fund has continued its journey of responsible investment, and more specifically with its focus on climate change risk, with ongoing work and developments continuing into the coming months and years. The Fund has taken climate strategy as one of the key focuses of its ongoing work, to develop an in depth of understanding of the financial risks to the Fund of the climate emergency and focusing on ways in which the Fund can both reduce this risk but also find opportunities to help with the energy transition to find sustainable solutions. As a result of this strategic focus, the Fund has a Statement of Responsible Investment Principles which clearly sets out the Fund's beliefs on responsible investment and climate risk and how it manages these risks and commitments through investment decision making and implementation. The Fund's investments in companies which might carry significant longer run climate risks or in firms exposed to potential Environmental, Social and Governance (ESG) risks are only run by active managers who have a high conviction in the investments that they hold and are subject to robust screening and exclusion polices by these managers.

As a result, the Fund now invests in a range of sustainable funds including two active impact managers who focus on companies which generate positive social or environmental impacts while generating a financial return. In addition, the Fund invests in a resource efficient mandate that invests in companies with reduced carbon emissions, reduced water usage and better waste management, as well as two mandates that are Paris aligned.

The Fund continues to favour engagement with companies to have a say in how they are run and influence change, rather than reduce the investable market by excluding industries. The Fund does invest with some managers with exclusion polices, but our overall preference for engagement is aligned with guidance to the Fund from all governmental bodies and investor advisory groups. To support the focus on engagement the Fund now reports on engagement activity by publishing a quarterly report on voting and engagement activity covering its managers activities as well as the Funds own activities and that of our collaborative partners and plans to submit its first Stewardship Code submission in 2022.

The Fund has continued to be an active member of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool, together with 10 partner LGPS Funds. By the end of 2021/22 a total of £23.9bn was invested on the ACCESS authorised contractual scheme (ACS) platform, with four new sub funds launched, invested across 26 sub funds. A further £11.2bn is managed via ACCESS for passive equities as pool aligned assets. In total, 60% of ACCESS Fund assets have been pooled. Further work is in progress to enable the ACCESS pool Authority's to start to invest in illiquid asset classes via the ACCESS pool which should start to be investable from early 2023.

The Pension Committee and Pension Board have worked tirelessly to transform the East Sussex Pension Fund 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 understanding the Fund. We have made some major changes to our communications approach and the Fund website is now a ready source of up-to-date information, please log on to www.eastsussexpensionfund.org for further information.

Councillor Gerard Fox

Chairman of the East Sussex Pension Fund

2. Welcome from Chair of Pension Board

As the Independent Chair of the Fund's Pension Board, I am happy to highlight some of the key areas of focus of the Board over the 2021/22 financial year.

This year has seen new people join the Pension Board, giving fresh insights into steps that can be taken to drive further improvements to those made in previous years. I am pleased to note that the steps taken by the Fund, with the support of the Pension Board, were recognised when it won the large Fund of the Year Award at the Local Authority Pension Fund Investment Awards.

In the past year the Fund has launched a new approach to providing training to members of both the Pension Board and Pension Committee. This has seen a range of events being offered, helping to develop and cement knowledge and understanding levels in line with the requirements laid out in legislation.

A significant topic for the Board in the past year has been supporting the review of the Fund's policies and procedures. Following the restructure of the management structure and recruitment of a number of additional officers, which built on the work supported by the Board in 2020/21, there has been a widespread review of the internal controls at the Fund to ensure best practice is followed. Members of the Board regularly input into these workstreams to provide oversight and commentary.

The Fund participates in the ACCESS Investment pool where its assets are co-invested with other LGPS funds and the year 2021/22 saw the Pension Board being involved with discussions on how the governance of that body could be improved. Board members have offered their full support to officers and will continue to push for further improvements.

In support of the administration of the Fund, the Pension Board has provided input into the Key Performance Indicators (KPIs) agreed with the Pensions Administration Team. I am pleased to see that the KPIs agreed are challenging and continue to drive a high level of service to the Fund's members.

Looking Forward

In my welcome last year, I discussed the expected work being done by The Pensions Regulator to combine various codes of practice. It is anticipated that this work will be complete in the financial year 2022/23. The Pension Board stands ready to support officers of the Fund implement changes as necessary in advance of the new Code coming into force.

The Board also anticipates work will be required in the year ahead to prepare the Fund for onboarding to the Government's Pension Dashboard project, where individuals should be able to get information in one place on all the pension arrangements they are, or have been, members of The Board will also continue to assist the Pensions Administration Team with the cleansing of data and will provide input as required going forward.

The Scheme Advisory Board's recommendations from its Good Governance Project are also expected to be considered by Parliament and new legislation and guidance produced. The Fund has been monitoring these recommendations and taken steps to align itself to these suggestions. It is possible that Central Government may require some further alterations to be made.

The Pension Board would like to thank the Fund's officers and employers for the hard work they have put in over the past year. We look forward to further improvements in the year ahead as the Fund seeks to provide the best service it can to its members.

Ray Martin

Chair of Local Pension Board

3. Introduction to the LGPS

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.

The LGPS is one of the largest pension schemes in the UK. It is a defined benefit pension scheme meaning members pensions are based on their salary and how long they pay into the Scheme. LGPS pensions are not affected by how well investments perform, instead the LGPS provides a secure and guaranteed income every year when members stop working.

The LGPS is administered locally by 86 local pension funds in England and Wales. East Sussex County Council has a statutory responsibility as "Administering Authority" to administer and manage the East Sussex Pension Fund (the 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. All duties in administering and managing the Pension Fund have been delegated to the East Sussex Pension Committee supported by the East Sussex Pension Board.

The Fund is required to:

- collect employer and employee contributions, investment income and other amounts due as stipulated in LGPS Regulations
- pay the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the LGPS Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the regulations to safeguard the Fund against the consequences of employer default
- carry out a triennial valuation process in consultation with the fund actuary
- prepare and maintain a Funding Strategy Statement and Investment Strategy Statement
- monitor all aspects of the Fund's performance and funding
- take environmental, governance and social factors into account within its investment strategy

- effectively manage any potential conflicts of interest

The Fund must operate a Local Pension Board. The Pension Board helps the Fund comply with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives.

Every three years the Fund manages a valuation of pension assets and liabilities, carried out by an independent actuary. This valuation calculates how much scheme employers should pay into the Scheme to ensure the Fund has enough money to pay the benefits, by setting employer contribution rates for each employer for the following three-year period. The most recent actuarial valuation was carried out as at 31 March 2019. The funding level for the Fund at the 2019 valuation was 107%.

The next Triennial Valuation is carried out as at 31 March 2022 with changes to scheme employer contribution rates coming into effect from 1 April 2023.

lgps | Local Government Pension Scheme

4. 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.

Name of Fund support	Company/individuals
Pension Committee Members - East Sussex County Councillors	Gerard Fox (Chairman) – Conservative Ian Hollidge (from September 2021) – Conservative Paul Redstone (from June 2021) – Conservative David Tutt – Liberal Democrats Julia Hilton (from June 2021) – Green Party Sam Adeniji (from June 2021 to September 2021) – Conservative Andy Smith (to May 2021) – Conservative Nigel Enever (to May 2021) – Conservative Trevor Webb (to May 2021) - Labour
Pension Board Members - pensionboard@eastsussex.gov.uk	Ray Martin – **Independent Chairman** Councillor Tom Druitt – Brighton & Hove City Council – **Employer representative** Councillor Toby Illingworth (from September 2021 - Districts & Borough Councils – **Employer representative** Councillor Chris Collier (to September 2021) – Districts & Borough Councils – **Employer representative** Stephen Osborn - Educational Bodies - **Employer representative** Niki Palermo **–** GMB **– Member Representative** Lynda Walker **–** Unison **– Member Representative** Diana Pogson **–** Pensioner **– Member Representative**
Scheme administrator	East Sussex County Council - Pensions@eastsussex.gov.uk
Bankers to the Fund	NatWest Bank
Auditor	Grant Thornton UK LLP - London

Name of Fund support	Company/individuals
Pension Fund officers - esccpensionsmanager@eastsussex.gov.uk	**Treasurer / S151 officer**: Ian Gutsell **Head of Pensions**: Sian Kunert **Head of Pensions Administration**: Paul Punter **Investments and accounting**: Russell Wood **Governance and compliance**: Mike Burton **Employer engagement**: Tim Hillman
Actuary	Barnet Waddingham - 163 West George Street, Glasgow, G2 2JJ
Legal Advisors	Appointed from National LGPS Framework for Legal Services
Investment Consultant	ISIO, 110 George Street, New Town, Edinburgh, EH2 4LH
Independent Adviser	William Bourne
Asset Pool	ACCESS Pool
Asset Pool Operator	Link Funds Solution
Investment Managers	Adams Street Partners, Atlas, Baillie Gifford* Harvourvest, Longview Partners*, M&G**, Newton*, Pantheon, Ruffer*, Schroders, Storebrand, UBS, Wellington, WHEB
Custodian	Northern Trust
AVC Provider	Prudential

* Appointed through the ACCESS Pool operator. ** Bond mandates appointed through ACCESS other mandates directly appointed.

Bodies to which the fund is member, subscriber or signatory

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

- Passive Investments,
- Legal Services,
- Actuarial Benefits and, Governance
- Investment Management Consultancy Services
- Stewardship Advisory Services
- Pensions Administration Software

Principles for Responsible Investing (PRI)
Institutional Investors Group on Climate Change (IIGCC)
Pensions for Purpose

Financial Reporting Council (FRC) Stewardship Code 2020* Scheme Advisory Board (SAB)

*Commitment made, Statement to be send to FRC for consideration in 2022

5. Governance

Pension Committee

East Sussex County Council (Scheme Manager) operates a Pension Committee (the Pension 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 Pension Committee owe an independent fiduciary duty to the beneficiaries of the Pension Fund. Such members are therefore expected 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 its duties. 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, as required by legislation.

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 participating 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; and
- Monitor investment performance

In future years representatives of the Pension Boards from the 11 LGPS Funds which participate in the ACCESS Pool will attend Joint Committee meetings as observers in rotation. This is to increase transparency.

Committee membership and attendance

During the year ended 31 March 2022 there were 5 meetings of the Pension Committee, 4 meetings of the Pension Board along with the annual Employers' Forum.

Member attendance at committee meetings during 2021/22

2021/22 - Pension Committee Members

East Sussex County Councillors	Nos. of meetings attended
Councillor Gerard Fox (Chairman)	5/5
Councillor Sam Adeniji	2/2
Councillor Penny di Cara[1]	1/1
Councillor Julia Hilton	5/5
Councillor Ian Hollidge	3/3
Councillor Paul Redstone	4/5
Councillor Colin Swansborough[2]	1/1
Councillor David Tutt	4/5

2021/22 - Pension Board Members

Board Members	Nos. of meetings attended
Ray Martin - Independent Chairman	4/4
Councillor Chris Collier - Districts & Borough Councils	0/1
Councillor Tom Druitt - Brighton & Hove City Council	3/4
Councillor Toby Illingworth – Districts & Borough Councils	2/3
Stephen Osborn - Educational Bodies	4/4
Niki Palermo - Employee Representative - Active & Deferred	3/4
Diana Pogson - Pensioners	3/3
Lynda Walker - Employee Representative - Active & Deferred	3/4

2021/22 - Member attendance at ACCESS Pool joint committee meetings

2020/21 Joint Committee Members	Nos. of meetings attended
Gerard Fox - East Sussex County Councillor	3/4
Paul Redstone – East Sussex County Councillor*	1/1

*Cllr. Redstone attended one meeting as a substitute for Cllr. Fox

[1] Acted as a substitute for Cllr. Redstone

[2] Acted as a substitute for Cllr. Tutt

The Knowledge and Skills Framework

The Fund's 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 (SAB) and the Secretary of State for Levelling Up, Housing and Communities.

CIPFA/Solace 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. The SAB's '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; and
- 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 has published 3 reports. The most recent report, published in February 2021, includes recommendations on the following areas:-

- Conflicts of Interest – Funds will be expected to produce and publish a policy covering actual, potential, and perceived conflicts of interest;
- Representation – Funds will produce and publish a policy on the representation of members and employers, explaining how voting rights work;
- Knowledge and Understanding – Highlighting that key individual should have the knowledge and understanding to fulfil their functions, including the s.151 Officer;
- Service delivery – This covers publishing details of decision makers' roles and responsibilities, publishing an administration strategy, reporting on performance and including the Committee in business planning, and;
- Compliance and Improvement – Undergoing a biannual Independent Governance review.

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, the Administering Authority 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 seven 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. The Trustee Toolkit, a separate aid produced by the Pensions Regulator, includes a newly updated module on scams.

Whilst the Trustee Toolkit is designed for Trustees of private occupational pension schemes, some aspects of it have value for those connected to public service pension schemes. An example of a module which is relevant to the Fund is the one focused on transfer-out legislation and scams, which Pension Board and Pension Committee members have been asked to take along with appropriate officers.

The 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; and
- 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; and
- 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.

6. Report of the Pension Board

Report to	**Pension Committee**
Date of meeting	**17 June 2022**
By	**Local Pension Board**
Title	**Report of Pension Board to Pension Committee**
Purpose	**Report to Pension Committee, to understand the work completed by the Pension Board**

RECOMMENDATIONS: The Pension Committee is recommended to:

1) **Note the report covering the work completed in year by the Pension Board.**

1. Background

1.1 This document outlines the actions taken by the Local Pension Board of the East Sussex Pension Fund (ESPF). It also details the training undertaken in the past 12 months to enable individual Pension Board members to develop and maintain the required level of knowledge and understanding to enable them to fulfil their function of supporting the Administering Authority, which is also known as the Scheme Manager.

1.2 This document will allow the Pension Committee to build a more detailed understanding of the work being done by the Pension Board to improve the operation of ESPF.

2. Membership and attendance

2.1 The membership of the Local Pension Board over the past year has been

Employer Representatives

- Stephen Osborn - Deputy Director of Finance, University of Brighton
- Cllr. Tom Druitt - Brighton & Hove City Council
- Cllr. Chris Collier - East Sussex District and Borough Councils (to May 2021)
- Cllr. Toby Illingworth- East Sussex District and Borough Councils (from July 2021)

Member Representatives

- Lynda Walker – UNISON
- Niki Palermo – GMB
- Diana Pogson – Pensioners' representative (until December 2021)
- Neil Simpson – Pensioners' representative (from March 2022)

Independent Chair

- Ray Martin

2.2 Following the Local Elections of 5 May 2021, the employer representative nominated by the Borough and District Councils, Councillor Collier, was elected to East Sussex County Council and stood down from the Pension Board. Borough and District Councils were invited to nominate candidates to fill the vacancy. Cllr. Toby Illingworth was appointed by the Governance Committee in July 2021.

2.3 Diana Pogson stepped down at the end of her term on the Pension Board as she decided she did not wish to be considered for a new term. All Pensioner members were asked if they wished to be considered for the vacant position and after an extensive process, detailed in Board and Committee papers for the February 2022 meetings, Neil Simpson was appointed by the Governance Committee. His first Pension Board meeting was on 27 May 2022.

2.4 Attendance at meetings has generally been good since the last report to the Committee and all meetings have been quorate. Attendance at meetings is detailed on the table below. Neil Simpson was appointed after the last meeting of 2021/22, so attendance is not included in the table.

	1 June 2021	**14 September 2021**	**5 November 2021**	**10 February 2022**
Stephen Osborn	Y	Y	Y	Y
Cllr. Tom Druitt	Y	N	Y	Y
Cllr. Chris Collier	N			
Cllr. Toby Illingworth		Y	Y	Y
Lynda Walker	Y	Y	N	Y
Niki Palermo	Y	Y	N	Y
Diana Pogson	Y	Y	Y	
Ray Martin	Y	Y	Y	Y

3. Work of the Pensions Board

3.1 Meetings are held shortly (no less than 2 weeks) before each Pension Committee meeting, where all papers relating to administration, governance, policy, audit, and communications are first considered by the Board prior to final versions being presented at Committee for approval. This allows the Board to feed in on matters of governance and represent the views of members and employers in the documents that are then taken for approval.

3.2 Members of the Pension Board sit upon, and have attended meetings of, the Communications Working Group, the Administration Working Group, and the McCloud Working Group. By sitting on the working groups members of the Pension Board are able to use their knowledge and experience to support officers of the Fund during the development of new policies and procedures. This year the Pension Board members have, amongst other things, driven forward the work and thought into Communications of the Pension Fund to all stakeholders; provided input to the ACCESS Investment Pool about how it could improve its governance standards with member representation and driven consideration as to whether the Pension Board is an appropriate size.

3.3 The Pension Board considers its work programme at each meeting taking into account the regular items it sees and what is planned for upcoming Pension Committee meetings and are able to request areas of focus to be added to the Board work plan. An example of this is a request from the Pension Board for officers to research approaches taken in relation to the size of Pension Boards at other funds in the LGPS, along with the potential advantages and disadvantages of increasing the number of Pension Board members. Such actions demonstrate a commitment to improving governance standards.

4. Actions

4.1 Since the last Pension Board report in September 2021, members of the Pension Board have supported officers and the Pension Committee by collaborating in the production of a letter to an Employer that has consistently fallen short of expected standards. This letter was sent to the Employer's most senior officer to reinforce the message provided by officers that improvements must be made to the provision of data to the Fund or consequences will be applied in line with the Pensions Administration Strategy.

4.2 The Board has reviewed and approved new Terms of Reference for the Administration Working Group and the Communications Working Group. This took into account the setting up of the Communications Working Group and that the Working Group that pre-existed the Administration Working Group (the Data Improvement Working Group) had fulfilled its purpose and was in need of a change of emphasis to stay relevant to the operation of the Fund.

4.3 Members of the Pension Board have consistently provided input into the approach taken in relation to breaches of law. This has led to officers being supported reporting an Employer to The Pensions Regulator for providing incorrect data. The support extended to providing input on how matters could be put right.

4.4 Due to the focus on communications and employer engagement by the Board the work on contributions monitoring and collection of funds has continued to improve over the year and the Pension Boards focus has been a key driver in getting more than half of the Fund employers onto i-connect to enable monthly data provision, meaning members data is much more robust and year end processes will be simplified for those employers and the pensions team.

4.5 As part of the work that has been undertaken by the Communications Working Group there have been major changes to the style and content of the newsletters sent by the Fund to try to present items in a way that will capture members and employers' attention and make it easier for them to focus on items of interest. In addition, consideration was given to the questions to be sent to scheme members and scheme employers for the 2022 survey to identify where improvement can be made in service provision and reporting. The working group also looked at simplification of the terminology used in the new website to improve usability by stakeholders and also worked with officers on re-writing the Communications Strategy which is a source of information to Scheme Members and Scheme Employers.

5. Training

5.1 In the past year the Pension Board, along with members of the Pension Committee, have been offered a range of training opportunities. Additionally details of reading material and relevant podcasts have been provided.

5.2 Since the last report, Pension Board members have attended the Employers' forum; the PLSA Annual Conference and training on the forthcoming Valuation. Additionally, Pension Board members attended training on climate change and the Task Force on Climate Related Financial Disclosures.

5.3 In the February 2022 meeting, the Pension Board discussed obtaining licenses for an online training service provided by Hymans Robertson. The Board decided that it did not want to take up this opportunity and instead asked of a cheaper alternative to be explored.

6. Structure of the Pension Board

6.1 The Pension Board is currently considering whether it believes its structure could be improved. It has asked officers to provide a paper, which will be presented to a future meeting, looking at the approaches being taken across the LGPS looking at best practice.

6.2 The consideration of the Pension Board's structure is part of an ongoing commitment to ensure the Pension Board is operating as effectively as possible and in the best position it can be to fulfil its role of supporting the Pension Committee.

Ray Martin

Chair of ESPF Local Pension Board

7. Scheme Administration

Service Delivery

During 2021/22, East Sussex County Council as Administering Authority for the East Sussex Pension Fund undertook the day-to-day pensions administration via its in-house pensions team (having previously been provided as part of a joint arrangement with Surrey County Council).

The Pensions Administration team were responsible for:

- administering the LGPS on behalf of the ESPF scheme employers in accordance with relevant legislation and Pension Committee decisions
- calculation of actual pensions and lump sums for retiring members of the LGPS and provision of retirement estimates
- maintenance of the Pensions Administration database and provision of annual benefit statements for active and deferred members
- creation of new starters records, including transfers in where appropriate
- administration and calculations relating to leavers
- payment of pensions, increases thereon and other entitlements

Communication with members is, where possible, via the Member Self Service cloud-based website (My Pensions Portal). This includes Annual Benefit Statements, member newsletters, beneficiary nominations, updating personal details and carry out benefit calculations.

Employers also has been introduced to a new i-Connect cloud-based portal through which they can upload their monthly payroll salary and contribution data directly into the Pensions Administration database. An Employers newsletter was also provided.

The Pension Fund website www.eastsussexpensionfund.org provides scheme members and employers access to up-to-date information on both the LGPS and the East Sussex Pension Fund.

Administration of the Fund is a standing agenda item at the quarterly Pension Board and Committee meetings to ensure the service is managed and governed well. Key Performance Indicators, staffing and projects are reviewed and discussed at each meeting.

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 or their beneficiaries or representatives.

Where complaints cannot be resolved informally, there is access to a two-stage dispute resolution procedure. The first stage of this process is for the complainant to ask the Adjudicator appointed by the East Sussex Pension Fund to consider the matter under dispute. If the complainant is not satisfied with the response they can ask for a further review of the decision, along with any new evidence they might provide. The person responsible for reviewing stage two complaints is the East Sussex County Council Assistant Chief Executive. Ultimately the complainant has the right to refer their complaint to The Pension Ombudsman and seek assistance from the Money and Pensions Service. The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

Dispute category – First stage	Number in 2021/22
First Stage	10
Upheld	8
Declined	2
Ongoing	0

Dispute category – Second Stage	Number in 2021/22
Second Stage	3
Upheld	0
Declined	3
Ongoing	0

This table reflects the position for the 2021/22 financial year and is not the current position. Not all complaints resolved in this timeframe were raised in the same financial year and the numbers quoted include complaints raised in 2020/21 but were not resolved in the same financial year.

Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Death notification acknowledged, recorded and documentation sent	Medium	Within 2 days	95%	100%
Award dependent benefits (Death Grants)	High	Within 5 days	95%	98%
Retirement notification acknowledged, recorded and documentation sent	Medium	Within 7 days	95%	95%
Payment of lump sum made	High	Within 5 days	95%	98%
Calculation of spouses' benefits	Medium	Within 5 days	90%	97%
Transfers In - Quote (Values)	Low	Within 10 days	90%	85%*
Transfers In - Payments	Low	Within 25 days	90%	92%
Transfers Out - Quote	Low	Within 10 days	90%	98%
Transfers Out - Payments	Low	Within 10 days	90%	96%

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Employer estimates provided	Medium	Within 15 days	95%	94%
Employee projections provided	Low	Within 15 days	95%	97%
Refunds	Low	Within 10 days	95%	99%
Deferred benefit notifications	Low	Within 15 days	95%	100%

*Due to unfilled vacancies with the Pensions Administration team priority calls had to be made on the prioritisation of tasks with the most urgent prioritised first. Transfer in quotes were deemed least priority.

Number of complaints

Scheme year	Number
2020/21	18
2021/22	47

It should be noted that there has been a fundamental shift in the definition of what is a complaint since the Pensions Administration service has been brought back in-house. Now the team record any inkling of a complaint or where there is a possible maladministration with a financial consequence for the Fund.

Financial indicators of administrative efficiency

The table below shows management expenses by members. The benchmark used is the average fund costs from the local government pension scheme funds account return (SF3).

Investment management expenses	ESPF Unit costs per member 2020/21	ESPF Unit costs per member 2021/22	Benchmark unit costs 2020/21
Excluded	**£44.75**	**£33.83**	**£35.90**
Included	**£220.43**	**£328.19**	**£274.34**

Key staffing indicators

During 2021/22, staffing numbers within the Pensions Administration area decreased from 18.9 to 17.5 FTE. The team was carrying 9 vacancies.

This provides the Fund with a staff to fund member ratio of 1:4,630.

With average reportable KPI cases per member of staff ratio of 1:511

Membership

During 2021/22 the number of contributing members within the Pension Fund decreased by 0.80% from 25,002 to 24,801. In summary, the number of members contributing to the Scheme is:

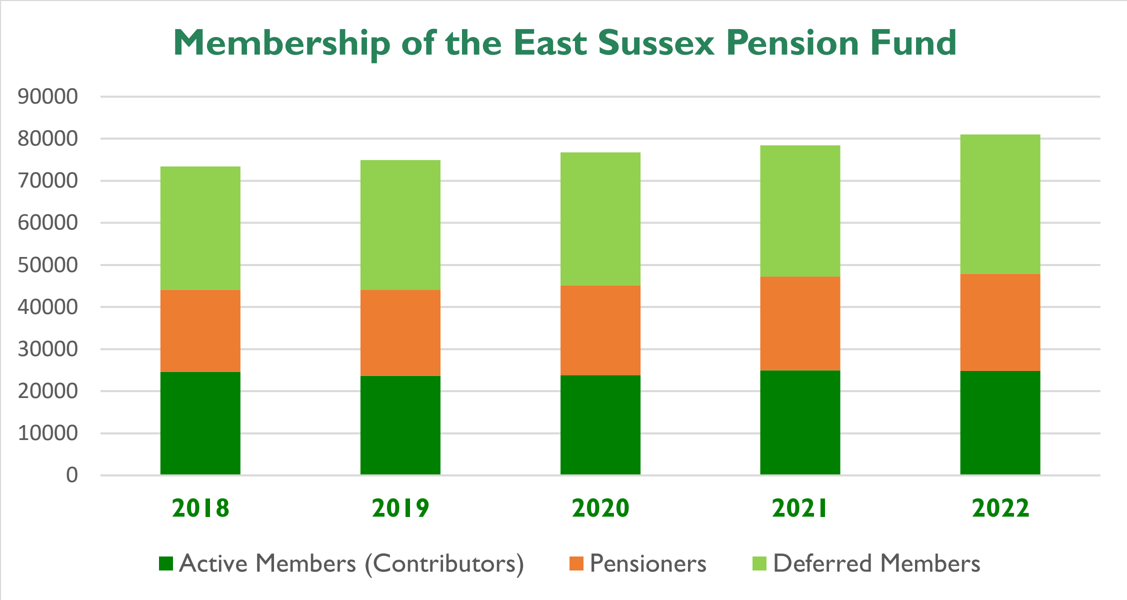
	Number of members 2020/21	Number of members 2021/22
East Sussex County Council	**8,163**	**8,059**
Scheduled bodies	**16,360**	**16,035**
Admitted bodies	**479**	**420**
Total	**25,002**	**24,514**

The number of pensioners in receipt of payments from the Fund increased from 22,230 to 23,131 (or 4.05%).

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

	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Active Members (contributors)	24,570	23,646	23,835	25,002	24,514
Pensioners (inc dependents)	19,597	20,403	21,335	22,230	23,131
Deferred Members	29,253	30,916	31,622	31,234	33,646
Total	73,420	74,965	76,792	78,466	81,291

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 81,000 individuals employed by 134 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.



New pensioners by pensioner type

Pensioner type	Number
Normal Retirements	**333**
Redundancies	**63**
Ill Health	**31**
Employee's Choice of Early Pension	**884**
Total New Pensioners	**1,311**

2021 Annual Benefit Statement

The ABS statutory deadline was 31 August 21 (31 October last year due to Covid-19) and the results of statements issued for eligible members were as follows:

Member category	2020	2021
Actives	97.20%	96.31%
Deferred	99.77%	99.69%

The Pension Board and Committee meetings both discussed about whether it was appropriate to treat the result as a reportable breach. The decision was determined not to report but the chairs of the Board and Committee wrote to the Brighton and Hove City Council Chief Executive Officer (as that employer accounted for 62% of the failures). The letter dated 20th December 2021 was clear it was a close decision not to report them to the Pensions Regulator and to ensure they are aware of the seriousness of the situation, to be clear we have their management support and a commitment to switch to i-Connect in the near future.

8. Actuarial report

East Sussex County Council Pension Fund

Actuary's statement as at 31 March 2022

Barnett Waddingham LLP

31 May 2022

Introduction

The last full triennial valuation of the East Sussex County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

• The market value of the Fund's assets as at 31 March 2019 was £3,633m.

• The Fund had a funding level of 107% i.e. the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these falls due.
- plus, an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

The key assumptions used to value the liabilities at 31 March 2019 are summarised below	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	**31 March 2019**
CPI inflation	**2.3% p.a.**
Long-term salary increases	**2.3% p.a.**
Discount rate	**4.0% p.a.**
Demographic assumptions	
Post-retirement mortality	
Base tables	**Based on Club Vita analysis**
Projection model	**CMI 2018**
Long-term rate of improvement	**1.25% p.a.**
Smoothing parameter	**7.0**
Initial addition to improvements	
Males	**0.5% p.a.**
Females	**0.25% p.a.**

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed, and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20-year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20-year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. We have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2022, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2022 have remained strong resulting in an increase in asset values. As at 31 March 2022, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, we estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019. Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular due to market volatility following the Russia-Ukraine crisis and other economic factors such as higher levels of inflation. There is also uncertainty around future benefits due to the McCloud/Sargeant cases. The Fund could opt to monitor the funding level using LGPS Monitor on a regular basis.

The next formal valuation is being carried out as at 31 March 2022 with new contributions effective from 1 April 2023.

Barry McKay FFA

Partner, Barnett Waddingham LLP

9. Employers

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 29 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.

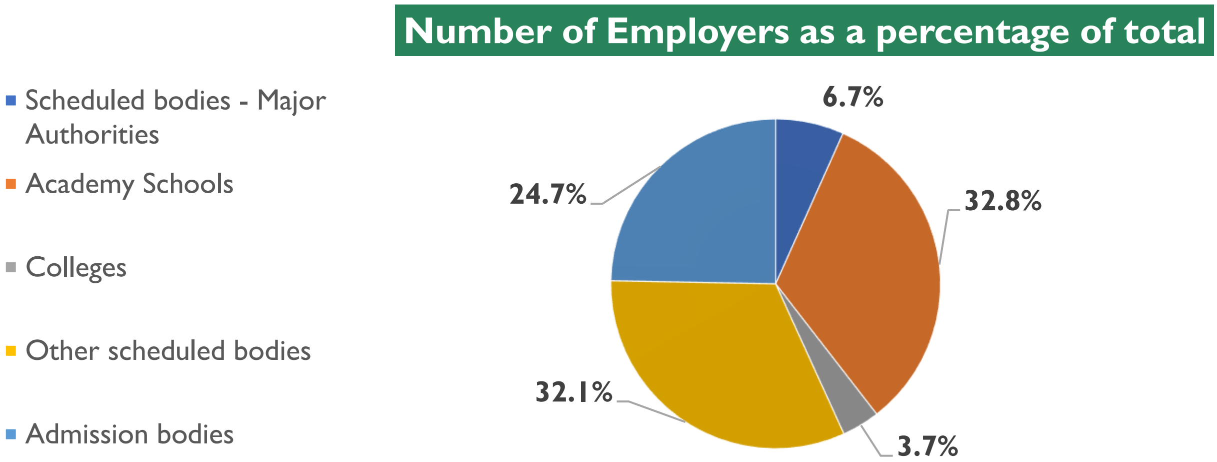
Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

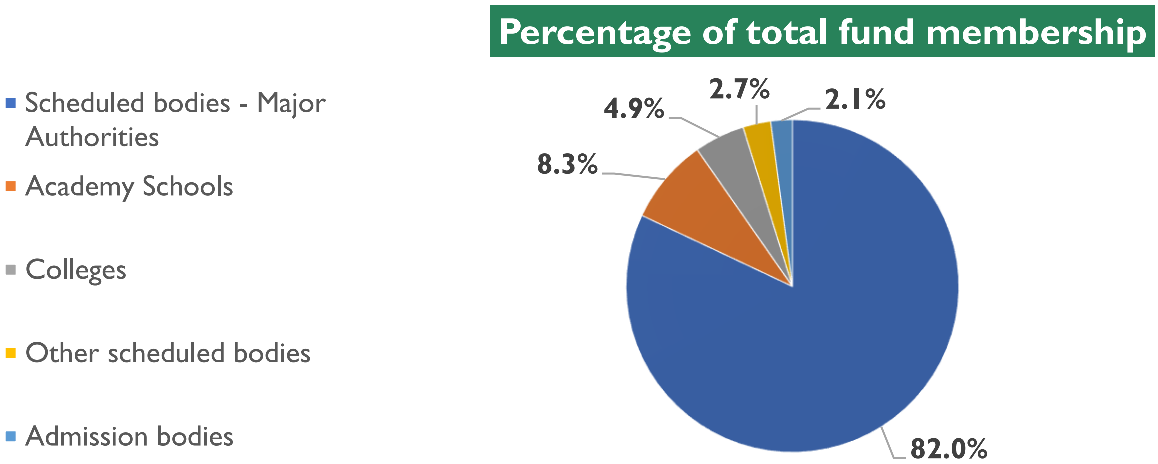
	Active	Ceased	Total
Scheduled body	101	26	127
Admitted body	33	35	68
Total	**134**	**61**	**195**

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	6.7%	82.0%	9
Academy Schools	32.8%	8.3%	44
Colleges	3.7%	4.9%	5
Other Scheduled Bodies	32.1%	2.7%	43
Admission Bodies	24.7%	2.1%	33

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





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 Pensions 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; and
- The performance measures used to evaluate the level of service.

This administration strategy statement will be reviewed in line with each valuation cycle. All scheme employers will be consulted before any changes are made to this document. The latest version of the administration strategy statement will always be available on the ESCC website.

Employers are able to contact the Pension Fund directly depending on the type of request. The Employer Engagement Team will deal with employers directly on day-to-day questions and queries. The Pensions Administration team will deal with any employee requests that come via the employer. The employers have been informed of direct contact details for all requests and questions to the Fund.

The Local Government Pension Scheme (LGPS) regulations require employers who participate in the LGPS to draw up and publish a discretions policy and to keep it under review. Discretions are powers that enable employers to choose how to apply the scheme in respect of certain provisions. All new employer admissions to the Scheme will complete a discretions policy on joining and discretion policies will be reviewed every 3 years in line with each valuation cycle.

All new admissions to the LGPS will be provided with a guide to outsourcing and admissions. This guide will provide information to all new potential admissions to the Fund and will lay out the necessary process that will need to be adhered to before admissions can be undertaken. All new admissions will be sent the relevant legal agreements and documentation that will require signing before proceeding.

Any employer with a potential TUPE or outsourcing must contact the employer engagement team where support and advice will be provided on the necessary steps that will need to be undertaken. Relevant information, timings and paperwork will need to be completed before any TUPE/outsourcing can commence. Employers will be provided a direct contact throughout the whole project to answer questions and provide support.

A reminder is sent to all employers annually to provide details of the employer's responsibilities and obligations to the Fund. The admin strategy also provides details for employers of their responsibilities.

Employers have a responsibility that they must meet as part of the East Sussex Pension Fund. The table below provides details on monthly/annual deadlines that must be met.

Employer deadlines

Employer Responsibility	Deadline
Complete and submit LGPS31 forms (contribution forms)	18th day of the month following that to which the payment relates
Payment of correct contributions	19th day of the month following that to which the payment relates
Provide end of year data requirements	By 30th April following the year end (unless already onboarded to i-Connect)

If the above deadlines are not met, then warnings are issued. If an employer breaches the above deadlines on more than one occasion in a 12-month period, then administration charges can be levied. Employer contribution amounts are provided to all employers at the Employer's Forum following the valuation. A reminder of the new rates is also annually sent to employers in March. The new amounts are sent in March in preparation for the new rates to be applicable from the April contribution payment.

10. 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 Fund has an active risk management programme in place, which is subject to periodic review. The Fund's approach is to manage risk rather than eliminate it entirely.

Identification of risk

All officers, together with members of the Pension Board, Pension Committee, and advisers, have a role to play in the identification of risks to the Fund. The Fund has a policy in place detailing what is expected of these stakeholders and how risks should be raised to ensure they are given appropriate consideration.

Those risks that are materially likely and/or impactful on the running of the Fund are included in the risk register. This document tracks:

- The risks;
- How likely they are;
- How much of an impact the risk would have on crystallisation;
- Mitigations in place; and
- The effect of the mitigations on the risk.

The risk register is discussed at each Pension Board and Committee meeting.

Reviewing risks

Risks to the Fund are reviewed each quarter in advance of the Pension Board and Committee meetings. This gives officers the opportunity to ensure that the rating of each risk and the list of mitigations in place is updated and accurate.

During the Pension Board and Committee meetings, members of those bodies are encouraged to discuss and suggest changes, as well as to raise any other matters they would like to be considered on the risk register. In the past year changes have been made to risk register to include the impact of international relations, including changing trade rules, and to more specifically recognise the risk of ransomware following intervention more specifically from the Pension Board and Committee.

Key risks

At the end of financial year 2021/22 the 5 most significant risks facing the Fund were: -

- Cyber security;
- Key person risk;
- Climate change;
- Statutory member returns; and
- Employer data.

Cyber security is the most significant risk to the Fund. It became of even greater significance towards the end of the Financial Year with the rise of cyber risk generally following events in Ukraine. The Fund works closely with officers in the East Sussex County Council's Information Technology and Development Team to ensure it is taking appropriate steps to have both cyber defences and cyber resilience in place.

Multiple levels of cyber defence are in place and data is stored securely with regular back-ups taking place. A risk assessment is also carried out on any new contract which incorporates the use of software to ensure that the cyber protections in place are sufficiently robust.

Key person risk is identified as an area of concern due to the technical nature of some of the roles officers working for the Fund hold. Recruitment to public service roles generally is challenging and this is not something unique to the Fund. This means it would be more difficult than it would have been previously to recruit experienced people.

This risk is mitigated by diversifying the roles of officers so if one person leaves, or is away from work for a prolonged period, there is cover in place to minimise the impact on the operation of the Fund. Additionally, work is underway to ensure that clear process maps are in place for all tasks to provide further mitigation.

Officers also engage with their peers in other Funds. This provides support in the identification of emerging challenges and allows support with novel situations to be obtained.

Climate change was identified as a key risk because of the impact it could have on both the assets and the liabilities of the Fund. There is a risk of both short-term impacts, such as companies being fined for environmental failings, along with longer terms risks. Longer term risks include natural disasters, for example widespread flooding.

The Fund has reduced its exposure to fossil fuels along with companies with high carbon emissions or unsatisfactory energy transition plans. To do this the Fund has worked with its advisors and fund managers to provide clear instructions about how the investment strategy should be implemented. The Fund is a signatory to the UN PRI and is committed to report in line with the Task Force on Climate-Related Financial Disclosures.

To help officers and Committee members better understand the risks associated with Climate Change training was sourced covering the science behind the issues.

Statutory member returns are risks connected to the employer data risk. The Fund has to provide certain information to members each year, for example an Annual Benefit Statement has to be sent to active and deferred members by 31 August each year. Where employers send the information the Fund needs to calculate members entitlements late, or the data is not correct, this restricts the Funds ability to issue the statements on time.

To mitigate the risk, the Fund has plans for how it will run the various projects needed to produce the statutory returns and requests data, where needed, in sufficient time to allow it to be processed. In some cases, where an employer has had particularly difficult providing information, Fund officers have provided dedicated time to provide support in overcoming their internal challenges.

Employer data is of considerable importance to the Fund. It depends on employers providing correct data in a timely manner to ensure it knows who should be members of the Fund and what their entitlements are.

The Fund has an Employer Engagement Team which works closely with the organisations that participate in the Fund. This helps employers to understand their responsibilities and to cleanse the data they provide to the Fund. In order to ease the flow of data, employers are being onboarded to a new system which allows for the provision of member data on a monthly basis with built in tolerances to help identify potential errors.

Investment risk

Along with other key risks, investment risks are included on the Fund's risk register. Investment risk is not treated as a single risk, with just climate change being identified as one of the 5 most material risks to the Fund pre-mitigation. However, as a whole, investment risks are of significant importance.

The Fund has identified 10 risks which relate to investments and assets of the Fund. Of these, 4 risks are specifically around the risks of investment, these are:

- Poor investment returns;
- Changes to international trade affecting liquidity of assets;
- Investment pooling; and
- Inflation.

Each of these risks is listed individually on the risk register with its own scoring and mitigations. This is alongside 2 risks relating to climate change, one of which is discussed above, 1 about regulatory change in the investment landscape, 1 relating to the amount of cash held and 2 regarding the risk of fraud to the Fund.

Mitigations for the 4 risks identified include:

- Ensuring appropriate training is made available to officers and Pension Committee members;
- Obtaining support from an advisor who is independent of the fund managers;
- Engaging closely with the ACCESS Pool to ensure the Fund's interests are protected;
- Diversification of assets; and
- A capacity to rebalance portfolios between the annual formal review of the investment strategy.

Reviewing our processes

The Fund is committed to ensuring it has appropriate controls in place. As such, the Fund commissions an external audit of its practices to help identify any areas where improvements can be made. Additionally, the Fund commissions a wide range of internal audits, some of which cover risk management. This year the Fund has commissioned 100 days of internal audit, although not all will just focus on risk management.

An external audit is undertaken each year and the Fund currently uses Grant Thornton as its Auditor.

11. 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 from page 42.

	2020/21 £000	2021/22 £000
Fund Account		
Net (Contributions)/withdrawals	(3,253)	2,920
Management Expenses	17,296	26,671
Return on Investments	(778,984)	(473,223)
Net Increase in Fund	**(764,941)**	**(443,632)**

	2020/21 £000	2021/22 £000
Net Asset Statement		
Bonds	128,765	134,975
Equities	-	237,482
Pooled Funds	4,045,225	4,214,677
Cash	56,736	90,216
Other	(418)	(388)
Total Investment Assets	**4,230,308**	**4,676,962**
Non-Investment Assets	13,727	10,705
Net assets of the fund available to fund benefits at the year end.	**4,244,035**	**4,687,667**

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2021/22.

Month	Payments Due	Payments Received Late
April	129	11
May	129	9
June	127	8
July	127	3
August	127	15
September	129	11
October	129	5
November	129	4
December	130	4
January	131	2
February	133	4
March	134	2

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	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	**Actual**	**Forecast**	**Actual**	**Forecast**
	£000	**£000**	**£000**	**£000**	**£000**
Contributions	(118,600)	(137,521)	(120.000)	(142,419)	(153,000)
Payments	134,700	134,268	135,000	145,339	149,911
Administration expenses	1,080	1,680	2,644	2,216	1,165
Oversight and governance costs	1,365	1,831	813	526	650
Investment expenses:					
fees invoiced to the fund	1,350	3,409	3,698	2,197	3,318
fees deduced at source	-	10,376	-	21,732	-
Net investment income	(27,200)	(39,070)	(39,900)	(40,547)	(41,800)
Change in market value	(134,600)	(739,914)	(153,200)	(432,676)	(179,000)
Net increase in the Fund	**(141,905)**	**(764,941)**	**(170,945)**	**(443,632)**	**(218,756)**

Contributions and payments are based on amounts provided by the actuary used the strategy of the Fund; 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	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	Actual	Forecast	Actual	Forecast
Equities	1,403,200	1,864,834	1,958,100	2,035,119	2,126,700
Bond	611,600	572,345	577,000	571,506	576,600
Property	329,600	319,533	326,900	390,179	399,200
Alternatives	341,000	414,980	439,900	554,116	590,100
Cash	43,900	56,736	40,600	90,216	88,200
Other	869,700	1,001,880	1,041,000	1,035,826	1,075,200
Total Investment Assets	**3,599,000**	**4,230,308**	**4,383,500**	**4,676,962**	**4,856,000**

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-forecast

	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	**Actual**	**Forecast**	**Actual**	**Forecast**
	£000	**£000**	**£000**	**£000**	**£000**
Pension Fund Staff Costs					
ESCC Recharge	385	739	1,768	1,236	1905
Staff costs total	**385**	**739**	**1,768**	**1,236**	**1,905**
ESCC Support Services	-	-	237	150	281
Orbis Business Operations Support Services	935	894	-	-	-
Supplies and Services	145	555	689	830	931
Administration total	**1,080**	**1,449**	**926**	**980**	**1,212**
Oversight and governance costs					
ESCC Support Services	-	28	286	279	249
Supplies and Services	980	1,273	527	228	457
Third Party Payments	150	87	100	57	80
Other Income	(150)	(65)	(100)	(38)	(80)

	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	**Actual**	**Forecast**	**Actual**	**Forecast**
	£000	**£000**	**£000**	**£000**	**£000**
Oversight and governance total	**980**	**1,323**	**813**	**526**	**706**
Investment Management					
Investment expenses:					
fees invoiced to the fund	1,350	2,416	3,698	3,210	3,318
fees deduced at source*	-	11,369	-	20,719	-
Investment Management Total	**1,350**	**13,785**	**3,698**	**23,929**	**3,318**
Management Expenses Total	**3,795**	**17,296**	**7,205**	**26,671**	**7,141**

* During the year, the Pension Fund incurred management fees which were deducted at source for 2021/22 of £4.0m (£2.2m in 2020/21) on its private equity investments, fees of £2.4m (£1.1m in 2020/21) on its infrastructure investments, fees of £9.1m (£5.1m in 2020/21) on investments in the ACCESS Pool and fees of £4.6m (£1.9m in 2019/20) 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 pursued. The detail 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 pursue.

The table below shows the pension overpayments and recoveries for the past 5 years:

Year	Value	Overpaid Pensioners	Recoveries	Write Off	Outstanding
2021/22	Number	42	26	13	3
	Value £000	32	22	7	3
2020/21	Number	19	4	0	15
	Value £000	9	1	0	8
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

The Fund's administrator introduced mortality screening of the active pensioners each month in 2020 and this has reduced the number of overpayments. The tell us once initiative has also been implemented with the aim to further reduce the overpayments made by the Fund.

12. Investment policy and performance

The Fund's strategic asset allocation was revised following decisions taken at the July 2021 Committee meeting, with a number of changes agreed, and some of these implemented over the 2021/2022 financial year.

The changes to the strategic asset allocation involved further restructuring the Fund's equity allocation whilst maintaining the 40% overall weighting. The 40% allocation was retained, with changes in structure over the period being the addition of an active global equity mandate, as well as a systematic 'resource efficient' global equity mandate to replace the Fund's existing passive regional equity allocation. These changes were consistent with the Fund's Environmental, Social, and Governance (ESG) objectives. In order to maintain the strategic allocations mentioned above, the Fund made allocations of 5% (c. £230m) to Baillie Gifford Global Alpha Equity – Paris Aligned Fund and Osmosis Resource Efficient Equity Fund (implemented by UBS) respectively. These allocations were funded through termination of the Fund's regional equity portfolio held with UBS.

The Fund also agreed to a number of strategic changes, not yet implemented, or reflected in the current strategic benchmark. The strategic changes involve a reduction in target allocation for absolute return (17% from 20%), index linked gilts (0% from 3%), corporate bonds (0% from 3.5%), and balanced property (7% from 10%). The Fund agreed to reallocate the funds in principle through a new allocation to inflation-linked property (4%), as well as increased allocations to infrastructure (11%, increasing from 8%), private credit (5%, increasing from 3%) and absolute return credit (10.5%, increasing from 7%).

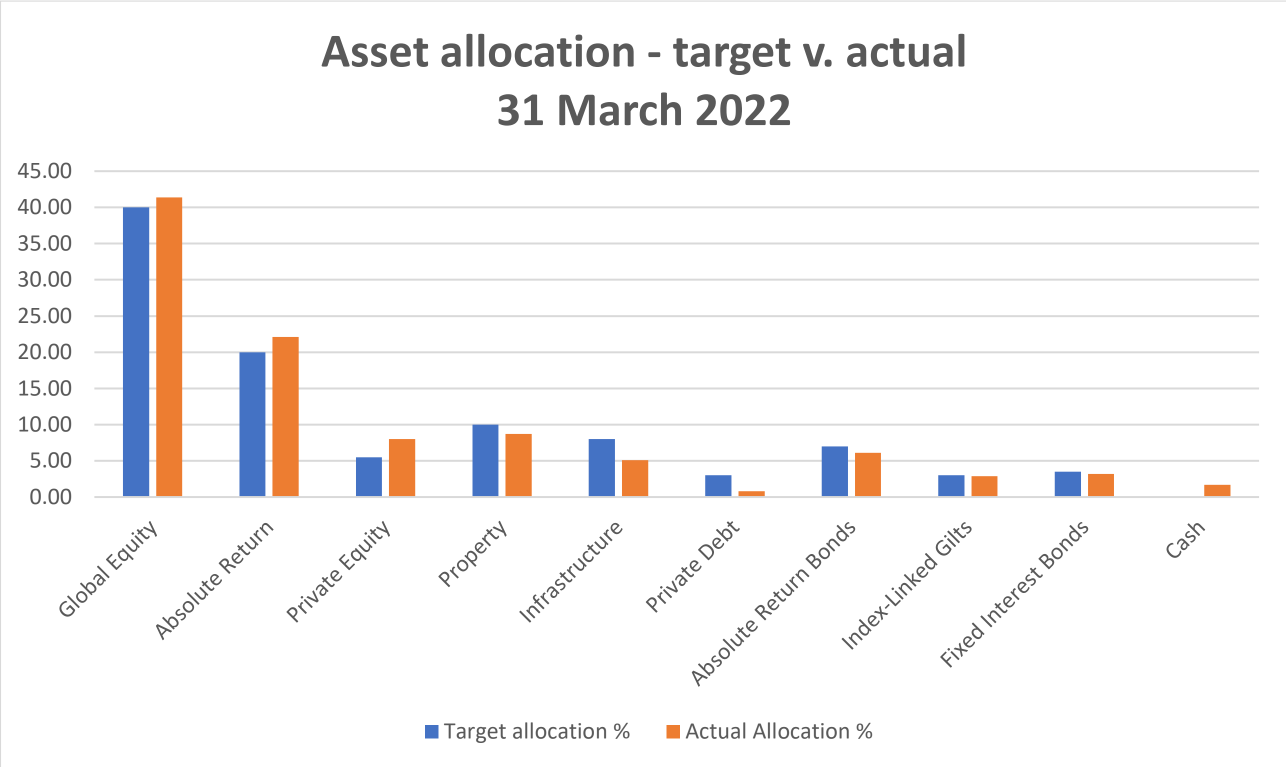
To achieve the increased allocation to infrastructure, the Fund committed capital to IFM Global Infrastructure Fund, citing a positive ESG story, through a focus on improving assets' ESG credentials, as a key factor in the decision. It is anticipated that the Fund's commitment will be called over the next 12-18 months. Further consideration will be given to the remainder of the strategic changes over the coming year.

The Committee demonstrate their consideration of ESG and climate related issues through the abovementioned changes. Similarly, the Fund's fossil fuel exposure is estimated on a quarterly basis, with this estimated as c.2% of total Fund assets as at 31 March 2022.

Asset Allocation

The Fund's asset allocation maintains a significant allocation to equities, which are expected to be a core driver of returns over the long term, but typically the most volatile. However, the equity portfolio is diversified across regions and styles to target a balanced exposure. The increase to the Fund's infrastructure allocation, and newly agreed mandate with IFM, provides additional diversification to the overall portfolio, as well as contractual type returns, which are expected to provide a more certain return once fully deployed. Infrastructure is also expected to provide an inflation-linked source of income, which will be further increased as the inflation-linked property mandate is agreed and implemented. The Fund maintains a significant allocation to property, providing further diversification from traditional investment markets such as equities and bonds.

Credit mandates such as corporate bonds, index-linked gilts and absolute return credit also provide diversification, due to differing return drivers than equities, while also offering source of liquidity. The absolute return mandates combine a number of asset classes in order to provide a smoother path of returns, offering the manager flexibility to alter allocations to benefit from varying market conditions.



Investment Managers

The Fund employs a number of investment managers across the various mandates, with differing approaches or styles, as well as sectoral and geographic focus, and benchmarks. This is in order to ensure sufficient diversification, limiting downside risk during periods of market volatility. The Fund's investment manager structure is broadly as follows:

- The Fund's equity mandate is split across a number of managers, having previously been largely allocated to UBS. The equity allocation is now weighted in favour of active management strategies, reflecting the Committee's preference for active management and an ESG focus, with the equity holdings broadly split 60/40 in terms of active and passive. The active sleeve is split across global equity mandates with Longview and Baillie Gifford, as well as impact equity strategies managed by Wellington and WHEB. The passive, or systematic, sleeve is split between two ESG systematic/smart beta strategies, one with Storebrand, and the other with Osmosis (implemented by UBS).
- Absolute return mandates are held with Newton and Ruffer and allow managers to flexibly alter allocations to a variety of underlying asset classes based on specific market conditions.

- The Fund's property mandate is held with Schroders, with a 'fund of funds' approach adopted, adding an additional layer of diversification to the mandate.
- Corporate bonds, absolute return credit and commercial real estate debt mandates are managed by M&G, while the Fund's passive index-linked gilts mandate is held with UBS.
- The Fund's infrastructure holdings are split between M&G, UBS, Pantheon (all unlisted) and ATLAS (listed), who adopt varying styles and focus areas. Towards the end of the 2021/2022 financial year, the Committee agreed to an allocation to a new open-ended infrastructure equity mandate with IFM, with the commitment expected to be called towards the end of the 2022/2023 financial year.
- Private equity mandates are split between Adams Street and HarbourVest.

The Fund has the following objectives for its investment managers:

- Each (active) manager delivers on its objective, net of fees.
- Each mandate adds a layer of diversification and offers different qualities to the Fund, be that through varying approaches, and focus areas (geographic and sectoral). Consider all financial and non-financial risks and considerations including Environmental, Social and Governance (ESG) factors (including but not limited to climate change).

Ultimately the Fund seeks to deliver an appropriate level of return, relative to the risk taken.

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 scheme's assets in compliance with the custody agreement.
- Providing quarterly valuations of the scheme's 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 Allocations pooled and un-pooled

Mandate	Q1 2021 (£m)	Actual (%)	Target (%)	Q1 2022 (£m)	Actual (%)	Target (%)
Pooled Investments						
Link ACS Funds						
ACCESS - Global Equity (Longview)	458.8	10.8%	10.0%	525.6	11.2%	10.0%
ACCESS - Global Alpha (Ballie Gifford)	-	-	-	197.4	4.2%	5.0%
ACCESS - Absolute Return (Ruffer)	510.0	12.1%	10.0%	537.8	11.5%	10.0%
ACCESS - Real Return (Newton)	492.3	11.7%	10.0%	498.4	10.7%	10.0%
ACCESS - Sterling Corporate Bond (M&G)	158.4	3.7%	3.5%	148.9	3.2%	3.5%
ACCESS - Alpha Opportunities (M&G)	-	-	-	287.7	6.2%	7.0%
Total Link ACS Funds	**1,619.5**	**38.3%**	**33.5%**	**2,195.8**	**47.0%**	**45.5%**
ACCESS Passive Manger						
UBS - 5yr ILG	128.8	3.0%	3.0%	135.0	2.9%	3.0%
UBS - Osmosis Resource Efficient Core Equity (ex-FF)	-	-	-	238.2	5.1%	5.0%
UBS - Global Emerging Markets	62.2	1.5%	1.5%	-	-	-
UBS - Regional Equities	299.9	7.1%	7.0%	-	-	-
UBS - UK Equities	66.7	1.6%	1.5%	-	-	-
Total Access Passive Manager	**557.6**	**13.2%**	**13.0%**	**373.2**	**8.0%**	**8.0%**
Total Pooled Investments	**2,177.1**	**51.5%**	**46.5%**	**2,569.0**	**55.0%**	**53.5%**
Non-Pooled Investments						
Equities (passive):						
Storebrand - Global ESG Plus	454.5	10.7%	10.0%	510.3	10.8%	10.0%
Equities (active):						
Wellington - Global Impact	222.8	5.3%	5.0%	237.5	5.1%	5.0%
WHEB- Sustainability	222.7	5.3%	5.0%	230.1	4.9%	5.0%
Total Equities	**900.0**	**21.3%**	**20.0%**	**977.9**	**20.8%**	**20.0%**
Bonds:						
M&G - Alpha Opportunities	285.1	6.7%	7.0%	-	-	-
Total Bonds	**285.1**	**6.7%**	**7.0%**	**-**	**-**	**-**
Other Investments:						
Schroder - Property	347.8	8.2%	10.0%	402.2	8.6%	10.0%
M&G - Infrastructure	32.7	0.8%	2.0%	42.4	0.9%	2.0%
Pantheon - Infrastructure	38.1	0.9%	2.0%	62.4	1.3%	2.0%
UBS - Infrastructure	37.7	0.9%	2.0%	35.8	0.8%	2.0%
Atlas - Infrastructure	77.3	1.8%	2.0%	96.0	2.1%	2.0%
Adams Street - Private Equity	154.5	3.6%	2.8%	206.0	4.4%	2.8%
HarbourVest - Private Equity	110.5	2.6%	2.8%	167.7	3.6%	2.7%
M&G Real Estate Debt VI	42.4	1.0%	3.0%	39.7	0.8%	3.0%
Cash account	31.4	0.7%	0.0%	77.9	1.7%	0.0%
Total Other Investments	**872.4**	**20.5%**	**26.5%**	**1,130.1**	**24.2%**	**26.5%**
Total Non-Pooled Investments	**2,057.5**	**48.5%**	**53.5%**	**2,108.0**	**45.0%**	**46.5%**
Total	**4,234.6**	**100.0%**	**100.0%**	**4,677.0**	**100.0%**	**100.0%**

An analysis of fund assets, by geography, as at the reporting date of 31 March 2022

	UK £m	Non-UK £m	Global £m	Total £m
Equities	10	228	1,797	2,035
Bonds	284	-	288	572
Property (direct holdings)	-	-	-	-
Alternatives	430	-	514	944
Cash and cash equivalents	27	63	-	90
Other	-	-	1,036	1,036
Total	**251**	**291**	**3,365**	**4,677**

An analysis of investment income accrued during the reporting period 2021/22

	UK £000	Non-UK £000	Global £000	Total £000
Equities	173	812	8,224	9,209
Bonds	2,759	-	1,656	4,415
Property (direct holdings)	-	-	-	-
Alternatives	11,970	-	2,162	14,132
Cash and cash equivalents	683	(3)	-	680
Other	-	-	12,113	12,113
Total	**15,585**	**809**	**24,155**	**40,549**

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

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 fund	1 year benchmark	Relative*	3 year fund (p.a)	3 year benchmark (p.a)	Relative*	5 year fund (p.a)	5 year benchmark (p.a)	Relative*
Pooled Investments									
ACCESS - Global Equity (Longview)	14.58%	15.39%	-0.82%	10.49%	14.58%	-4.09%	10.71	15.35	-4.64
ACCESS - Global Alpha (Ballie Gifford)	-13.92%	3.07%	-16.99%	-	-	-	-	-	-
ACCESS - Absolute Return (Ruffer)	5.45%	2.74%	2.71%	13.54%	2.90%	10.64%	-	-	-
ACCESS - Real Return (Newton)	1.24%	2.74%	-1.50%	3.46%	2.86%	0.6%	-	-	-
ACCESS - Sterling Corporate Bond (M&G)	-6.04%	-6.70%	0.65%	-2.19%	-3.53%	1.34%	-	-	-
ACCESS - Alpha Opportunities (M&G)	-1.14%	0.38%	-1.52%	-	-	-	-	-	-
UBS - 5yr ILG	4.82%	4.85%	-0.03%	3.25%	3.27%	-0.03%	5.02%	5.03%	-0.01%
UBS - Osmosis Resource Efficient Core Equity (ex-FF)	4.41%	5.34%	-0.94%	-	-	-	-	-	-
Non-Pooled Investments									
Storebrand - Global ESG Plus	12.14%	15.39%	-3.25%	13.63%	15.96%	-2.33%	-	-	-
Wellington - Global Impact	6.93%	12.42%	-5.49%	7.66%	12.77%	-5.11%	-	-	-
WHEB- Sustainability	3.27%	15.39%	-12.12%	3.82%	15.44%	-11.61%	-	-	-
Schroder - Property	20.68%	23.145	-2.46%	6.92%	8.05%	-1.14%	7.33%	7.81%	-0.475
M&G - Infrastructure	8.09%	9.06%	-0.97%	6.89%	5.065	1.83%	8.04%	4.77%	3.27%
Pantheon - Infrastructure	19.63%	9.06%	10.57%	9.25%	5.06%	4.19%	7.96%	4.70%	3.25%
UBS - Infrastructure	9.02%	9.06%	-0.04%	-2.99%	5.06%	-8.05%	-0.75%	3.51%	-4.26%
Atlas - Infrastructure	24.11%	21.63%	2.47%	15.31%	15.95%	-0.63%	-	-	-
Adams Street - Private Equity	55.98%	13.85%	42.12%	32.535	14.82%	17.71%	24.58%	11.55%	13.03%
HarbourVest - Private Equity	74.18%	13.85%	60.33%	28.64%	14.82%	13.825	22.85%	11.55%	11.30%
M&G Real Estate Debt VI	6.04%	4.24%	1.80%	2.74%	4.50%	-1.76%	-	-	-
Cash account	-2.96%	0.12%	-3.07%	-2.93%	0.26%	-3.195	-2.91%	0.32%	-3.23%
Total	**10.60%**	**10.11%**	**0.49%**	**8.90%**	**7.71%**	**1.19%**	**7.20%**	**6.40%**	**0.80%**

*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.

Responsible Investment

Responsible Investment (RI) is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society

Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board created TCFD to improve and increase reporting of climate-related financial information in 2015. The Fund committed to reporting under TCFD in its Statement of Responsible Investment, this RI report follows the principles and reporting requirements of TCFD.

TCFD is structured around four thematic areas of Governance, Strategy, Risk Management and metrics and targets.

The Fund support the TFCD recommendations to provide a framework to communicate the steps the Fund is taking to manage climate related risks. Below the Fund try to report against these core elements to report against these disclosure requirements. Where the Fund has gaps in reportable data, this is highlighted in the sections, with a plan on how this will be progressed in future years reporting.

Governance

The East Sussex Pension Fund is part of the Local Government Pension Scheme (LGPS) and the purpose of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. East Sussex County Council (ESCC) is the administering authority for the Fund, under the Constitution the Pension Committee has delegated authority to exercise the powers in respect of the management of the Fund. The Fund is neither owned nor controlled by ESCC, Fund assets are earmarked for pension payments and ringfenced from 'Council Money'. There are around 134 employers and more than 81,000 members, whose pension payments are funded by through employer and member contributions and investment returns. The Pension Committee (the Committee), comprising elected councillors, is responsible for Fund oversight and policy setting.

The Committee are responsible for agreeing the Investment Strategy Statement, climate change strategies, the responsible investment of the Fund, and report on these activities.
The Pension Committee receive assistance in performing these functions via:

- Pension Board – help with effective governance and ensuring compliance with the regulatory requirements.
- Chief Finance Officer – Scheme administration, including governance and investment implementation
- Head of Pensions – ensuring committee decisions are implemented
- Investment Consultants – provide expert investment advice in line with regulatory requirement for proper advice. This is an FCA regulated firm.
- Independent Advisor – provides challenge to the Investment recommendations and supports the Committee in understanding of Investment activities
- Fund Actuary – to provide information to the Fund on its solvency position and how climate change and other investment risks can impact the liabilities of the Fund
- ESG Data advisers – to provide an analysis of carbon footprint of the liquid portfolio holdings and extent of energy transition plans within underlying holdings

The Committee has focused a substantial amount of time to develop its understanding and response to the ESG impacts that it is facing. This work has driven the Fund into codifying its beliefs in this area. The Fund believe that RI supports the purpose of the LGPS, and that climate risk does pose a material financial risk to the Fund. Responsible investment is therefore a substantial factor driving returns alongside other investment considerations.

As RI and climate risk is a driving factor in the value of the Fund's assets and long-term return expectations in line with the Funds Investment Strategy Statement and Funding Strategy Statement to keep the Fund in surplus, the Committee set out a Statement of Responsible Investment Principles (SRIP) which is published within the Fund's Investment Strategy Statement (ISS) and is available on the Fund website www.eastsussexpensionfund.org/resources.

The SRIP explains the Funds approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment (RI) and Stewardship perspective.

The Principles that are set out in detail within the SRIP are:

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4	We will promote acceptance and implementation of the principles within the investment industry.
Principle 5	We will work together to enhance our effectiveness in implementing the principles.
Principle 6	We will each report on our activities and progress towards implementing the principles.

ESG factors and climate risk are taken into account by the Investment Implementation Working group to ensure all investment decisions have ESG and climate risk embedded at the outset, rather than a secondary consideration. The Committee believes that well managed companies provide long-term value creation and that the Fund's beneficiaries will benefit from strong investment returns and improve the Funds overall funding position, which keeps the pensions scheme affordable in terms of employer contribution rates. Performance of all investment are monitored and reported quarterly.

Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers. The Fund then consider

- How managers have integrated ESG in their investment activities
- How managers have exercised the Funds voting rights and to explain where there is deviation from voting guidelines or voting alerts from the LAPFF.
- What engagement activities have been completed in the quarter.

The Fund carry out meetings with investment managers in addition to the ongoing review and engagement that the investment consultant carried out for the fund to ensure the managers are complying with the requirements on them set by the Fund and ability of the manager to invest in the best interest of the Fund beneficiaries. During direct manager meetings with the Fund discussions take place on voting and engagement, rational of specific holdings to understand physical and transition risk as well as transparency of the Funds exposure to carbon emissions and other ESG data sets.

The Fund report the stewardship activity of the investment managers and that of the Fund in a quarterly report and will be submitting its Stewardship Code report to the FRC in 2022. In addition, the Fund publish an implementation statement within its annual report to show how its approved RI beliefs have been embedded within the Funds investment activities.

All of the Funds investment managers are assessed in relation to ESG issues through an ESG and climate impact assessment report on an annual basis by the Fund's investment consultant with an action plan set out for each manager which will be updated annually as part of the review.

The Fund invests through investment managers who carry out detailed research on the prospects for individual companies and industries and have access to company management. On selection of an investment manager the Fund ensure the manager is aligned with the same stewardship beliefs as the Fund with a detailed set of evaluation criteria for ESG and Stewardship.

The Committee review and discuss its risk register quarterly where climate risk is a separately identified risk in addition to ESG risk, with mitigations through the Funds climate strategy.

Knowledge and skills of officers and the Committee are integral to the governance and effective oversight of climate risk within the Fund. Training opportunities are provided to Committee Members and Fund officers to ensure decision makers and those that implement and monitor investment activity understand how their stewardship responsibilities can be implemented, understanding risks and responsibilities. Training for the Fund is laid out in the Funds training strategy which is reviewed every two years. The Fund has a training and investment strategy review day embedded into the annual meeting plan in addition to Committee meetings. New Committee members are given an induction programme to help develop knowledge understanding of all their responsibilities and training links and details are provided at least monthly by the Funds designated training officer. Training is picked up at all Pension Committee and Pension Board meetings through the work plan and a report on training is covered twice a year.

A priority for the Fund is to ensure investments can withstand climate risks, including both transition and physical climate risks, and to invest for the future with confidence. As a result of this the Fund has conducted four years of carbon foot printing and the last three years included integrated energy transition plans into a key metric. In addition, the Fund reviews the exposure to specific Fossil Fuel companies engaging with the Investment managers where these positions are held to understand the engagement activities with those companies and the rational for positioning those companies in the portfolio. Whilst acknowledging that Fossil Fuel companies have intense carbon emissions, the Fund believe they have a part in the energy transition pathway; also recognising that emissions can be intense in other sectors, and climate change risks effects all sectors and geographical regions. The Fund plan to carrying out climate scenario analysis of various warming scenarios in the future to further understand the climate risks of the investment strategy.

The Fund is guided by the legal principle of fiduciary duty in creation and implementation of the investment strategy and has stated that it recognises climate risk as a material financial risk to the Fund. Guidance on our fiduciary responsibilities is provided by the Scheme Advisory Board, which took legal advice on this matter (https://lgpsab.scot/fiduciary-duty-guidance/).

A holistic whole portfolio approach to overall climate risks has been taken by the Fund which is backed up by set of ESG beliefs and robust Statement of Responsible Investment Principles. As well as mitigating risks through the changes to the investment strategy the Fund has also identified that there are also many investment opportunities to be found from new technology and solutions to climate change. In addition, the Fund recognises companies that effectively manage resources including Carbon, Water and Waste and have strong ESG approaches are often well managed high performing companies.

Strategy

The Fund has recognised that Climate risk is a financial risk to the Fund, both through its investments and impacts to liabilities and funding position. The investment risks identified to date around the climate impacts on the Fund have been around the structure of the Fund's investments, namely the use of passive investments and the transition from a fossil fuel based global economy to a carbon free economy. The Fund have made significant changes I the structure of its investment strategy through 2021 and 2022, to remove any unconscious exposure to climate risk inherent within its large traditional passive investments.

The Funds strategic analysis of its climate risk also identified that the Fund could benefit from increasing its exposure to sustainable investments designed to benefit from or contribute to the transition from a fossil fuel economy to a carbon free economy.

This work helps to solidify the Fund's belief that ESG opportunities may be found in impact funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic, and social challenges e.g., cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water, and sanitation etc. Where successful, such companies would be expected to exhibit above average long-term growth characteristics.

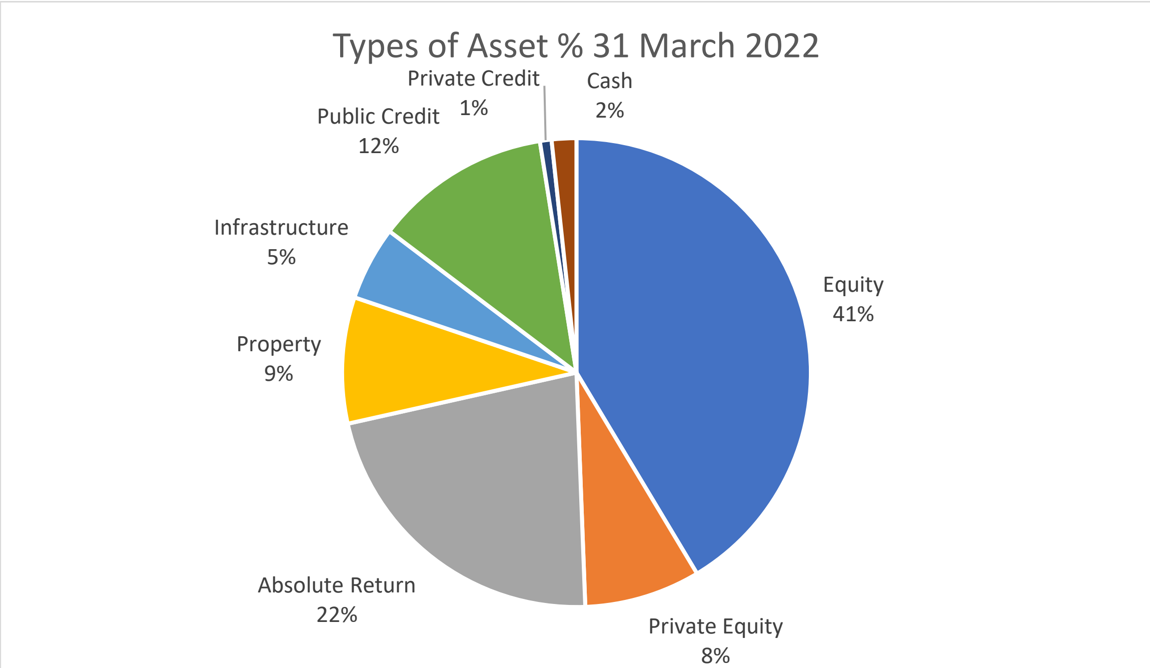
The Fund does not directly invest in any specific company; instead, it invests through a combination of holdings in passive index funds and in pooled funds through active investment managers who take considered choices over the underlying companies it invests in with a looking at the financial resilience and return possibilities as well as the ESG credentials of a company.

Climate risk

The Funds investment strategy crosses a wide range of types of investment each of which will have different climate risks. Climate risk to the fund is through both physical risk and transition risk.

Physical Risk	More frequent or severe weather events – flooding, storms, droughts, wildfires, chronic heatwaves, sea level rise
Transition Risk	Changes to less polluting greener economy – loss of asset value in hard to abate industries or as a result of policy constraints on activities of a business, increased costs of business supply chains, loss of access to materials, regulatory tax penalties

The Funds investment strategy showing the types of assets is shown in the chart below.



Climate risk can impact on all these asset types. For example, in the property allocation there may be physical risk with buildings in areas that may have an increased chance of flooding with extreme rainfall or sea level rises; or transition risks through the cost of retrofitting buildings with heat pumps or hydrogen boilers to replace gas heating systems. Or for example, a port within an Infrastructure portfolio would be affected by atmospheric and marine hazards leading to operational shutdowns and subsequent financial losses. A Global equities portfolio for example could include shares in an agricultural company, a technology company or even an energy provider. Each company would face different climate risks; either to their physical geographical location, to supply chain costs and failures or regulatory or policy risk imposing penalties or restrictions to operations.

As a result of the wide-reaching climate risks, the Fund takes a holistic view of its investments rather than focusing on a single company sector and focuses on the quality and ability of the investment manager teams who carry out the detailed research for selection of the underlying companies in the portfolio. To do this the Fund undergo due diligence on the selection of a manager; meet and communicate with managers throughout the year to discuss company holdings, decisions, performance, and team structures; carry out annual carbon foot printing which also considers companies energy transition plans; carry out an annual ESG assessment of all Investment managers within the portfolio. The 2022 triennial valuation will take into account climate risk and consider a range of scenarios to understand the potential risk to liabilities. The Fund has not yet carried out climate scenario analysis of the investment portfolio.

The Committee were clear in the inevitability that the transition from a fossil fuel to a carbon free economy will to occur and that traditional market capitalisation indexes are designed to succeed if the old fossil fuel economy persists. The need to be able to access and provide capital to those companies that were looking to benefit to and from the transition was regarded as a priority for the Fund.

To address these risks and opportunities the Fund restructured its equity positions in 2021 by removing traditional passive equity investments. Within listed equities, by the end of 2021/22 the Fund had no exposure to fossil fuels and a significantly lower carbon footprint that than mainstream investment indexes. The listed equity allocation which was 40% of the Strategic Asset Allocation, making up a large portion of investments. Instead, the Fund's investment strategy was to invest 10% into a Paris aligned smart beta, 5% in a resource efficient index fund which excluded fossil fuels, invest 10% into active impact and sustainability managers investing in energy transition solutions and green revenues. Of the remaining 15%, 10% is invested in the Funds global equity manager who has a low carbon footprint due to no investment in energy and materials companies and 5% in a Global Paris Aligned active equity mandate.

The Fund consider engagement with companies to align their businesses to aspects such as corporate governance standards, ensure best practice in labour force polices or alignment with the Paris agreement on climate related emissions. A list of the Funds collaborative engagement partners is listed further below, and the Fund publishes reports on engagements and voting each quarter on its website.

Climate opportunities

There are also climate opportunities. For example, companies which improve resource efficiency in relation to energy usage, water and waste management can result in better run business with cost savings and competitive advantages. Investment into innovation in technology can assist the energy transition such as development of electric vehicles, advances in LED technology, geothermal power. Other opportunities can include investment in renewable energy sources such as solar, wind, biofuels as to meet global reduction targets energy generation source needs to move to clean energy sources and away from burning of fossil fuels.

The Fund has taken substantial measures to better align itself with the challenges of climate change and the energy transition and is considered one of the leaders in this space in its actions. These actions include investing 25% of the equity funds, or £508m, in Impact Managers who select companies whose core products or services achieve a positive impact on the environment or socially, or those companies that provide solutions to sustainability challenges. In addition, the Fund removed traditional passive index equity exposure (where there is unconscious exposure to a company) moving half of this to a fossil-free smart beta equity strategy that aims for long-term alignment with the Paris Agreement goals and exhibits lower carbon risk with climate solutions and higher ESG scores than the world index. The other half has invested into a resource efficient index that focuses on companies that more effectively manage carbon, water and waste while excluding fossil fuel companies.

Future actions

The Fund is looking to further develop its understanding of climate risk and opportunity within the portfolio and is committed to developing Climate Scenario stress tests to layer up our understanding of climate risk and allow us to assess our investment strategy against these. Whilst bearing in mind that scenario testing also depends on the quality of the underlying data, and this is still evolving.

The Fund has made allocations to deploy future commitments to infrastructure that minimises climate risk whist taking appropriate investment risk and suitable returns or looking at opportunities from renewable and other new technologies.

The Fund will put in a submission to the FRC stewardship code in 2022 to evidence and reflect on the Funds stewardship activities in relation to climate related matters and other ESG areas of focus.

The Fund will continue to use engagement as our primary tool to our climate strategy, via membership of PRI, LAPFF, a seat on IIGCC Corporate Programme Advisory Group. The Fund also encourages all its managers to be members of these organisations. The Fund utilise the Transition Pathway Initiative data and third party ESG reports to focus the engagement with managers. Along with this there will be an annual review of the ESG credentials of our managers to strengthen the understanding of their processes and ensuring these align with the Fund.

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 Fund's general approach is to manage risk rather than eliminate it entirely.

The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

As part of the risk register the Pension Fund have specifically recognised Climate risk and details the risk and mitigations in place to manage this in the quarterly report. The identified aspects of climate risk are outlined below including mitigations in place. Once climate scenario modelling has been completed by the Fund the risks will be updated with any additional findings.

Uncertainty in energy transition impacts and timing

Risk of stranded assets were invested in fossil fuel companies
Lack of reliable carbon measurement data for investment pooled funds and or underlying holdings of those pooled funds.
Risk of natural disasters on underlying investments
Risk of changes in oil prices
Increased capital costs of underlying investment companies to transition to greener energy solutions or lower carbon emitting supply chain models and production methods
Fines or penalties incurred by underlying holdings by company or sector
Increased global temperature and or erratic climate events causing devastation to underlying holdings
Social consequence on members welfare and longevity within the fund

Possible consequences of climate risk on the Fund

Unconscious exposure to high carbon emitters
Reputation issues around how the Fund is progressing the move to a decarbonised global economy.
Volatile investment returns
Reputational risk where Climate risks, reporting, mitigations and strategies are not aligned with member views or poorly communicated
Loss of income to the Fund from missed opportunities in oil price rally to accommodate the infrastructure to enable to the world to comply with the energy transition
Loss of market value
Major ecological disaster in the UK could lead to increased mortality quicker than anticipated within the funding models impacting on cash outflows and increased workloads for lump sum payments.
Possible increase to ill health retirement cases leading to a change in cash flows and possible enhancements beyond those anticipated

Mitigations the Fund has put in place to try to reduce impact of the climate risk

Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of ESG factors and has a strong focus on climate change
Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions
Restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020
Trim unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through agreed removal of traditional index funds
Member of Institutional Investors group on climate change
The fund carries out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio

Signatory to UN PRI with first planned submission in 2022 and commitment to report TCFD's with a first attempt in the Annual Report for 2020/21
The Fund is planning for climate scenario modelling which will help better understand this risk and allow further consider approaches in tackling these risks
The Fund continue to have some occasional exposure to high carbon emitting or fossil fuel sector companies from a tactical perspective to use its vote to help drive the sector forward through engagement and voting using the power of a collective voice. A number of Fund managers are Climate 100+ engagement partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action
Very small outstanding percentage exposure with fossil fuel companies that extract oil and gas or coal, which if the sector falls to zero value, the impact of the Fund would be negligible in market movement perspectives.

Physical Climate Risk

Property Investments

The Schroders Capital Team Estate Partnership Funds element of the Funds property portfolio has been assessed under a climate risk analysis for which constitute approximately 42% of the Funds property investment. This climate risk assessment profiles a range of climate risks at the asset and portfolio level. 243 assets have been assessed over 19 individual risk indicators. Risk scoring only assesses the micro location of the asset rather than the asset in terms of resilience energy efficiency water usage or mitigations put in place such as flood protection.

Physical risks from climate change across Schroders Capital Partnership Funds

Acute Shocks	Average	Min	Max
Drought Hazard	5.1	4.0	7.7
Extra-tropical Cyclone Hazard	5.7	2.3	6.8
Severe Storm Hazard	8.6	7.7	10.0
Wildfire Hazard	8.6	8.3	9.2
Landslide Hazard	9.4	8.3	10.0
Flood Hazard	9.4	7.7	10.0
Coastal Flood Hazard	9.6	3.7	10.0
Tropical Storm and Cyclone Hazard	**9.9**	**9.8**	**10.0**
Tsunami Hazard	**10.0**	**10.0**	**10.0**

Chronic Stresses	Average	Min	Max
Heating Degree Days (current climate)	3.2	2.6	3.4
Heating Degree Days (future climate)	3.5	2.9	3.7
Water Pollution	3.9	2.5	7.2
Water Stress	4.8	2.7	8.8
Heat Stress (future climate)	5.7	5.6	5.9
Heat Stress (current climate)	6.0	6.0	6.2
Air Quality	7.4	6.8	8.5
Sea Level Rise	9.8	6.8	10.0
Cooling Degree Days (future climate)	9.9	9.8	10.0
Cooling Degree Days (current climate)	10.0	10.0	10.0

The identification of these risks helps the manager assess potential risk of location but also the risk to property in the UK. The Fund managers highlights they are on average well located for acute physical risks which arise from events; however, drought, coastal flooding and winter storms may pose high levels of risk to some locations. Chronic stresses which arise from longer term shifts in climate patterns, reflect a high risk of investment locations to increases in heating degree days, water stress and water pollution.

The next step for climate related risk identification will look at the strategic assessment of resilience of assets exposed to high-risk locations.

Metrics and targets

Liquid Asset Classes

The Fund has used a third-party provider Moody's (previously known as Vigeo Eiris) to undertake comparative analysis of the Fund's equity, fixed income, and absolute return managers carbon foot printing (carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers) and energy transition (the shift from a carbon-based economic model to a green and sustainable one) metrics.

This foot printing covers 75% of assets under management at an investment manager level within the Fund's portfolio, however the analysis does not cover the full portfolio for each investment manager. The actual coverage of the Moody's footwriting covers 67% of Fund investments.

For the purpose of the analysis performed by Moody's this only take into consideration Scope 1 and 2 emissions not Scope 3 where these are defined as:

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.

Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.

Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. The table below details the high-level scores that the Fund's managers achieved.

Listed Global Equity – 43.5% of Fund Assets

The Fund have six listed equity managers, four active and two index based making up 43.5% of the portfolio as at 31 March 2022. All six portfolios are included in the metrics information within the Moody's carbon footprinting report and all mandates exclude fossil fuel companies.

Absolute/Real Return – 22.1% of Fund Assets

The Fund have two Absolute / Real Return managers, which make up 22.1% of the portfolio as at 31 March 2022. These madates are unrestricted as to what the menagers can invest as they provide a defensive response for the Funds portfolio in the time of market volitility and uncertainty. These manadate are in place to reserve capital. Both managers have strong engagment and stewardship approaches and are both members of the Net Zero Asset Managers Initiative and climate action 100+ as engagement leads.

Fixed Income – 12.2% of Fund Assets

The Fund have two Fixed Income portfolios managed by a single investment manager M&G which are both covered by the carbon foot printing analysis making up 12.2% of the portfolio as of 31 March 2022. These mandates are both invested through the ACCESS LGPS pool. The manager is a member of IIGCC and Climate Action 100+. M&G made two commitments in 2020 to focus efforts for a sustainable future including tackling climate change. These are to reach net zero carbon emissions on our total book of assets under management and administration by 2050, in line with the Paris Agreement, and as company, to reduce their own carbon emissions to net zero by 2030.

Carbon foot printing Summary

The below table shows the headlines scores for each investment manager mandate included in the scope of work and the direction of travel from the 2020/21 results.

Manager	Mandate	Carbon Footprint 2022	Carbon Footprint 2021	Evolution	Energy Transition 2022	Energy Transition 2021	Evolution
UBS	UK	X	High	X	X	47	X
UBS	Europe Ex-UK	X	High	X	X	53	X
UBS	North America	X	High	X	X	37	X
UBS	Rest of World	X	High	X	X	32	X
M&G	Absolute Return	High	High	↘	46	45	↗
M&G	Corporate Bonds	High	High	↗	56	53	↗
Newton	Absolute Return	High	High	↗	49	44	↗
Ruffer	Absolute Return	High	High	↗	47	44	↗
Longview	Global Equity	Significant	Significant	↗	40	39	↗
Atlas	Infrastructure Fund	High	High	↘	43	41	↗
Storebrand	Climate Passive	High	High	↘	47	44	↗
Wheb	Impact Fund	High	High	↘	36	31	↗
Wellington	Impact Fund	Significant	Significant	↘	40	38	↗
Baillie Gifford	Alpha Equity	High	X	X	33	X	X
Osmosis	Resource Efficient Core Equity	High	X	X	45	X	X

The scores have been classified by the bandings in the table below.

The carbon footprint is calculated using the weighted average carbon footprint (the sum of the portfolio's companies' emissions weighted by their weight in the portfolio), or it can be view as the emissions of the average company in the portfolio. This is used as it is providing a figure that is genuinely comparable between different managers.

Scale	Emissions (t CO2 eq)	Categories
A	Under 100,000	Moderate
B	Between 100,000 and 1,000,000	Significant
C	Between 1,000,000 and 10,000,000	High
D	Over 10,000,000	Intense

The energy transition score is a combination of the Moddy's scores for each company in a portfolio's energy transition strategy based on specific criteria tied to climate change such as commitments made, information being disclosed and the meeting of commitments. This is a subjective score of issuers' energy transition strategy based on Moody's Research.

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Unlike the carbon footprint, which is an expression of past performance, the energy transiton score looks to express a company's forward-looking strategic approach to mitigate its carbon footprint through visible commitments and concrete measures. A company's ET score is to be put in perspective with its carbon footprint, it would be expected for a high emitting company to consider their energy transition strategy more and would look to have a robust/advanced score in this area, which would show that they have implemented concrete measures towards energy transition, to mitigate their carbon footprint. Some low-emitting companies are less transparent on their transition plans, as they might consider the issue to be less material to them and it is expensive to measure and report on the transition.

In addition to these high-level indicators each mandate has its own bespoke to report which also looks the following metrics.

Total financed emissions
Financed emissions per £m invested
Weighted average carbon footprint
Carbon intensity per sales (millions of £)
Weighted average carbon intensity
Energy Transition Strategy score
Sector allocation effect on performance attribution
Issuer selection effect on performance attribution

Asset coverage and estimation

The Carbon foot printing carried out by Moody's has now been completed for three consecutive years. The holdings assessed are lower that the Fund's portfolio coverage by Moody's as the adviser was not able to establish a carbon data for some holdings under management. The coverage is much higher in equity mandates compared to Fixed Income mandates.

	March 2020	March 2021	March 2022
% of portfolio covered in foot printing	72%	76%	75%
% of holdings assessed in foot printing	65%	70%	67%

The carbon data provided by Moody's to the Fund is provided by the CDP and completed with other company sources collected by Moody's ESG Solutions. When no data is available from any source, the analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three differ methods: regression models, sector specific physical factors and sector averages.

The Fund does recognise that Carbon footprinting does need to be considered with some caveats in that there is no hard and fast method to carry to monitor and assess carbon emissions of underlying investments portfolios, this is a relatively new data source and is measured differently by different suppliers. In addition, carbon footprinting is often reliant on information publicly available provided by the underlying company themselves. Over time as carbon emission data and monitoring improves it may be the position of the Fund looks worse, as a result understanding of the model and quality of data is important when assessing the Fund's portfolio.

Carbon footprint reports take no consideration of engagement activity of investment managers. All of the Funds listed managers are Institutional Investor Group for Climate Change (IIGCC) members and some of the managers have engaged intensively with high carbon emitting companies as part of Climate Action 100+. The Fund believes alongside many of its managers that it is essential as an active investor to influence companies through voting and engagement to drive the energy transition forward.

Opportunities and positive factors

The carbon footprinting report indentifies how much each mandate has invested in positive impact factors such as green bonds, green good and green services as well as negative impact factors such as exposure to fossil fuels and coal.

The value of positive impact factors for the three reported periods are showing green holdings double the 2020 levels in 2022.

	March 2020	March 2021	March 2022
£m in green investments	149.00	332.02	354.56

Emissions and Carbon footprint changes

The Fund has collated the weighted average carbon footprint of each individual mandate covered by this data and looked at the weighted average carbon footprint of the fund for comparison of emissions over the years where data is available, which is shown in the table below.

	March 2020	March 2021	March 2022
Portfolio coverage	65%	70%	67%
Weighted average carbon Footprint	73,245,849	52,472,322	33,096,566
Average Energy Transition Score	42.05	42.33	44.25
Total Financed Emissions	**645,341**	**568,057**	**483,538**

Looking at the Weighted Average Carbon Footprint in 2022 the Funds managers ranged from 296,723 to 6,916,201, the total agregated carbon footprint for the Fund was 33,096,566. This is a reduction in average carbon footprint of 55% from the March 2020 emissions footprint to the March 2022 emissions footprint. Looking at total financed emissions the Fund saw a reduction in financed emissions of 25% from March 2020 to March 2022. There was also increase in each year over the energy transition rating of the portfolio holdings showing an improvement ability to manage the energy transition and reducing transition risk of the Funds investments.

Illiquid Asset Classes

Outside of the Moody's carbon footprinting the Fund have tried to obtain information directly from the investment managers as to their cabon emissions and footprint. Illiquid assets constitute 22.6% of the Funds portfolio. The following information has been obtained by asset class. The Fund will engage with managers over the next year to aim for increased exposure and more detailled metrics for futrure reporting.

Private Equity – 8.0% of Fund Assets

The Fund have two private equity managers, which make up 8.0% of the portfolio as at 31 March 2022. Neither of these managers have published any metrics under TCFD however both are members of the Initiative Climat International (iCI) which is a General Partner led initiative to collaborate on risk analysis tools to aid private equity action on climate change. Members of iCI commit to recognising the risks and opportunities that climate change presents to their investments, contribute to the Paris Agreement's objectives, and actively engage with portfolio companies to reduce their greenhouse gas emissions. Members work collaboratively across a variety of working groups to implement their commitments.

One of the Funds Private Equity funds, which is currently 4.4% of the portfolio value has been able to provide a Weighted Average Carbon Intensity (WACI) of your portfolio as an Emissions Intensity metric as at 31/03/2022.

Company Scope 1 + Scope 2 (tCO2e/USDmn)	88.15
Company Direct + First Tier (tCO2e/USDmn)	116.37

1. Scope 1 & 2, suitable for benchmarking against the MSCI ACWI which was 151.7 as of 30 June 2021, while the MSCI ACWI ESG leaders index was 93.4.
2. Direct and First Tier Indirect (which includes some elements of Scope 3), suitable for benchmarking against the S&P Global LargeMidCap which was 213.84 as of 30 July 2021
3. This data is calculated based on estimation factors (in tCO2e/mUSD revenue) at the The Global Industry Classification Standard (GICS) Sub-industry level, provided by S&P Global Trucost.

Property – 8.7% of Fund Assets

The Global Alliance for Buildings and Construction and UN Environment Programme 2020 global status report for buildings and construction report published in December 2020 highlighted that the buildings contribute approximately 40 % of global carbon emissions, 28 % through building operations and 11 % from embodied carbon from building materials and construction. The Funds property Manager Schroders is a signatory to the UK's Better Buildings Partnership which requires members to publish a net zero carbon pathway for their portfolio including direct and indirect investments, together with a delivery plan. The Commitment covers new and existing buildings, Scope 1, 2 and 3 emissions and both operational and embodied carbon, making it one of the most ambitious climate commitments for property owners. In addition, the signatories are committed to disclose energy performance of portfolios and climate resilience strategies.

Schroders have committed to Establishing a net zero carbon pathway at the Real Estate level.

The Property portfolio was valued at £418m (excluding cash) at 31 March 2022. Emissions have been reported on 53% of the portfolio. The carbon emissions have been calculated by multiplying the percentage ownership by client in each of the underlying fund investments by the respective fund's carbon emission output in tonnes as reported by each Fund Manager under management. The output of each fund is summed to create an emissions total. Where we do not have 100% data coverage in any one fund, we have extrapolated the data up to 100% coverage by assuming those assets with missing data produce the same emissions as the average of all assets where data has been reported. These emissions have been extrapolated to provide an estimated emissions of the portfolio with coverage of 88.5%.

The emissions data in the table below is provided to the Investment Manager by third parties and has not been audited.

	Coverage of portfolio	Scope 1&2 emissions (carbon tonnes)	Scope 3 emissions (carbon tonnes)	Total Emissions (scope 1,2 &3)	Carbon tonnes per £m
Emissions Reported	53.2%	746	632	1,378	6.4
Emissions Estimated	88.6%	1,215	1,203	2,418	6.7

Infrastructure – 3.0% of Fund Assets

The Fund have three Infrastructure managers which comprise 5.1% of Fund assets at 31 March 2022. There is no carbon emission data currently available for these investments.

Private Credit – 0.8% of Fund Assets

The Fund have one Private Credit manager which comprises 0.8% of Fund assets at 31 March 2022. There is no carbon emission data currently available for this investment.

RI implementation

Below we show how the Fund has implemented the RI policies it set itself in the ISS.

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third-party provider Moody's for the third year.	Develop understanding of the different metrics. Review the Carbon-equivalent emission provider market. Evaluate carbon emissions of equites and corporate fixed income. Work with Investment managers of other asset classes to improve asset class coverage.
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC research into the Fund's strategy.
To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy	Increased our investments into investments with stated sustainable goals with a further 5% invested in a Paris aligned active equity mandate and moved our remaining passive holdings 5% of the Fund to a resource efficiency weighted index this adds to the 10% the Fund invested into impact managers and 10% into climate risk passive product to take the total amount of the Funds assets into 30% into specific funds looking to benefit from the transition to low carbon economy.	The Equity portion of the Fund has a strong alignment to benefiting from the energy transition. The Fund will therefore review opportunities in other asset classes such as its fixed income. Working with ACCESS to develop suitable solutions within the Pool.
To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022	The Fund has to date only considered the carbon intensity of the liquid holdings around 70% of the Fund assets	The Fund is liaising with its external managers of the harder to measure assets and request that all managers'

reporting cycle, supported by external managers and GPs	and is working with managers and other advisors in how to calculate this for the alternative space.	report in line with TCFD reporting requirements. Responding to the government's consultation on the TCFD reporting for the LGPS and provide. Working with other LGPS Funds to understand how they will be getting the required information. Once guidance is provided we will be seeking to understand the how managers can assist with this information.
Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.	The Carbon reporting provided by Moody's which also highlights companies which they consider to be high emitters and have poor quality transition plans. The Fund will request explanations from managers regarding these companies along with running them through the TPI to understand their view. The Fund also reviews companies that are classified by the Investment manager as a Fossil Fuel company and will run these through the TPI data this analysis is used by the fund during meetings with the Fund managers.	The Fund continues to work on improving its information on its underlying holdings with the aim to get quarterly information to further analyse on different criteria including TPI analysis.
Implement processes that adhere to Taskforce for Climate-related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they	The Fund is incorporating as much of aspects of the TCFD guidance for private pensions schemes into its Annual Report. This is building on the report provided last year. This is allowing the fund to identify and enhance the report year	The Fund will be responding to the consultation on the TCFD reporting in the LGPS and is a supporter of this being implemented. The Fund will look to implement the guidance once

are expected to apply to the LGPS.	on year and provide readers with better understanding of the Fund. Along with this the Fund has received 2 years of ESG assessments of its investment Managers from its conducted by its investment consultant. We continue to engage with our investment managers over their own reporting and are encouraging them to report in line with TCFD where they are not already doing. We undertake carbon foot printing of the Fund. We have been producing a quarterly engagement report detailing the work the Fund has been undertaking.	this is published and continue to develop its reporting. Work with Third parties to develop and implement enhancements to its current reporting.
To report annually in accordance with TCFD recommendations.	The Fund will provide a TCFD section within its Annual Report covering all elements where sufficient data is held and identifying areas which are not yet complete. There is currently no guidance for LGPS Funds on TCFD reporting.	We are considering the consultation from DLUHC on TCFD reporting and will respond with our considerations. Once this has been responded to and there is clarify on the final requirements, the Fund will implement a fully compliant report within the guidelines set out for the LGPS.
Signatory to the United Nations Principles for Responsible Investment (PRI)	The Fund has signed up to the PRI but has not yet been required to provide information to the PRI for assessment.	During Q4 2022 and Q1 2023 the Fund will prepare the necessary information to maintain our signatory status to the PRI.
Encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related	We have been requesting quarterly information from the managers on engagement and voting and have been providing	We will be maintaining the engagement and voting information capture and are working to improve the

information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.	our own quarterly report detailing our monitoring of the managers. Alongside this we also provide information on the managers engagements and commitments such as to which organisations they are signatories.	information that is published as part of our engagement report. To improve communication with stakeholders of the Fund. The Fund continues to monitor the investments managers through carbon foot printing and ESG reviews by our investment consultant. The Fund is committed to working with ACCESS to improve the RI function within the pool and provide better reporting. Ensuring that the Funds managers sign up to relevant commitments with TCFD and UK stewardship code 2020 being priorities.
Working collaboratively to increase the reach, efficiency, and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards.	ACCESS has set up a RI working group to build upon the RI guidelines. We have been working with the National LGPS Framework on the replacement Stewardship framework. We have been engaged with IIGCC and have signed up to some of the initiatives coming from this collaboration. The Fund is an active participant in the LAPFF Executive Committee.	We shall be looking to continue to explore opportunities with ACCESS to improve the RI opportunities. Increase the involvement in collaborative RI initiatives and look to be signatories to shareholder resolutions where appropriate.
Report annually in accordance with the UK Stewardship Code requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.	The Fund has drafted a submission and will be looking to submit this during 2022.	To submit our submission to the FRC in 2022.

Collaboration

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We are an active member and supporter of several Global and Industry ESG Initiatives

https://www.unpri.org/

Principles for Responsible Investment (PRI). We have been a signatory to the PRI since 2020 and are working on our first submission on how we implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital, which is due to be submitted in 2023. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation

https://www.iigcc.org

Institutional Investors Group on Climate Change (IIGCC) has the collective weight of over €51 trillion from over 350 members and is leading the way on a global stage for investors to help realise a low carbon future. IIGCC helps shape sustainable finance policy and regulation for key sectors of the economy and supports members in adopting active ownership and better integrated climate risks and opportunities into investment processes. The Fund's Pension Committee Chair is currently a representative on the IIGCC Corporate Programme Advisory Group. The corporate programme focuses on supporting investors to engage with companies to align portfolios with the goal of net zero by 2050. In addition to the Fund's own membership of IIGCC, the Fund asks its managers to also be members providing a double lock on engagement.

LAPFF | The leading voice for local authority pension funds across the UK (lapfforum.org)

As a member of LAPFF the Fund works together with the majority of LGPS funds and pools across the UK, through the forum, to promote high corporate governance standards to protect the long-term value of local authority pensions. With member fund assets exceeding £350bn, the forum engages with companies and regulators to deliver reforms advancing corporate responsibility and responsible investment. In October 2021 the Funds Head of Pensions was appointed to the executive committee as an LAPFF Officer Member.

Home | Pensions For Purpose

Pensions For Purpose is a bridge between asset managers, pension funds and advisers, to encourage the flow of capital towards impact investment. Pensions For Purpose provide high quality expertise and training to Funds on ESG issues. The Fund joined as an affiliate member in September 2021.

Home | Financial reporting council

The Financial reporting council sets UK Accounting, Audit and Actuarial standards. The fund has committed to report under the FRC's Stewardship code, pledging to manage capital in a way that creates long term value and leads to sustainable benefits for the economy, the environment and society. The Funds statement of commitment is to be sent for consideration in 2022.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Home | Task Force on Climate-Related Financial Disclosures

The TCFD was set up to develop recommendations on the types of information that companies should disclose to support its stakeholders in appropriately assessing and pricing risks related to climate change. The fund has committed to report under the TCFD initiative.

13. Independent adviser’s report

East Sussex Pension Fund - Independent Advisor’s Report 2022

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is to act as a separate source of advice and expertise 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. In writing this report, I can also provide stakeholders with some independent assurance that the Fund is being appropriately and properly managed.

In last year’s report, I suggested that economies would rebound from the COVID dip, but that I did not expect equity markets to do much better than go sideways. I noted that higher inflation was a major risk which the Fund was addressing by investing in infrastructure and other real assets. I also remarked on the considerable improvements in governance and resourcing which the Fund had made, as well as the progress made towards aligning its portfolio with a lower carbon world.

As I write this year’s report, COVID restrictions have just been lifted, two years after their first imposition. At the same time, Russia has invaded Ukraine, upsetting Western underlying assumptions in many ways. Most economies have indeed recovered the growth lost over the COVID lockdowns, but at the cost of a surge in inflation. Food and energy prices have seen large rises and U.S. inflation has risen to over 7%, the highest for several decades.

Central banks have reacted by withdrawing some of their monetary largesse and raising interest rates from the near zero levels in place during the pandemic. Bond market yields have risen substantially from the summer 2020 lows, though they are still well below normal historical levels. Equity markets have been surprisingly resilient, buoyed by earnings early in the year, though indices have been falling in 2022 as valuations of many tech stocks collapsed.

The Fund is in good financial health, with a well-diversified asset portfolio which should provide protection in most scenarios. I would expect the funding level at the 31st of March 2022 valuation to be in the region of 100% unless there is a dramatic fall in markets. As the number of active members declines, pension payments are starting to exceed contributions, and the Fund will need to rely more on investment income to cover the shortfall. This is normal for all pension funds as they become more mature.

Perhaps the most important decision made in the past two years has been to build up the internal team managing the Fund. Managing an LGPS fund has become increasingly complex on all fronts. On the administration side, the team has had to cope with the recalculations caused by several judicial judgements on top of its normal business, and a change to monthly data collection. On the investment side, new climate change legislation as well as the Government’s levelling-up agenda has substantially increased the required investment monitoring and oversight. On governance, the ever-increasing complexity of the ACCESS pooling structure as well as higher general governance expectations all need officers’ attention.

There is of course a cost attached to the larger team, but in my view, it is one worth paying to ensure the Fund’s effective management.

I mentioned last year the considerable initiative to mitigate the financial risk to the Fund from the world's needed transition to a lower carbon economy. That has continued over the past twelve months, with the shift of the final passive equity holdings into two more carbon-aligned strategies.

However, it is a journey still in progress. The Fund will have to comply with new climate change risk disclosure requirements, including consideration of different climate scenarios, by 2023. There is more work to be done in other parts of the portfolio. New developments and metrics may lead us to different conclusions in the future. For example, the surge in energy prices over the past six months has led to a general acceptance by most parties that fossil fuels will play a role in getting to net carbon zero by 2050. The tragic events in Ukraine have brought energy security to the fore, and as a result natural gas is unlikely to fulfil the role which had been pencilled in for it. There is also a considerable debate about nuclear power. In this rapidly evolving world, the Fund's holdings in diversified growth funds provide it with some flexibility because their broad remit enables them to respond to changes more nimbly.

Even without the events of the first three months of 2022, some long-term trends have been changing. The last thirty years or so have been dominated by low inflation, falling bond yields, lower labour costs as the world became more global, and a backstop provided by central banks in the form of easy monetary policy. Equities and risk assets have responded by rising to unprecedented valuations.

These are all likely to look different in the future. Most importantly, bond yields are rising. If inflation continues to rise, they are likely to normalise further. This in turn will affect the valuations of all long-term investments, including infrastructure, equities, and real estate, as the discount rate used to value them will be higher. It also increases the risk for more leveraged entities, including governments, because they will find it more expensive to refinance their debts.

The outlook for inflation is important to the fund because its liabilities are linked to consumer inflation without a direct cap. There are some secondary mitigations built in, such as the Scheme level cost cap mechanism, but the first line of defence lies with the Fund's investment strategy. Here we have over time been building up exposure to assets such as infrastructure, which can be expected to produce a rising income stream. However, these will only provide a limited defence if inflation turns out to be sustained at levels above 5%.

The swing factor, at least in the short term, will be the behaviour of central banks. If they choose to focus on bringing down inflation by clawing back some of the past 15 years' monetary largesse, they increase the risk of recession. At the time of writing they are talking tough, but political and economic reality may oblige them to revert to looser monetary policy again.

I have focused this year's report on investments because the greater risks seem to lie there. Implementation of the Fund's strategic asset allocation is increasingly done through the ACCESS pool, as required by government guidance, and this process is likely to continue. It is therefore essential that the governance arrangements in place allow the Fund proper oversight of ACCESS' activities.

My final duty in this report is to provide some assurance as to the overall governance arrangements for the Fund. I can assure readers that the Fund is appropriately resourced in terms of staffing, and that its internal governance processes and structures are of a good standard. While nobody should read too much into a single award, I am delighted that it has won the Best Fund Over £2.5bn award at the delayed LAPSIF 2021 Awards. I view this as a well-deserved tribute to the hard work by officers, Committee and Local Pension Board members over the past three years.

William Bourne - Independent Advisor - 1st April 2022

14. Asset Pools

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) has its origins in 2016 when 11 Local Government Pension Scheme (LGPS) Authorities agreed to begin working collectively to address the requirements of the Government's agenda for pooling LGPS investments.

ACCESS is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities:

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

Collectively the pool has assets of £60 billion (of which 59% has been pooled) serving 3,500 employers with over 1.1 million members including 310,000 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.
The following strategic objectives are in place:

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.

In order to achieve these objectives, the Councils have established a set of governing principles implicit within these is the democratic accountability and fiduciary duty of the Councils as Administering Authorities. The governing principles are summarised below:

- Collaboration
- Objective evidence-based decisions
- Professionalism
- No unnecessary complexity
- Value for money
- Risk management
- Equitable voice in governance
- Equitable cost sharing
- Evolution and innovation

Governance

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Joint Committee (JC) has been appointed by the eleven Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool-aligned asset providers (for passive asset management), to the Administering Authorities. The Joint Committee also reviews ongoing performance.

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

The Joint Committee is further supported by the Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group consists of officers with specialist LGPS skills, identified by each of 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 an overview of the work by the ACCESS Support Unit.

In 2018, the ACCESS Joint Committee agreed that a unit be established to provide day to day support for the work required to run the Pool, and that Essex County Council act as Host Authority. The ACCESS Support Unit (ASU) facilitates the Joint Committee (JC) and officer groups and has responsibility for programme management, client relationships, contract management/supplier relationships, administration and technical support services.

A business plan is developed and submitted for consideration by the JC ahead of the start of each year, prior to being recommended to each of the ACCESS Authorities.

The business plan includes milestones across listed assets (both active and passive), non-listed assets and governance. The JC also determines an annual budget to support the activities within the business plan.

The ASU has responsibility to manage this development and implementation of the business plan, within budget, whilst assessing and managing the risks for the pool. A central feature of ACCESS is the engagement of each of the eleven Authorities, and therefore the support and facilitation of stakeholder groups is key to the work of the ASU. The governance structure of the Pool ensures that dialogue with, and input from, Local Government Pension Scheme (LGPS) subject matter experts from each Authority, is gathered through the Officer Working Group (OWG) and various subgroups.

In turn, this enables the s151 Officer Group to form the recommendations that are ultimately considered by the JC. It has long been recognised that considerable expertise exists within the LGPS officer community. The full time ASU staff are therefore supplemented by part-time Technical Leads whose work for ACCESS is part of the Pool's costs.

The governance structure of ACCESS is shown below:

The Operator

Appointed in 2018 Link Fund Solutions Ltd (Link) provide the 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

The development of the ACCESS Pool continues at pace with an additional four sub funds opened during the year to assist the authorities in achieving diversification within their investment strategies attracting an additional £3.2 billion investment into the Pool.

In January 2022 MJ Hudson were appointed as implementation adviser for the establishment of pool vehicles for illiquid assets, after a competitive call off utilising the National LGPS Frameworks.

As implementation advisor, MJ Hudson will provide support to the Pool in selecting individual investment opportunities and investment managers to build portfolios in a range of illiquid assets including private equity, private debt, infrastructure and initially, real estate.

Another key achievement during the year was the development of updated Responsible Investment guidelines for which the pool was partnered by Minerva Analytics. Once consultation has been completed the guidelines will be formally published.

In addition to its Annual Report, ACCESS also produced a Progress Update report to provide an insight to the Pool, key activities and future plans. These are all published on the pool's website (www.accesspool.org).

In the year ahead we welcome representatives of the Local Pension Boards to observe the future Joint Committee meetings. Two members from each Board will be able to attend a meeting at least once a year.

Pooled Assets

As at 31 March 2022, ACCESS has pooled the following assets:

	£ billion
Passive investments	**11.2**
ACS Investments	
UK Equity Funds	**2.5**
Global Equity Funds	**15.3**
UK Fixed Income	**4.5**
Diversified Growth	**1.6**
Total Pooled Investments	**35.1**

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 2021/22

Actively managed listed assets:

- Further progress was made in pooling active listed assets within the Authorised Contractual Scheme (ACS) managed by the Pool's appointed Operator, Link Fund Solutions. Between July 2021 and February 2022, a further four sub-funds were launched.
- Link's appointment of BlackRock expands the UK Equity capacity within the Pool, the appointment of Macquarie broadens the Global Equity coverage whilst the addition of ACS mandates for Fidelity and M&G extends the Fixed Income offering.
- Six Authorities participated as original investors within these sub-funds which totalled £3.2bn.

Alternative/non-listed assets:

- In January 2022, following a procurement via the National LGPS frameworks, ACCESS announced the appointment of MJ Hudson as implementation adviser for the pooling of illiquid assets including private equity, private debt, infrastructure and real estate.

Passive assets:

- Ongoing monitoring and engagement continued with jointly procured passive manager, UBS.

Responsible Investment:

- Minerva Analytics were appointed through a procurement via National LGPS frameworks, as the ACCESS Environmental, Social & Governance (ESG) adviser.

- Review of the ESG polices alongside an engagement with officers from each of the 11 ACCESS Authorities, Minerva Analytics drafted revised and updated Responsible Investment (RI) guidelines for the Pool

Objectives for 2022/23

Actively managed listed assets:

- Further pooling active listed assets within the Authorised Contractual Scheme (ACS) managed by the Pool's appointed Operator, Link Fund Solutions which will include emerging market equity and further fixed income sub-funds.

Alternative/non-listed assets:

- Launch of the Pool's first illiquid asset investment vehicles. MJ Hudson will be undertaking procurement exercises to appoint a UK Core Manager and a Global Real Estate allocator.

- Initial work will commence on the planning for other illiquid asset investment platforms.

Passive assets:

- Ongoing monitoring and engagement with jointly procured passive manager, UBS.

Responsible Investment Guidelines:

- Following consultation with the ACCESS Authorities the updated Responsible Investment Guidelines will be published.

- Work will commence on establishing criteria to develop a matrix to report on key performance indicators to demonstrate how the responsible investment guidelines have been implemented.

Financial Management Expected v Actual Costs and Savings

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the eleven Authorities. 2021/22 saw an underspend primarily due to lower than anticipated costs of external advice combined with an underspend in the technical lead recharge costs.

The table below summarises the financial position for 2021/22 along with the cumulative position since the commencement of ACCESS activity in early 2016.

	2020/21	2020/21	2020/21	2020/21
	Actual In Year £'000	Budget In Year £'000	Actual Cumulative to date £'000	Budget Cumulative to date £'000
Set Up Costs	-	-	1,824	1,400
Transition Costs	2,664	4,408	3,338	6,907
Ongoing Operational Costs	1,046	1,247	4,117	4,795
Operator & Depository Costs	4,845	4,787	12,149	11,364
Total Costs	**8,555**	**10,442**	**21,428**	**24,466**
Pool Fee Savings	**(28,038)**	**(15,700)**	**(70,300)**	**(47,750)**
Net (Savings Realised)/Costs	**(19,483)**	**(5,258)**	**(48,872)**	**(23,284)**

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 2021/22 fee savings have been calculated using the CIPFA price variance methodology and based on the average asset values over the year. This approach highlights the combined level of investment fee savings, across all ACCESS Authorities stemming from reduced charges. In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the original submission to Government whilst delivering an enhanced level of savings ahead of the timeline contained in the original proposal.

Investment management costs split between pooled and non-pooled assets

	ACCESS Pool*	ACCESS Pool*	Non-ACCESS Pool	Non-ACCESS Pool	Total
	Direct £000	Indirect £000	Direct £000	Indirect £000	£000
Management Fee	60	9,116	2,241	8,435	19,852
Performance Fee	-	-	-	1,585	1,585
Transaction Costs	321	643	165	319	1,448
Custody	-	-	139	-	139
Other Costs	-	-	903	-	903
Total	**381**	**9,759**	**3,448**	**10,339**	**23,927**

* 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 environmental 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.

Responsible Investment:

ACCESS appointed Minerva Analytics as its Environmental, Social & Governance (ESG) adviser. Following a review of the ESG policies, and engagement with officers from each of the authorities Minerva Analytics drafted consolidated Responsible Investment (RI) guidelines for the Pool.

Following a period of consultation, it is expected that finalised Guidelines will be adopted by the Pool during 2022.

Voting:

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 guidelines set out the principles of good corporate governance and the means by which ACCESS will seek it influence on companies. The voting activity is reported to the Joint Committee on a quarterly basis.

During the year ACCESS voted at 2,391 meeting on 32,834 resolutions.

Engagement:

Link Fund Solutions arranges regular sessions with the Investment Managers to present to the authorities Pension Fund officers to demonstrate how they implement environmental, social and governance into their investment strategy and decision-making process.

These also give the investment manager the opportunity to discuss the engagement activities they have undertaken, what constructive dialogue was had and how they have used their influence to encourage the adoption of best practice.

15. East Sussex Pension Fund - Accounts 2021/22

Fund account, net assets statement and notes

15a) Fund Account

2020/21£ 000	2020/21 £000		Notes	2021/22 £ 000	2021/22 £000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(100,042)		From Employers		(99,617)	
(31,435)		From Members		(34,556)	
	(131,477)				(134,173)
	(6,044)	Transfers in from other pension funds	8		(8,246)
	(137,521)				(142,419)
	128,707	Benefits	9		134,595
	5,561	Payments to and on account of leavers	10		10,744
	134,268				145,339
	(3,253)	Net (additions)/withdrawals from dealings with members			2,920
	17,296	Management expenses	11		26,671
	14,043	Net (additions)/withdrawals including fund management expenses			29,591
		Returns on investments			
	(39,089)	Investment income	12		(40,549)
	19	Taxes on income	13a		2
	(739,914)	Profit and losses on disposal of investments and changes in the value of investments	14a		(432,676)
	(778,984)	Net return on investments			(473,223)
	(764,941)	Net (increase)/decrease in net assets available for benefits during the year			(443,632)
	(3,479,094)	Opening net assets of the scheme			(4,244,035)
	(4,244,035)	Closing net assets of the scheme			(4,687,667)

15b) Net Assets Statement for the year ended 31 March 2022

31 March 2021 £000		Notes	31 March 2022 £000
4,173,990	Investment assets	14	4,587,145
357	Other Investment balances	21	774
(775)	Investment liabilities	22	(1,173)
56,736	Cash deposits	14	90,216
4,230,308	Total net investments		4,676,962
15,675	Current assets	21	15,391
(1,948)	Current liabilities	22	(4,686)
4,244,035	Net assets of the fund available to fund benefits at the year end.		4,687,667

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 2022 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

20 December 2023

15c) Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2022

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 Scheme Manager"). 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 2021/22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

1. General

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

a) The Local Government Pension Scheme Regulations 2013 (as amended)

b) The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

c) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund 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, Brighton and Hove City Council, the district and borough councils in East Sussex County and a range of other scheduled and admitted bodies within the county area.

The Fund 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 administration and 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 liquid investments such as equities and bonds as well as illiquid investments such as private equity, infrastructure, and private debt. The Committee oversees the management of these investments and the Fund and its advisers meet regularly with the investment managers to monitor their performance against agreed benchmarks. The Pension Committee take proper advise from specialist advisers when making investment decisions.

2. 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. Employees are auto enrolled into the scheme every three years and on appointment.

Organisations participating in the East Sussex Pension Fund include:

a) Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund

b) 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 134 employer organisations within East Sussex Pension Fund including the County Council itself, and 81,291 members as detailed below:

East Sussex Pension Fund	31 March 2021	31 March 2022
Number of employers with active members	**127**	**134**
Number of employees		
County Council	8,163	8,059
Other employers	16,839	16,455
Total	**25,002**	**24,514**
Number of pensioners		
County Council	9,805	10,125
Other employers	12,425	13,006
Total	**22,230**	**23,131**
Deferred pensioners		
County Council	13,805	14,223
Other employers	17,429	19,423
Total	**31,234**	**33,646**
Total number of members in pension scheme	**78,466**	**81,291**

3. 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 2022. 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.

4. 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 (CARE), whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated 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 2021/22 financial year and its position at year-end as at, 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector. The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, 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. The standards introduced by the 2022/23 Code where disclosures are required in the 2021/22 financial statements are:

• IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year).

• Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:

o IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS

o IAS 37 (Onerous contracts) – clarifies the intention of the standard

o IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material

o IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect.

• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

There were no amendments for 2021/22 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 the 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 Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance and Compliance Policy Statement and Communications Strategy Statement. Copies can be obtained by contacting the Council's Pensions team or alternatively are available from https://www.eastsussexpensionfund.org/

The Fund invest a large portion of its investment assets through the ACCESS (A Collaboration of Central, Eastern and Southern Shires) LGPS Pool. There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by an 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 and is FCA regulated. There is no direct investment in the third party, only a contractual arrangement to provide services, so there is no investment balance to carry forward in the net asset statement.

3. Summary of significant accounting policies

Fund account – revenue recognition

1. **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 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.

2. **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.

3. **Investment income**

a) 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.

b) 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.

c) 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.

d) 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

4. 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.

5. 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.

6. 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:

a) Administrative expenses

All staff costs relating to the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the Fund.

b) Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund

c) 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 2021/22, £1.2m of fees is based on such estimates (2020/21: £0.8m).

Net assets statement

7. Financial assets

All investment assets are included in the financial statements 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 the contractual acquisition of the asset.

Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a. Any gains or losses on investment sales arising from changes in the fair value of the 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).

8. 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.

9. 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.

10. 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.

11. 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.

12. 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).

13. **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).

14. **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.

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary. The assumptions underpinning the valuations are agreed with the actuary and are summarised in note 19. In accordance with IAS26 the Fund is also required to disclose on an annual basis the actuarial present value of promised retirement benefits in note 20. The actuarial methodology used in triennial valuations is different from that used in IAS26 calculations, therefore they will produce different liability values at a common valuation date. The liability estimates in notes 19 and 20 are subject to significant variances based on changes to the underlying assumptions and actual future experience related to the development of pension liabilities.

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 reported amounts. Estimates and assumptions are made to take into account historical experience, current trends and other relevant factors. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	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 pandemic there is an increase in the uncertainty around the mortality 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: 1. A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). 2. A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). 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 £373.7 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.
Infrastructure	Infrastructure investments are valued at fair value in accordance with industry guidelines, based on the Fund manager valuations as at the end of the reporting period. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Pooled Property investments in the financial statements are £390.2 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 investment managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Pooled Property	Pooled Property investments are valued at closing bid prices if both bid and offer prices are published; or if single priced, at the closing single price. Pooled property funds have derived underlying assets that have been valued by independent external valuers on a fair value basis in accordance with industry guidelines	The total private debt investments in the financial statements are £39.7 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 investment managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Climate Risk	Climate risk is the potential for adverse consequences for human or ecological systems, recognising the diversity of values and objectives associated with such systems. In the context of climate change, risks can arise from potential	The total net investment assets of the Fund are £4,677.0 million. There is a risk that the investments may be over or understated in the accounts depending on the assumptions around policy responses to climate change in the valuation of investments. The impact would be across the whole

Item	Uncertainties	Effect if actual results differ from assumptions
	impacts of climate change as well as human responses to climate change. The outcomes of these risks is unknown and as such there is a degree of estimation involved in the valuation of companies.	Fund but not necessary equally across asset classes. We consider that there is a price risk sensitivity of £780.4m which is discussed further in Note 16 and Note 18.

6. Events after the balance sheet date

There has been one event since 31 March 2022, and up to the date when these accounts were authorised that require any adjustments to these accounts. This related to the disbandment of legal proceedings for tax reclaims on certain dividends and the removal of a contingent asset and the creation of a contingent liability.

7. Contributions Receivable

	2020/21 £000	2021/22 £000
By category		
Employee's contributions	31,435	34,553
Employer's contributions		
Normal contributions	83,643	83,884
Deficit recovery contributions	15,336	14,936
Augmentation contributions	1,063	800
Total	**131,477**	**134,173**
By authority		
Scheduled bodies	84,803	85,174
Admitted bodies	3,653	4,166
Administrative Authority	43,021	44,833
Total	**131,477**	**134,173**

8. Transfers in from other pension funds

	2020/21 £000	2021/22 £000
Group transfers	-	-
Individual transfers	6,044	8,246
Total	**6,044**	**8,246**

9. Benefits payable

	2020/21 £000	2021/22 £000
By category		
Pensions	108,927	111,786
Commutation and lump sum retirement benefits	17,194	19,179
Lump sum death benefits	2,586	3,630
Total	**128,707**	**134,595**
By authority		
Scheduled bodies	76,492	79,660
Admitted bodies	3,781	3,977
Administrative Authority	48,434	50,958
Total	**128,707**	**134,595**

10. Payments to and on account of leavers

	2020/21 £0	2021/22 £0
Refunds to members leaving service	242	326
Group transfers		2,700
	-	
Individual transfers	5,319	7,718
Total	**5,561**	**10,744**

11. Management expenses

	2020/21 £000	2021/22 £000
Administrative costs	1,680	2,216
Investment management expenses	13,785	23,929
Oversight and governance costs	1,831	526
Total	**17,296**	**26,671**

11a) Investment management expenses – 2021/22

	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Bonds	10	10	-	-
Equities	392	81	-	311
Pooled investments				
Fixed Income	2,219	2,158	-	61
Equity	7,124	6,652	-	472
Diversified growth funds	6,072	5,561	-	511

	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Pooled property investments	1,601	1,508	-	93
Private equity / infrastructure	6,372	4,787	1,585	-
	23,790	20,757	1,585	1,448
Custody	139			
Total	23,929			

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

2020/21	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Bonds	38	14	-	24
Equities	802	113	-	689
Pooled investments				
	-	-	-	-
Fixed Income	1,769	1,769	-	-
Equity	2,872	2,593	-	279
Diversified growth funds	3,373	3,373	-	-
Pooled property investments				
	1,307	1,307	-	-
Private equity / infrastructure	3,563	3,563	-	-
	13,724	12,732	-	992
Custody	61			
Total	**13,785**			

*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 2021/22 of £4.0m (£2.2m in 2020/21) on its private equity investments, fees of £2.4m (£1.1m in 2020/21) on its infrastructure investments, fees of £9.1m (£5.1m in 2020/21) on investments in the ACCESS Pool and fees of £4.6m (£1.9m in 2020/21) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12. Investment income

	2020/21 £000	2021/22 £000
Income from bonds	122	-
Income from equities	654	985
Private equity/Infrastructure income	1,458	2,161
Pooled property investments	9,584	11,971
Pooled investments - unit trusts and other managed funds	25,402	24,752
Interest on cash deposits	1,869	680
Class Actions	-	-
Total	39,089	40,549

13. Other fund account disclosures

13a) Taxes on income

	2020/21 £000	**2021/22** £000
Withholding tax – equities	(19)	(2)
Total	(19)	(2)

13b) External audit costs

	2020/21 £000	**2021/22 £000**
Payable in respect of external audit for 2018/19	-	-
Payable in respect of external audit for 2019/20	5	-
Payable in respect of external audit for 2020/21	35	8
Payable in respect of external audit for 2021/22	-	35
Payable in respect of other services	5	5
Grant	-	(10)
Total	45	38

14. Investments

	2020/21 £000	**2021/22 £000**
Investment assets		
Bonds	128,765	134,975
Equities	-	237,482
Pooled Investments		
Fixed Income	485,996	476,264
Equity	1,864,834	1,797,637
Diversified growth funds	1,002,298	1,036,214
Pooled property investments	319,533	390,179
Private equity/infrastructure	372,564	514,383
Derivative contracts:		
Futures	-	11

	2020/21 £000	2021/22 £000
	4,173,990	4,587,145
Cash deposits with Custodian	56,736	90,216
Other Investment balances (Note 21)	357	774
Total investment assets	4,231,083	4,678,135
Investment Liabilities (Note 22)	(775)	(1,170)
Derivative contracts:		
Futures	-	(3)
Total Investment Liabilities	(775)	(1,173)
Net investment assets	**4,230,308**	**4,676,962**

14a) Reconciliation of movements in investments and derivatives

	Market value 1 April 2021 £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 2022 £000
Bonds	128,765	-	-	6,210	134,975
Equities	-	346,994	(272,967)	163,455	237,482
Pooled investments	3,353,128	155,487	(223,349)	24,849	3,310,115
Pooled property investments	319,533	34,405	(23,111)	59,352	390,179
Private equity/infrastructure	372,564	71,813	(107,111)	177,117	514,383
	4,173,990	608,699	(626,538)	430,983	4,587,134
Derivative contracts					
■ Futures	-	16	(23)	15	8
■ Forward currency contracts		726	(132)	(594)	-
	4,173,990	609,441	(626,693)	430,404	4,587,142
Other investment balances:					
■ Cash deposits	56,736			2,272	90,216
■ Other Investment Balances	357				774
■ Investment Liabilities	(775)				(1,170)
Net investment assets	**4,230,308**			**432,676**	**4,676,962**

	Market value 1 April 2020 £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 2021 £000
Bonds	212,331	-	(92,246)	8,680	128,765
Equities	-	618,587	(534,059)	(84,528)	-
Pooled investments	2,579,793	253,354	(246,139)	766,120	3,353,128
Pooled property investments	318,129	11,928	(9,059)	(1,465)	319,533
Private equity/infrastructure	291,413	77,295	(47,943)	51,799	372,564
Commodities	-	-	-	-	-
Multi Asset	-	-	-	-	-
	3,401,666	961,164	(929,446)	740,606	4,173,990
Derivative contracts					
■ Forward currency contracts	-	575	(162)	(413)	-
	3,401,666	961,739	(929,608)	740,193	4,173,990
Other investment balances:					
■ Cash deposits	63,715			(279)	56,736
■ Other Investment Balances	340				357
■ Investment Liabilities	(475)				(775)
Net investment assets	**3,465,246**			**739,914**	**4,230,308**

14b) Investments analysed by fund manager

	Market value 31 March 2021 £000	**Market value 31 March 2021 %**	**Market value 31 March 2022 £000**	**Market value 31 March 2022 %**
Investments in the ACCESS Pool				
ACCESS - Alpha Opportunities (M&G)	-	0.0%	287,673	6.2%
ACCESS - Absolute Return (Ruffer)	458,786	10.8%	537,861	11.5%
ACCESS - Corporate Debt (M&G)	158,430	3.7%	148,858	3.2%
ACCESS - Global Alpha (Baillie Gifford)	-	0.0%	197,397	4.2%
ACCESS - Global Equity (Longview)	492,250	11.6%	525,660	11.2%
ACCESS - Real Return (Newton)	510,048	12.1%	498,354	10.7%
ACCESS - UBS Passive	557,483	13.3%	134,974	2.9%
ACCESS - UBS Osmosis	-	0.0%	238,150	5.1%
	2,176,997	51.5%	2,568,927	55.0%
Investments held directly by the Fund				
Adams St Partners	154,497	3.7%	206,010	4.4%
Atlas Infrastructure	77,324	1.8%	95,964	2.1%
East Sussex Pension Fund Cash	30,674	0.7%	77,869	1.7%
Harbourvest Strategies	110,515	2.6%	167,729	3.6%
M&G Real Estate Debt	42,416	1.0%	39,733	0.8%
Pantheon	38,120	0.9%	62,374	1.3%
Prudential Infracapital	32,707	0.8%	42,449	0.9%

	Market value 31 March 2021 £000	Market value 31 March 2021 %	Market value 31 March 2022 £000	Market value 31 March 2022 %
Schroders Property	344,204	8.1%	402,175	8.6%
Storebrand Smart Beta & ESG	454,529	10.7%	510,338	10.8%
UBS Infrastructure Fund	37,697	0.9%	35,821	0.8%
Wellington Active Impact Equity	222,751	5.3%	237,481	5.1%
Wheb Active Impact Equity	222,727	5.3%	230,092	4.9%
M&G Absolute Return Bonds	285,150	6.7%	-	0.0%
	2,053,311	48.5%	2,108,035	45.0%
	4,230,308		4,676,962	100.00%

* 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.

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

Security	Market Value 31 March 2021 £000	% of total fund	Market value 31 March 2022 £000	% of total fund
ACCESS - Absolute Return (Ruffer)	510,048	12.1%	537,861	11.5%
ACCESS - Global Equity (Longview)	458,048	10.8%	525,660	11.2%
Storebrand Smart Beta & ESG Fund	454,529	10.7%	510,338	10.9%
ACCESS - Real Return (Newton)	492,250	11.6%	498,354	10.7%
ACCESS - Alpha Opportunities (M&G)	-	0.0%	287,673	6.2%
Wellington Active Impact Equity Fund	222,751	5.3%	237,481	5.1%
Wheb Active Impact Equity Fund	222,727	5.3%	230,092	4.9%
M&G Absolute Return Bonds	285,150	6.7%	-	0.0%

14c) Stock lending

The East Sussex Pension Fund has not operated a direct stock lending programme since 13 October 2008 but stock lending may occur in some of our pooled vehicles the fund is in invested in.

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.

1. Futures

The Fund'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.

Type	Expires	Economic Exposure £000	Market Value 31 March 2021 £000	Economic Exposure £000	Market Value 31 March 2022 £000
Assets					
UK Equity Futures	Less than one year	-	-	150	4
Overseas Equity Futures	Less than one year	-	-	516	7
Total assets			-		11
Liabilities					
Overseas Equity Futures	Less than one year	-	-	129	(3)
Total liabilities			-		(3)
Net futures			-		8

2. 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.

No forward foreign currency investments were held at the 31 March 22 (Nil 31 March 21)

3. 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.

No options investments were held at the 31 March 22 (Nil 31 March 21)

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required
Pooled investments – Equity, Fixed Income and Diversified Growth Funds	Level 2	Values are not published on exchanges and are determined by the investment manager or responsible entity at prescribed valuation points. 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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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.	Pricing includes situations where there is little market activity, a net asset value calculations are used, a single price has been advised by the fund manager, underlying assets have been valued by independent external valuers on a fair value basis.	Valuations could be affected by the frequency of the independent valuations between the funds.
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. Valuation techniques utilised includes management's cashflow projections estimates of growth expectations and profitability, profit margin expectations and adjustments to current prices for similar assets. 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 consequential potential impact on the closing value of investments held at 31 March 2022 and 31 March 2021.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Pooled Investment (1)	9%	39,733	43,309	36,157
Pooled property investments (2)	13%	390,179	440,902	339,456
Private Equity/Infrastructure (3)	25%	514,383	643,493	385,273
Total		**944,295**	**1,127,704**	**760,886**

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Pooled Investment (1)	9%	42,416	46,233	38,599
Pooled property investments (2)	13%	319,533	361,072	277,994
Private Equity/Infrastructure (3)	25%	372,564	464,960	280,168
Total		**734,513**	**872,265**	**596,761**

1. All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate debt assets, the range in the potential movement of 9% is caused by how this value is measured.
2. 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 13% is caused by how this value is measured.
3. All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 25% is caused by how this profitability is measured.

16a) Fair value hierarchy

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 2022

	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	238,267	3,405,357	944,295	4,587,919
Non-financial assets at fair value through profit and loss	-	-	-	-

Financial liabilities at fair value through profit and loss	(11)	(1,162)	-	(1,173)
Net investment assets	238,256	3,404,195	944,295	4,586,746

Values at 31 March 2021

	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	357	3,439,477	734,513	4,174,347
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(775)	-	(775)
Net investment assets	357	3,438,702	734,513	4,173,572

16b) Transfers between levels 1 and 2

During 2021/22 the fund has transferred no financial assets between levels 1 and 2.

16c) Reconciliation of fair value measurements within level 3

Period 2021/22 (values in £000)

	Market value 1 April 2021	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2022
Pooled investments	42,416	-	-	6,150	(11,175)	2,342	-	39,733
Pooled property investments	319,533	-	-	34,405	(23,093)	58,566	768	390,179
Private Equity/Infrastructure	372,564	-	-	71,813	(100,760)	114,336	56,430	514,383
Total	734,513	-	-	112,368	(135,028)	175,244	57,198	944,295

*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	(8,876)	209,110	200,234
3	175,244	57,198	232,442
Total	**166,368**	**266,308**	**432,676**

Period 2020/21 (values in £000)

	Market value 1 April 2020	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2021
Pooled investments	30,583	-	-	18,074	(6,715)	474	-	42,416
Pooled property investments	318,129	-	-	11,928	(9,274)	(4,459)	3,209	319,533
Private Equity/Infrastructure	291,413	-	-	77,295	(47,943)	24,207	27,592	372,564
Total	640,125	-	-	107,297	(63,932)	20,222*	30,801*	734,513

*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	566,319	122,572	688,891
3	20,222	30,801	51,023
Total	586,541	153,373	739,914

17. 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.

31 March 2021				31 March 2022		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
			Financial Assets			
128,765	-	-	Bonds	134,975	-	-
-	-	-	Equities	237,482	-	-
3,353,128	-	-	Pooled investments	3,310,115	-	-

Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
319,533	-	-	Pooled property investments	390,179	-	-
372,564	-	-	Private equity/infrastructure	514,383	-	-
-	-	-	Derivative contracts	11	-	-
-	56,736	-	Cash	-	90,216	-
-	1,560	-	Cash held by ESCC*	-	2,178	-
357	-	-	Other investment balances	774	-	-
-	14,115	-	Debtors *	-	13,213	-
4,174,347	72,411	-	Total Financial Assets	4,587,919	105,607	-
			Financial liabilities			
-	-	-	Derivative contracts	(3)	-	-
(775)	-	-	Other investment balances	(1,170)	-	-
-	-	-	Cash held by ESCC	-	-	-
-	-	(1,948)	Creditors	-	-	(4,686)
(775)	-	**(1,948)**	**Total Financial Liabilities**	**(1,173)**	-	**(4,686)**
4,173,572	**72,411**	**(1,948)**	**Total Financial Instruments**	**4,586,746**	**105,607**	**(4,686)**

*Reconciliation to Current Assets Note 21

	2020/21 £000	2021/22 £000
Cash held by ESCC	1,560	2,178
Debtors	14,115	13,213
Current Assets	15,675	15,391

17a) Net gains and losses on financial instruments

	31 March 2021 £000	31 March 2022 £000
Financial assets		
Fair value through profit and loss	740,512	430,660
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	(598)	2,024
Financial liabilities		
Fair value through profit and loss	-	(8)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-

Total	**739,914**	**432,676**

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 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 forecast cash flows. The Pension Committee also recognises climate change risk as a financial risk to the investments of the Fund. The Fund manages these investment risks as part of its overall risk management program.

Responsibility for the Fund's risk management strategy rests with the Pension 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.

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:

1. the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels

2. 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's 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 2021/22 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	12%
Other Bonds	7%
UK Equities	20%
Global Equities	21%
Absolute Return	13%
Pooled Property Investments	13%
Private Equity	30%
Infrastructure Funds	12%

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 2022 £000	Value on increase £000	Value on decrease £000
Index Linked	134,975	150,497	119,453
Other Bonds	476,264	510,397	442,131
UK Equities	9,738	11,686	7,790
Global Equities	2,025,381	2,450,711	1,600,051
Absolute Return	1,036,214	1,165,741	906,687
Pooled Property Investments	390,179	440,902	339,456

Private Equity	373,740	485,862	261,618
Infrastructure Funds	140,643	157,520	123,766
Net Derivative Assets*	8	260	(244)
Total assets available to pay benefits	4,587,142	5,373,576	3,800,708

*Movement on net derivative assets is based on the underlying economic exposure of the derivative instrument.

Asset Type	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Index Linked	128,765	143,573	113,957
Other Bonds	485,996	512,310	459,682
UK Equities	825,342	990,410	660,274
Global Equities	1,039,492	1,257,785	821,199
Absolute Return	1,002,298	1,127,585	877,011
Pooled Property Investments	319,533	361,072	277,994
Private Equity	264,039	343,251	184,827
Infrastructure Funds	108,525	121,548	95,502
Net Derivative Assets	-	-	-
Total assets available to pay benefits	4,173,990	4,857,534	3,490,446

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 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 of 31 March 2022 and 31 March 2021 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 2022 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash and cash equivalents	90,216	90,216	90,216
Cash balances	2,178	2,178	2,178
Fixed interest securities	476,264	481,027	471,501
Index linked securities	134,975	134,975	134,975
Total change in assets available	703,633	708,396	698,870

Asset type	Carrying amount as at 31 March 2021 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash and cash equivalents	56,736	56,736	56,736
Cash balances	1,560	1,560	1,560
Fixed interest securities	485,996	490,856	481,136
Index linked securities	128,765	128,765	128,765
Total change in assets available	673,057	677,917	668,197

Income Source	Interest receivable 2021/22 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits/cash and cash equivalents	680	1,604	(244)
Fixed interest securities	7,325	7,325	7,325
Index linked securities	-	1,350	(1,350)
Total change in assets available	8,005	10,279	5,731

Income Source	Interest receivable 2020/21 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits/cash and cash equivalents	1,869	2,452	1,286
Fixed interest securities	14,072	14,072	14,072
Index linked securities	122	1,410	(1,166)
Total change in assets available	16,063	17,934	14,192

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 pound 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 10%. A 10% 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 2022 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas quoted securities	227,744	22,091	249,835	205,653
Overseas unit trusts	3,348,234	324,779	3,673,013	3,023,455
Total change in assets available	**3,575,978**	**346,870**	**3,922,848**	**3,229,108**

Currency exposure - asset type	Values at 31 March 2021 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas unit trusts	2,326,940	225,713	2,552,653	2,101,227
Total change in assets available	**2,326,940**	**225,713**	**2,552,653**	**2,101,227**

Climate Change risk

Current asset pricing may not take into account the emerging climate risk to the underlying holdings, markets may be over or underestimating the value of the assets and could lead to future price volatility. Climate change will affect economic growth and there is uncertainty in the economic outlook due to climate change which could lead to lower returns on equities or risk to future discounted cash flows. High carbon emitters are more exposed to risks from climate change particularly from a transition risk perspective. The Fund mitigates this climate change market 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's investment strategy. In addition, the Fund is underweighted in high carbon emitting stocks such as fossil fuel companies and carries out carbon foot printing of the Fund's investments and asset managers and the Fund through its collaborative partners engage with corporate management of the underling holdings to ensure companies are responsibly managing their climate change risks. The Fund's Taskforce for Climate Related Financial Disclosure (TCFD) report is included in the Annual Report.

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 2021 £000	Asset value as at 31 March 2022 £000
UK Treasury bills	-	
Overseas Treasury bills	23,531	11,556
Bank current accounts		
NT custody cash accounts	33,205	78,660
Total overseas assets	**56,736**	**90,216**

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 there are 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 cash holdings and 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 2022 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

Introduction

The last full triennial valuation of the Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.

- The Fund had a funding level of 107% i.e., the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these falls due.

- plus, an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
Base tables	Based on Club Vita analysis
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements	
Males	0.5% p.a.
Females	0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed, and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

The Fund actuary have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20-year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20-year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. The Fund Actuary have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2022 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2022, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, the Fund Actuary estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equites due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The next formal valuation is being carried out as at 31 March 2022 with new contributions effective from 1 April 2023.

20. Actuarial present value of promised retirement benefits

Introduction

Barnett Waddingham, the Fund Actuary, have been instructed by East Sussex County Council, the administering authority to the East Sussex County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2022. The Fund Actuary have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations and summarised on the LGPS website (www.lgpsregs.org/) and the Fund's membership booklet (www.lgpsmember.org/).

This report is prepared in accordance with our understanding of IAS26 and complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100). In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This report should be read in conjunction with the post accounting date briefing note for disclosures as at 31 March 2022.

Roisin McGuire FFA Associate

Barnett Waddingham

Data used

We have used the following items of data which we received from the administering authority:

31 March 2022 - results of the latest funding valuation

31 March 2021 - results of the latest IAS26 report

31 March 2022 - Fund asset statement

31 March 2022 - Fund income and expenditure items (estimated where necessary) to

31 March 2022 - details of any new unreduced early retirement payments out to

The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of our advice.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report.

We are not aware of any material changes or events since we received the data.

Employer membership statistics

The table below summarises the membership data at 31 March 2022

Member data summary

	Number	Salaries/Pensions £000	Average age
Actives	24,672	500,451	47
Deferred pensioners	39,993	48,986	51
Pensioners	23,183	116,050	72

Payroll

The total pensionable payroll for the employers in the Fund is set out below and is based on information provided to us by the administering authority.

Estimated payroll for the year to 31 March 2022 £477,402,000.

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Early retirements

We have requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2022. We have been notified of 44 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £320,000

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2022 is estimated to be 10.36%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for the Fund is as follows (noting that due to rounding they may not total 100%):

Asset breakdown	31 Mar 2021 £000s	31 Mar 2021 %	31 Mar 2022 £000s	31 Mar 2022 %
Equities	3,227,118	76%	3,445,081	73%
Bonds	627,339	15%	611,239	13%
Property	319,533	8%	530,822	11%
Cash	70,882	2%	100,535	2%
Total	**4,244,872**	**100%**	**4,687,667**	**100%**

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2022, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

A full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2022 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. Any experience items accounted for will be observed in the asset and/or defined benefit obligation reconciliation tables in the appendices in the individual employer's report.

Allowance for actual pension increases

Our standard approach is to include actual pension increase experience up to the accounting date. The impact will come through as an experience item. The 2022 pension increase is higher than previously assumed which will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position. The impact may differ depending on the employer's previous assumption and if an employer has not previously allowed for actual pension increases up to 2021.

Ukraine crisis – impact on approach

As a result of this crisis, many equity markets across the globe have witnessed significant falls, but so far the impact has been felt most prominently in equities with a close link to Russian markets, i.e. Russian equities themselves and in European tilted funds. Beyond equity markets, we have also seen volatility in government bond and credit markets. However, there has been no large directional move to date. The expected longer-term impact on gilt yields will largely depend on how these developments affect inflation (for example, through disruption to the supply of energy and commodities), and how central banks react to this.

From an accounting perspective, we are comfortable that our current methodology in deriving assumptions continues to be appropriate with the current uncertainties in the market. We can also confirm that our approach is in line with the current FRS102/IAS19 accounting standard. Therefore, we do not propose to change our approach in light of this crisis.

We recognise the current volatility in the market and the effect this is having across various asset classes globally.

Impact of Lloyds judgement on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgement. Please see FRS102/IAS19/IAS26 Glossary and FAQs (bwllp.co.uk) for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here Public Service Pensions: Guaranteed Minimum Pension Indexation consultation - GOV.UK (www.gov.uk)

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome, and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome FRS102/IAS19/IAS26 Glossary and FAQs (bwllp.co.uk) for further details.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2022. These assumptions have been updated from those adopted at the last accounting date. Details of the post retirement mortality assumption are set out below; further details of the demographic assumptions adopted can be found in the briefing note corresponding to this report, and the Fund's actuarial valuation report.

Post retirement mortality	31 Mar 2021	31 Mar 2022
Base table	Club Vita tables	Club Vita tables
Future improvement model	CMI 2020	CMI 2021
Long-term rate of improvement	1.25% p.a.	1.25% p.a.
Smoothing parameter	7.0	7.0
Initial addition parameter (M/F)	0.5%/0.25% p.a	0.0% p.a.
2020 weight parameter	25%	5%
2021 weight parameter	n/a	5%

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

• Making a current assumption of members' mortality (the base mortality); and

• Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

Base table mortality

The base table mortality assumptions adopted for the funds' latest triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions, as standard for accounting.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

At the last accounting date, unless an employer opted out, we updated the demographic assumptions to use the CMI_2020 Model.

The CMI published their updated CMI_2021 Model in March 2022. We do not propose to update our standard approach to use the CMI_2021 Model as we do not expect this to have a significant impact on the value of the liabilities for those employers who adopted our standard approach last year.

The CMI have made a material change to CMI_2020 (compared to previous versions) due to the impact of abnormal mortality data in 2020. This change introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. The CMI have confirmed the core value of this parameter will be 0% (i.e. no allowance for 2020 mortality data). However, the CMI encourages users to consider the parameter in detail before adopting a certain value, and not to take the core values as the CMI's "recommendation".

Changing the 2020 weight parameter has a material impact on projected mortality improvements from 2020. Placing a higher weight on data for 2020 leads to materially lower future mortality improvements as you would expect. However, the impact of the 2020 weight parameter on future mortality improvements "dissipates" over time, with the effect completely disappearing by 2040.

Our view is that the overall outlook for best-estimate future mortality improvements looks more negative than implied by the core CMI_2020, with the adverse consequences of the pandemic seeming to outweigh the positive ones.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2021	31 Mar 2022
Males – retiring today	21.1	21.1
Females – retiring today	23.7	24.0
Males – retiring in 20 years	21.9	22.1
Females – retiring in 20 years	25.0	25.5

We have also assumed that:

- Members will exchange half of their commutable pension in respect of pre-April 2008 service and 75% of their commutable pension in respect of their post 2008 service, for cash at retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations.
- Members retire following the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators.; and
- 1% of active members will take up the option to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Year ended	31/03/2020 – figures p.a.	31/03/2021 – figures p.a	31/03/2022 - figures p.a
Discount rate	2.30%	1.95%	2.60%
Pension increases (CPI)	1.90%	2.85%	3.20%
Salary increases	1.90%	2.85%	3.20%

The key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate, linked to high quality corporate bond yields, and the rate of future inflation.

We set out our standard approach to the derivation of these assumptions and possible outcomes using market conditions at 31 March 2022.

Discount rate

Under both the IAS19 and FRS102 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Our standard approach to derive the appropriate discount rate is known as the Single Equivalent Discount Rate (SEDR) methodology.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30-year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13-year cashflows.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which the benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40-year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH (Consumer Prices Index with Housing) from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% at medium and longer terms (from 10 years). This results in an overall IRP of between 0.0% p.a. and 0.3% p.a. depending on the term of the liabilities (for terms ranging from 2 years up to 30 years).

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Difference between RPI and CPI

It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result of the proposed alignment of RPI to CPIH (and CPI) from that date. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030 and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of between 0.25% p.a. and 0.85% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Results and disclosures

We estimate that the net liability as at 31 March 2022 is a liability of £981,864

The results of our calculations for the year ended 31 March 2022 are set out below. The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Statement of financial position as at 31 March 2022

Net pension asset in the statement of financial position as at	31-Mar-20 £000S	31-Mar-21 £000S	31-Mar-22 £000S
Present value of defined benefit obligation	4,378,000	5,609,613	5,669,531
Fair value of Fund assets (bid value)	3,465,246	4,244,872	4,687,667
Net Liability in balance sheet	912,754	1,364,741	981,864

*Present value of funded obligation consists of £5,669,531,000 in respect of vested obligation and £0 in respect of non-vested obligation.

Asset and benefit obligation reconciliation for the year to 31 March 2022

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	31-Mar-21 - £000S	31-Mar-22 - £000s
Opening defined benefit obligation	4,378,000	5,609,613
Current service cost	151,881	228,898
Interest cost	99,610	108,384
Change in financial assumptions	1,202,783	(363,842)
Change in demographic assumptions	(71,775)	46,930
Experience loss/(gain) on defined benefit obligation	(55,900)	142,974
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(128,225)	(137,093)
Past service costs, including curtailments	3,809	2,491
Contributions by Scheme participants	29,430	31,176
Unfunded pension payments	-	-
Closing defined benefit obligation	**5,609,613**	**5,669,531**

Reconciliation of opening & closing balances of the fair value of Fund assets	31-Mar-21 £000s	31-Mar-22 £000s
Opening fair value of Fund assets	**3,465,246**	**4,244,872**
Interest on assets	79,719	82,721
Return on assets less interest	701,817	367,843
Other actuarial gains/(losses)	-	-
Administration expenses	(3,496)	(2,208)
Contributions by employer including unfunded	100,381	100,356
Contributions by Scheme participants	29,430	31,176
Estimated benefits paid plus unfunded net of transfers in	(128,225)	(137,093)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**4,244,872**	**4,687,667**

The total return on the Fund's assets for the year to 31 March 2022 is £450,564 (2021 £781,536,000).

Sensitivity Analysis

	Approximate % increase to liabilities	Approximate monetary amount (£m)
Present value of total obligation	5,669,531	5,669,531
Sensitivity to	+0.1%	-0.1%
Discount rate	5,553,427	5,789,277
Long term salary increase	5,676,432	5,662,680
Pension increases and deferred revaluation	5,781,552	5,560833
Sensitivity to	+1 Year	- 1 Year
Life expectancy assumptions	5,958,750	5,395,431

The information in the above note is all from our Fund Actuary - **Barnett Waddingham.**

21. Current Assets

	31 March 2021 £000	31 March 2022 £000
Other Investment Balances		
Sales inc Currency	-	-
Investment Income Due	82	500
Recoverable Taxes	275	274
Total	**357**	**774**

	31 March 2021 £000	31 March 2022 £000
Current Assets		
Contributions receivable from employers and employees	10,870	11,136
Sundry Debtors	3,245	2,077
Cash	1,560	2,178
Total	**15,675**	**15,391**

22. Current liabilities

	31 March 2021 £000	31 March 2022 £000
Investment Liabilities		
Purchases including currency	-	-
Derivative Contracts Futures	-	(3)
Variation Margin	-	(8)
Managers Fees	(775)	(1,162)
Total	**(775)**	**(1,173)**

	31 March 2021 £000	31 March 2022 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(184)	(306)
Cash	-	-
Professional Fees	(64)	(2,798)
Administration Recharge	(51)	(72)
Sundry Creditors	(1,649)	(1,510)
Total	(1,948)	(4,686)

23. Additional voluntary contributions

	Market value 31 March 2021 £000	Market value 31 March 2022 £000
Prudential	21,944	22,647

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. Some members of the pension scheme paid voluntary contributions and transfers in of £2.241m (£2.067m 2020/21) to Prudential to buy extra pension benefits when they retire. £3.479m was disinvested from the AVC provider in 2021/22 (£2.607m 2020/21). 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.

	2020/21 £000	2021/22 £000
East Sussex County Council	4,793	4,638
Brighton & Hove City Council	2,261	2,105
Eastbourne Borough Council	308	289
Magistrates	212	192
Hastings Borough Council	175	169
Wealden District Council	174	170
Rother District Council	111	102
Lewes District Council	71	69
South-East Water	29	32
Brighton University	24	23
Mid-Sussex District Council	19	19
Westminster (used to be LPFA)	18	18
East Sussex Fire Authority	17	14
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	6	6
West Midlands Pension Fund	5	5
West Sussex County Council	4	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
East Sussex College Group	1	1
Plumpton College	1	1
Optivo	-	1
Capita Hartshead	14	-
Total	**8,267**	**7,882**

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 £1.6m to the Fund in 2021/22 (£1.9m in 2020/21). The Council`s contribution to the Fund was £43.4m in 2021/22 (£43.0 in 2020/21). All amounts due to the Fund were paid in the year. At, 31 March 2022 the Pension Fund bank account held £3.7m in cash (£1.6m at 31 March 2021). The average throughout the year was £6.1m (£8.4 in 2020/21).

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 2021 £000	31 March 2022 £000
Short-term benefits	26	26
Post-employment benefits	5	5
Total	**5**	**31**

26. Contingent liabilities and contractual commitments

1. Outstanding capital commitments (investments) at 31 March 2022 totaled £304.1m (31 March 2021: £232.3m).

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 2021, the unfunded commitment was £211.2m for private equity, £69.1m for infrastructure and £23.8m 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 2021.

2. Exit Payments

There were 3 employers whose contracts were due to end by the 31 March 2022 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.

3. GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has completed the discovery and GMP reconciliation phases, which reviewed data inconsistencies, raised issues with HMRC and agreed outcomes.

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% p.a. 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% p.a.

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. The next stage, which is GMP Rectification, will amend LGPS pensions in line with the reconciled GMP information. Rectification will also involve a significant member communication exercise to explain the changes taking place.

The Fund has contracted a specialist provider who are carrying out the rectification project with the aim of completing the project by the 31st of October 2022. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2022

4. Tax charges

The Fund is currently undertaking a review of the Annual Allowance pension saving statements issued and has identified some discrepancies in tax liabilities. Where the Fund has incorrectly advised a member of a tax payment, the Fund will pay any interest payments and penalties due to HMRC. As at the balance sheet date these potential interest and penalties payments were unknown.

5. Recovery of dividend taxation

Following rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund was pursuing the recovery of tax paid on certain dividends. Due to some adverse rulings impacting the likelihood of recovery of the tax paid on certain dividends the test claimant withdrew from the claim. No other claimant wished to take on the test claimant role and this claim is now moving to disbandment. This is likely to incur additional adverse cost, which is not currently quantifiable.

27. Contingent assets

1. Employer bonds/guarantees

There are 8 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. 3 employers are currently negotiating new bonds due to expiry of their current bonds. 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:

9 guarantees by local authorities participating in the Fund.

2 Parent company guarantee.

1 deposit held by East Sussex County Council

28. Impairment losses

During 2021/22, the fund has not recognised any impairment losses.

29. East Sussex Pension Fund – Active Participating Employers

	20/21 Payroll %	20/21 Amount £(000)	21/22 Payroll %	21/22 Amount £(000)	22/23 Payroll %	22/23 Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	20.8	-	20.3	-	19.8	-
East Sussex County Council	17.6	6,141	17.6	5,568	17.6	4,966
East Sussex Fire and Rescue Service	17.9	164	17.9	137	17.9	109
Eastbourne Borough Council	19.9	-	19.4	-	18.9	-
Hastings Borough Council	17.6	538	17.6	508	17.6	476
Lewes District Council	24.1	-	23.6	-	23.1	-
Rother District Council	26.1	-	25.6	-	25.1	-
University of Brighton	18.2	-	17.7	-	17.2	-
Wealden District Council	17.6	576	17.6	538	17.6	499
Other Scheduled Bodies						
Arlington Parish Council	22.1	-	21.6	-	21.1	-
Battle Town Council	22.1	-	21.6	-	21.1	-
Berwick Parish Council	22.1	-	21.6	-	21.1	-
Buxted Parish Council	22.1	-	21.6	-	21.1	-
Camber Parish council	22.1	-	21.6	-	21.1	-
Chailey Parish Council	22.1	-	21.6	-	21.1	-
Chiddingly Parish Council	22.2	-	21.6	-	21.1	-
Conservators of Ashdown Forest	22.1	-	21.6	-	21.1	-
Crowborough Town Council	22.1	-	21.6	-	21.1	-
Danehill Parish Council	22.1	-	21.6	-	21.1	-
Ditchling Parish Council	22.1	-	21.6	-	21.1	-
Fletching Parish Council	22.1	-	21.6	-	21.1	-
Forest Row Parish Council	22.1	-	21.6	-	21.1	-
Frant Parish Council	22.1	-	21.6	-	21.1	-
Hadlow Down Parish Council	22.1	-	21.6	-	21.1	-
Hailsham Town Council	22.1	-	21.6	-	21.1	-
Hartfield Parish Council	22.1	-	21.6	-	21.1	-
Heathfield & Waldron Parish Council	22.1	-	21.6	-	21.1	-
Herstmonceux Parish Council	22.1	-	21.6	-	21.1	-
Hurst Green Parish Council	22.1	-	21.6	-	21.1	-
Icklesham Parish Council	22.1	-	21.6	-	21.1	-
Isfield Parish Council	22.1	-	21.6	-	21.1	-
Lewes Town Council	22.1	-	21.6	-	21.1	-
Maresfield Parish Council	22.1	-	21.6	-	21.1	-
Newhaven Town Council	22.1	-	21.6	-	21.1	-
Newick Parish Council	22.1	-	21.6	-	21.1	-
Peacehaven Town Council	22.1	-	21.6	-	21.1	-
Pett Parish Council	22.1	-	21.6	-	21.1	-
Plumpton Parish Council	22.1	-	21.6	-	21.1	-
Ringmer Parish Council	22.1	-	21.6	-	21.1	-
Rye Town Council	22.1	-	21.6	-	21.1	-
Salehurst & Robertsbridge Parish Council	22.1	-	21.6	-	21.1	-
Seaford Town Council	22.1	-	21.6	-	21.1	-
Telscombe Town Council	22.1	-	21.6	-	21.1	-

	20/21 Payroll %	20/21 Amount £(000)	21/22 Payroll %	21/22 Amount £(000)	22/23 Payroll %	22/23 Amount £(000)
Uckfield Town Council	22.1	-	21.6	-	21.1	-
Wartling Parish Council	22.1	-	21.6	-	21.1	-
Willingdon and Jevington Parish Council	22.1	-	21.6	-	21.1	-
Wivelsfield Parish Council	22.1	-	21.6	-	21.1	-
Academy Schools						
Annecy Catholic Primary Academy	15.5	-	15.0	-	14.5	-
Aquinas Trust	21.0	-	20.5	-	20.0	-
ARK Schools Hastings	20.6	-	20.1	-	19.6	-
Aurora Academies Trust	20.4	-	19.9	-	19.4	-
Beacon Academy	23.0	-	22.5	-	22.0	-
Beckmead Ropemakers Academy	16.3	-	16.3	-	16.3	-
Bexhill Academy	22.9	-	22.4	-	21.9	-
Bilingual Primary School	15.6	-	15.1	-	14.6	-
Breakwater Academy	17.0	-	16.5	-	16.0	-
Burfield Academy (Hailsham Primary)	20.0	-	19.5	-	19.0	-
Cavendish Academy	20.5	-	20.0	-	19.5	-
Diocese of Chichester Academy Trust	24.4	-	23.9	-	23.4	-
Eastbourne Academy	21.2	-	20.7	-	20.2	-
Falmer (Brighton Aldridge Community Academy)	20.0	-	19.5	-	19.0	-
Gildredge House Free School	19.6	-	19.1	-	18.6	-
Glyne Gap Academy	21.4	-	20.9	-	20.4	-
Hailsham Academy	20.0	-	19.5	-	19.0	-
Hawkes Farm Academy	16.4	-	15.9	-	15.4	-
High Cliff Academy	20.0	-	19.5	-	19.0	-
Jarvis Brook Academy	14.5	-	14.0	-	13.5	-
King's Church of England Free School	16.2	-	15.7	-	15.2	-
Langney Primary Academy	13.4	-	12.9	-	12.4	-
Ore Village Academy	18.5	-	18.0	-	17.5	-
Parkland Infant Academy	14.8	-	14.3	-	13.8	-
Parkland Junior Academy	14.4	-	13.9	-	13.4	-
Peacehaven Academy	13.0	-	12.5	-	12.0	-
Pebsham Academy	19.5	-	19.0	-	18.5	-
Phoenix Academy	20.4	-	19.9	-	19.4	-
Portslade Aldridge Community Academy	19.9	-	19.4	-	18.9	-
King's Academy Ringmer	20.8	-	20.3	-	19.8	-
SABDEN Multi Academy Trust	23.6	-	23.1	-	22.6	-
Saxon Shore Academy	22.7	-	22.7	-	22.7	-
Seaford Academy	21.1	-	20.6	-	20.1	-
Seahaven Academy	21.5	-	21.0	-	20.5	-
Shinewater Primary Academy	14.5	-	14.0	-	13.5	-
Sir Henry Fermor Academy	14.8	-	14.3	-	13.8	-
The South Downs Learning Trust	12.2	-	11.7	-	11.2	-
The Southfield Trust	14.4	-	13.9	-	13.4	-
Torfield & Saxon Mount Academy Trust	22.6	-	22.1	-	21.6	-
University of Brighton Academies Trust	20.0	-	19.5	-	19.0	-
White House Academy	17.5	-	17.0	-	16.5	-
Colleges						
Bexhill College	21.2	-	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	19.8	-	19.8	-	19.8	-
East Sussex College Group	20.7	-	20.7	-	20.7	-

	20/21 Payroll %	20/21 Amount £(000)	21/22 Payroll %	21/22 Amount £(000)	22/23 Payroll %	22/23 Amount £(000)
Plumpton College	18.9	-	18.9	-	18.9	-
Varndean Sixth Form College	19.8	-	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	33.0	11	33.0	-	33.0	-
Biffa Muncipal Ltd	28.8	-	28.8	-	28.8	-
Brighton and Hove CAB	0.00	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	0.0	-	0.0	-	0.0	-
Care Quality Commission	49.2	92	49.2	92	49.2	92
Churchill St Leonards	29.7	-	29.7	-	29.7	-
Churchill St Pauls	34.1	-	34.1	-	34.1	-
De La Warr Pavilion Charitable Trust	4.8	-	4.8	-	4.8	-
Eastbourne Homes – SEILL	19.2	-	19.2	-	19.2	-
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	29.2	13	29.2	13	29.2	13
EBC – Towner	31.0	7	31.0	7	31.0	7
ESCC - NSL Ltd	3.6	-	3.6	-	3.6	-
Glendale Grounds Management Ltd	29.4	-	29.4	-	29.4	-
Grace Eyre	0.0	-	0.0	-	0.0	-
Halcrow Group Ltd	5.4	-	5.4	-	5.4	-
Just Ask Estates Ltd	32.6	3	32.6	-	32.6	-
Nviro Ltd	35.3	-	35.3	-	35.3	-
Optivo	45.8	920	45.8	920	45.8	920
Royal Pavilion & Museums Trust	17.8	-	17.8	-	17.8	-
Sussex County Sports Partnership	18.2	-	17.7	-	17.2	-
Sussex Housing & Care	0.0	-	0.0	-	0.0	-
Telent Technology Services Ltd	20.8	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	0.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	0.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	33.0	-	33.0	-	33.0	-
Wealden Leisure Ltd - Portslade Sports Centre	0.0	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	0.0	-	0.0	-	0.0	-

30. Investment Performance

The Fund uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC), which measures the performance of the Fund compared with 54 other local authority pension funds. Pension Fund investment is long-term, 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	10.6	8.9	7.2	9.1
Benchmark	10.1	7.7	6.4	7.9

Relative*	0.5	1.2	0.8	1.2

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	10.6	8.9	7.2	9.1
Local Authority Average	8.6	8.3	7.1	8.9
Relative*	1.8	0.6	0.1	0.2

The Fund outperformed the (weighted) average local authority Fund over the year by 1.8% (0.6% underperformance 2020/21), ranking the East Sussex Fund in the 14 percentiles (69th 2020/21) in the local authority universe. Over three years the Fund outperformed by 0.6% (0.2% outperformance 2020/21) and was placed in the 29 percentiles (56th 2020/21). Over five years the Fund outperformed by 0.1% (0.5% underperformance in 2020/21) and was placed in the 40 percentiles (67th 2020/21). Over ten years the fund years, the fund outperformed by 0.2% (0.1% underperformance 2020/21) and was placed in the 38 percentiles (54th 2020/21).

*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.

16. 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 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, 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 2021/22.

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 2022 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 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions maid cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Finance 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 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, maid cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer (Section 151 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 and group'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 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 the 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 (2020) 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 for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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 in relation to the Pension Fund.

Responsibilities of the Authority, the Chief Finance 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 Finance Officer (Section 151 Officer). The Chief Finance Officer (Section 151 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer (Section 151 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 Finance 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 and Governance Committee is Those Charged with Governance for the Pension Fund. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks [international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme [Management and Investment of Funds] Regulations 2016.

• We enquired of senior officers and the Pension Fund Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Pension Fund Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of fraudulent revenue and expenditure recognition; management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:

  – Large and unusual manual journal entries
  – Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer (Section 151 Officer) has in place to prevent and detect fraud;

  -journal entry testing, with a focus on large and unusual and high risk journals particularly manual journals, made during the year and the accounts production stage;

  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IA26 pensions liability valuations which are disclosed in the notes to the financial statements;

  -testing the valuation of other investments;

  -assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The engagement team discussed the risk of the Authority's potential non-compliance with relevant laws and regulations, the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to level 3 investments and IAS 26 pensions liability valuation disclosure.

• Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that maty result in risks of material misstatement.

- the Authority’s control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

Darren Wells, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London
20th December 2023

Appendix 1 - Pensions administration strategy report

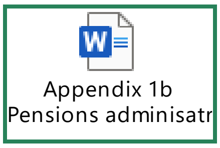
The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pensions 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

The administration strategy statement will be reviewed in line with each valuation cycle, the last revision was approved in September 2020 with the strategy coming into effect 1 January 2021. All scheme employers are be consulted before any changes are made to this document.

To access the Pensions Administration Strategy Statement in full please click on the document image below (the file will open in a new window).



The latest version of the administration strategy statement is available on the Funds website

[Pensions Administration Strategy - 2023 (eastsussexpensionfund.org)]

17. Appendix 2 - 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 in place at the time of the last triennial valuation, 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 updated to reflect funding principles agreed for the 2019 actuarial valuation and was approved in March 2020. The funding principles apply to employer contributions payable from 1 April 2020 to 31 March 2023.

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 are calculated in line with the 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 2019 Funding Strategy Statement (issued March 2020) is shown after this page.

The latest version of the Funding Strategy Statement is available on the Funds website: [Funding Strategy Statement 2023 (eastsussexpensionfund.org)]

East Sussex Pension Fund

Funding Strategy Statement

March 2020

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 1 April 2020.

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, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. 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.

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 an allowance for 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 is in respect of benefits already accrued at the valuation date. 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 valuation, 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:

1. Calculate the funding target for that employer, i.e. the estimated 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;

2. 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;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for 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 MHCLG 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). 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 the period over which the funding target is achieved. 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 **likelihood 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 then the required likelihood 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:

a) the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to

b) 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 funding level and deficit/surplus 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, funding levels and deficits are short-term, high-level risk 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 likelihood 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, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As a result, the Fund has decided to increase the respective likelihoods of reaching the funding target across employer funding strategies by 5%.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three-year (triennial) valuation cycle to a four-year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

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 likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "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 reserves the right to 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 likelihood 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 result in a lower level of future investment returns on the employer's asset share. 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

	Scheduled Bodies	Scheduled Bodies	Scheduled Bodies	Community Admission Bodies	Community Admission Bodies	Transferee Admission Bodies
	Major authorities (including town and parish councils)	**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, assumes long-term Fund participation (see Appendix E)	Ongoing, assumes long-term Fund participation (see Appendix E)	Ongoing participation basis	"Gilts basis" - see Note (a)	Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future Working Lifetime	Future Working Lifetime	Shorter of: Future Working Lifetime of employees, and outstanding contract term
Probability of achieving target – Note (e)	71%	80%	71%	80% or 85% depending on employer risk	80%	See Note (e)
Primary rate approach	(see Appendix D – D.2)	(see Appendix D – D.2)	(see Appendix D – D.2)	(see Appendix D – D.2)	(see Appendix D – D.2)	(see Appendix D – D.2)
Secondary rate – Note (d)	Monetary Amount or % of payroll	Monetary Amount or % of payroll	Monetary Amount or % of payroll	Monetary Amount or % of payroll	Monetary Amount or % of payroll	Monetary Amount or % of payroll
Phasing of contribution changes	Eligible for stabilisation arrangement See Note (b)	3 years	Eligible for stabilisation arrangement See Note (b)	3 years	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	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at	Particularly reviewed in last 3 years of contract

	Scheduled Bodies	Scheduled Bodies	Scheduled Bodies	Community Admission Bodies	Community Admission Bodies	Transferee Admission Bodies
	Major authorities (including town and parish councils)	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
	regular intervals between valuations	regular intervals between valuations	regular intervals between valuations	regular intervals between valuations	regular intervals between valuations	
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over the maximum time horizon	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over the maximum time horizon	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)	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).	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).	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).	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.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

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. based on the return from long-term 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 predetermined 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 2019 valuation exercise (see Section 4), the contribution rates for all stabilised employers will reduce by 0.5% of pay in each of the next three years. The stabilised details thereafter are:

Type of employer	Major authorities including Town and Parish Councils	Academies
Max contribution increase in each future year	0.5% of pay	0.5% of pay
Max contribution decrease in each future year	0.5% of pay	0.5% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2022 valuation, to take effect from 1 April 2023.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 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.

Note (d) (Secondary rate)

For most employers, at the Administering Authority's discretion and currently excluding closed Community Admission Bodies, secondary rates will 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 likelihood. A higher required likelihood 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 likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood 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:

a) 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, for the purpose of setting contribution rates, those of the other academies in the MAT.

b) 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.

c) 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 assets allocated to the academy will be limited if necessary, so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.

d) 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.

e) 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 assets and liabilities.

f) It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). 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:

c) the strain cost of any redundancy early retirements resulting from the premature termination of the contract;

d) allowance for the risk of asset underperformance;

e) allowance for the risk of a greater than expected rise in liabilities;

f) 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 "Option 1 - Fixed primary rate at outset" 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:

Option 1 - Fixed primary rate at outset (default approach)

> Under this approach, the contractor pays a fixed contribution rate throughout the contract. The contribution rate is calculated by the Fund actuary at the outset and is based on a 71% likelihood of the rate being sufficient, based on the membership profile of the transferring staff, to ensure full funding by the end of the contract (i.e. no surplus or deficit). For the avoidance of doubt, the rate would not change at future valuations.

Option 2 – Pooled approach

> Under this approach, the contractor's contribution rate is pooled with the letting authority and therefore the contribution rate is always equal to that which the letting authority is paying. In other words, the contractor will pay the same rate as the letting authority throughout the lifetime of the contract and it will move in line with any changes to the letting authority's rate at future valuations.

The pooled rate is the **total** contribution rate (made up of both the primary and secondary rate). Many letting authorities will currently be paying their primary rate as a percentage of payroll and their secondary rate as a monetary amount. For the purposes of the pooled rate, the secondary rate will be converted to a percentage of payroll and added to the primary rate.

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 a 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 may, at the discretion of the Administering Authority, be paid to the Admission Body within six months of the cessation date (or another date agreed between the Administering Authority and the Admission Body). If a risk-sharing agreement has been put in place (please see note (i) above) the Administering Authority will exercise its discretion within the amended LGPS Regulations, to determine if an cessation debt or exit credit may be payable.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply an adjustment to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

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 exit basis", which is more prudent than the ongoing participation 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 participation 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 or surplus. 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 may 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 on the gilts exit basis and would carry out the cessation valuation on the ongoing participation basis: secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

Further details of the Fund's arrangement for a ceasing employer are set out in the Cessation Policy, which is set out in Appendix G.

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.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand- alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

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') whenever 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 3.7 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.

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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:

- 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;
- 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.

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:

g) 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;

h) 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

i) 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 Does the Fund monitor it's 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 MHCLG 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 MHCLG 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, MHCLG 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.

MHCLG 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 Ministry of Housing, Communities and Local Government (MHCLG) 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 in November/December 2019 for comment by 17th January 2020;

b) There was also an Employers Forum on 29 November 2019 at which questions regarding the funding strategy could be raised and answered;

c) Following the end of the consultation period the FSS was updated where required and then published, on 1 April 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

• Published on the website, at Funding Strategy Statement 2023 (eastsussexpensionfund.org)

• 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 (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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 Forms and Publications | East Sussex Pension Fund

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: -

1. operate the Fund as per the LGPS Regulations;

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

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

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

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

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

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

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

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

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

11. prepare and maintain a FSS and an ISS, after consultation;

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

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

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;

2. pay all contributions, including their own as determined by the actuary, promptly by the due date;

3. have a policy and exercise discretions within the regulatory framework;

4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. 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;

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

3. 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);

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

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

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

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

B4 Other parties:-

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

2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. 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;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. 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;
6. MHCLG (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.**
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.**
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).**
Effect of possible asset underperformance as a result of climate change	**The Fund invests its assets in line with Responsible Investment beliefs and guidelines. The impact of**

	different climate change scenarios on future funding positions was modelled at the 2019 valuation, with the risk reflected via the use of prudent likelihood 'bars' (see section 3.1)

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, monetary amounts rather than % of pay sought for closed employers 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 Administering Authority is monitoring the progress on the McCloud court case and will consider

	an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG 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.

Risk	Summary of Control Mechanisms
	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.
	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).
An employer ceasing to exist resulting in an exit credit being payable	**The Administering Authority regularly monitors admission bodies coming up to cessation**
	The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

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.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three- step process:

1. Calculate the funding target for that employer, i.e. the estimated 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;

2. 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;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

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 a assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole 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:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

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

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 at the end of the time horizon;
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 likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash
Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

APPENDIX E – ACTUARIAL ASSUMPTIONS

E1 What are the actuarial assumptions used to calculate employer contribution rates?

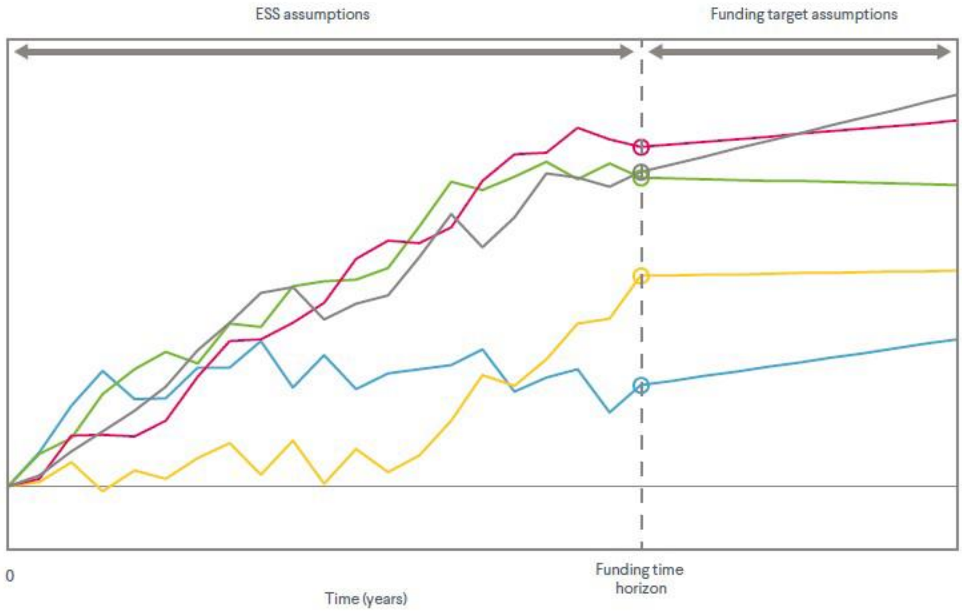
These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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 funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk-free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	**Ongoing participation basis**	**Contractor exit basis**	**Low risk exit basis**
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.9% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, ben and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set equal to Consumer Price Inflation (CPI).

This is a change from the previous valuation, where the assumption was CPI plus 0.4% per annum. The change has led to a reduction in the funding target (all other things being equal).

b) Pension increases

Since 2011 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.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) 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.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 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 updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), 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

Word	Explanation
Funding basis	**The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.**
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.**
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.**
Gilt	**A UK Government bond, i.e. 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 are also used in funding as an objective measure of a risk-free rate of return.**
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 100 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.**

Word	Explanation
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, i.e. 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 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 period until the next valuation is completed.**
Scheduled Bodies	**Types of employer explicitly defined in the LGPS Regulations, whose employees 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. 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.**
Valuation	**A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information for a Fund, and usually individual employers too.**

APPENDIX G – CESSATION POLICY

Policy for employers leaving the Fund – effective 1 April 2020

1. INTRODUCTION

This is the policy of the East Sussex Pension Fund ("the Fund") as regards the treatment of employers leaving the Fund. It has been prepared by the Administering Authority to the Fund, East Sussex County Council, in collaboration with the

Fund's actuary, Hymans Robertson LLP. This policy replaces all previous policies on employer termination and is effective from 1st April 2020.

These procedures and policies apply to employers participating in the Fund.

1.1 Regulatory Framework

The Local Government Pension Scheme Regulations 2013 outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are relevant to employers leaving the scheme are as follows:

• Regulation 64 (1) & (2) – these regulations state that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date.

- Where a deficit exists, it requires the rates and adjustments certificate to be amended to show the revised contributions due from the ceasing employer.
- Where a surplus exists, at its discretion the Fund will pay an exit credit to the ceasing employer within six months of the cessation date.

In exercising its discretion the Administering Authority will take account of:

- the extent to which the ceasing employer's assets are in excess of its liabilities;
- the proportion of the excess of assets which has arisen because of the value of the ceasing employer's contributions;
- any representations made by the ceasing employer and (if applicable) the letting authority/guarantor; and
- any other relevant factors.

- 64 (2a), (2B & 2C) – these regulations state that, where in the reasonable opinion of the administering authority an exiting employer might be expected to have one or more active members contributing in the near future, a "suspension notice" can be issued by the administering authority to that employer. Any such notice can suspend the exiting employer's liability to pay any exit payment for a period of up to 3 years. During the period of any such notice the exiting employer is still required to make such contributions in respect of its liabilities as the administering authority reasonably requires.
- Regulation 64 (3) – this regulation states that in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate Scheme employer (in the case of ("Transferee") Admission Bodies) or remaining Fund employers may be amended.
- Regulation 64 (4) – this regulation states that where it is believed a scheme employer may cease at some point in the future the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets and liabilities of the employer are broadly expected to be in balance when the admission agreement ends.

These regulations relate to all employers in the Fund.

1.2 Reviews of policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to Michelle King, Interim Pensions Manager, in the first instance at Michelle.King@eastsussex.gov.uk or on 01273 481 904.

2.PRINCIPLES

2.1 Overriding principles

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund. Where a deficit exists and unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Fund will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Fund will also pursue any bond or indemnity provider and guarantor, for payment where appropriate. Where a surplus exists, the Fund will exercise its discretion and where appropriate, pay an exit credit to the outgoing body within six months of the cessation date (or another date agreed between the Fund and the body). It is the Fund's policy that the determination of any surplus or deficit on termination should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

Section 4 of this document sets out the bases currently in use for cessation valuations. These bases may be updated or withdrawn at the discretion of the Administering Authority on the advice of the Fund Actuary and will expire no later than 31 March 2023.

2.2 Interaction with Funding Policy

It is the Fund's policy that each employer is responsible for the funding of all Fund benefits of its own members, including current and previous employees. The Funding Strategy Statement sets this out in more detail and addresses the issue of cross-subsidies between employers. Whilst employer contributions may be pooled in the interests of stability and administrative ease for the purpose of triennial funding valuations under Regulation 62, the individual funding position for each employer is tracked by the Actuary at each triennial valuation.

Any cessation valuation will be carried out using assets and liabilities allocated to the employer at the last triennial valuation as a starting point. This position will be updated to allow for membership movements and market conditions as at the cessation date.

Note j of section 3 of the Funding Strategy Statement sets out funding policy for admission bodies leaving the Fund.

2.3 Principles for determining payment

The Administering Authority will determine the deficit / surplus attributable to the employer on cessation having taken actuarial advice.

If the employer is in surplus, where appropriate, an exit credit will be paid to the employer within six months of the cessation date (or another date agreed between the Administering Authority and the employer). However, if an employer is aware that it will be leaving the Fund in future, it should alert the Administering Authority and request a valuation under Regulation 64 (4). If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate.

If it is determined that there is a deficit and the employer is required to make a payment to the Fund, the Administering Authority will advise the employer of the amount required.

The Administering Authority will consider issuing a "suspension notice" where in its reasonable opinion the employer is likely to have one or more active members during the period of that notice. Where this is the case the Administering Authority will liaise with the employer, confirming any ongoing employer contributions required during the period that any "suspension notice" is in force.

The Fund's policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund, where possible. The Fund may consider permitting an employer to spread the payment over an agreed period where it considers that this does not pose a material risk to the solvency of the Fund.

If the payment is to be spread, the Administering Authority will consult with the Actuary to determine the appropriate payments to be made.

In the normal course of events (i.e. where the process below has been adhered to), the outgoing body will not be exposed to interest rate, investment or other funding risks after the cessation date.
However, the final deficit payment may be adjusted, at the Administering Authority's discretion, by the addition of interest at the level of the base rate between the cessation date and the final payment date(s).

Please note from 1 April 2019 the Fund's policy is that new outsourcings are set up under a "pass through" arrangement (see Section 3.3 note (i) in the Funding Strategy Statement). On cessation of this type of employer participation, the underlying assets and liabilities return to the letting employer and no exit credit or debt will be due.

2.4 Post cessation funding agreement

The Administering Authority may, at its discretion, agree to set up a funding agreement with the ceasing employer which would allow it to continue to pay contributions towards its cessation deficit after the date of cessation. Depending on circumstances, the Administering Authority may allow the ceasing employer to be exposed to interest rate, investment or other funding risks during the course of the agreement.

Any such agreement would be tailored to the ceasing employer's specific circumstances and be subject to the following principles:

- Demonstrable evidence e.g. such as financial accounts and forecasts and other business planning information, which shows that the employer is unable to meet the deficit payment as a single lump sum and allows the Administering Authority to form a view on the employer's financial covenant.
- Contingent security being lodged by the employer in a form that is satisfactory to the Administering Authority to cover the amount of the deficit in the event of the employer becoming insolvent or otherwise ceasing trading.
- An appropriate time period set by the Administering Authority based on its assessment of the risk of the cessation debt not being met in full. It is very unlikely that the time period would exceed the longest period (currently 20 years) given to Fund employers to recover deficit, as set out in the Funding Strategy Statement.
- A legally binding document outlining the terms of the agreement, signed by the Administering Authority and the ceasing employer (and any guarantor, if relevant).
- All costs (e.g. legal, actuarial, administrative) associated with setting up and running the agreement to be met by the ceasing employer.

3.PROCESS

3.1 Responsibility of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment);

- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency; provide information, where appropriate, on the likelihood that it will have one or more active members contributing to the Fund within the next three years;

- provide all other information and data requirements as requested by the Administering Authority which is relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.); and

- where an exit credit exists, provide information to explain why the arrangements made by them make payment of an exit credit more or less appropriate.

3.2 Responsibilities of Administrating Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation;
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation; and
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.);
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation;
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions on the cessation basis or reduced contributions in respect of a surplus;
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership, and, where an exit credit exists, provide information to explain why the arrangements made by them make payment of an exit credit to the ceasing employer more or less appropriate;
- where applicable liaise with the employer regarding the issue of a "suspension notice" under regulation 64 (2A), confirming any ongoing contributions to be made by the employer during the period that the "suspension notice" remains in force; and
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

3.3 Responsibilities of the Actuary

Following commission of a cessation valuation by the Administering Authority, the Fund Actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy;
- provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered or where applicable "suspension notice" be applied, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation; and

- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

4.CESSATION VALUALTION BASIS

The following bases will apply from 1 April 2020 to 31 March 2023, the date by which the next valuation is signed off, unless otherwise withdrawn or updated by the Administering Authority on the advice of the Fund Actuary.

4.1 Gilts discount rate

The annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index as at the date of cessation, rounded to the nearest 0.1% per annum.

4.2 Ongoing discount rate

The annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index plus 1.9% per annum (calculated geometrically) at the date of cessation, rounded to the nearest 0.1% per annum (or if different the margin above the FTSE Actuaries Over 15 Years UK Gilts Index used to allocate assets to the employer on joining the Fund).

4.3 Pension increases

The pension increase assumption is determined in line with the Consumer Prices Index (CPI). The CPI assumption is based on the assumption for the Retail Prices Index (RPI) less 1.0% per annum.

RPI is calculated as the geometric difference between the annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index and the annualised gross redemption yield on the FTSE Actuaries Over 15 Years Index-Linked Gilts (3% Inflation) Index as at the cessation date, rounded to the nearest 0.1% per annum.

4.4 Salary increases (where applicable)

As determined in the most recent valuation of the Fund, assumed salary increases will be CPI per annum.

4.5 Post-retirement mortality

Post-retirement mortality for all members is determined in line with Club Vita analysis which is carried out on behalf of the Fund at the triennial formal valuation. These are a bespoke set of Vita Curves that are specifically tailored to the individual membership profile of the Fund. Future improvements are in line with CMI Projections assuming the current rate of improvements has reached a ‘peak’ and that a long-term rate of 1.25% per annum will apply.

Further details are set out in the most recent formal valuation report of the Fund.

Under the gilts cessation basis, an allowance is made for further improvements to life expectancies by adjusting the value of liabilities upwards by 5%.

4.6 Other demographic assumptions

As set and outlined in the report on the most recent formal valuation of the Fund.

4.7 LGPS benefit changes

The LGPS benefit structure from 1 April 2014 is currently under review following the Government’s loss of the right to appeal the “McCloud” case and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply an adjustment to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible cost of resulting benefit changes.

18. Appendix 3 - Investment Strategy Statement

The Local Government Pension Scheme (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 must cover:

- The Requirement to invest Fund money is a wide variety of investments
- The Authority's assessment of the suitability of particular investments and types of investments
- The Authority's approach to risk, including the ways in which risks are to be assess and managed
- The Authority's approach to pooling investments, including the use of collect investment vehicles and shared services
- The Authorities policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- The Authorities policy on the exercise of the rights (including voting rights) attaching to investments

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 as a Statement of Responsible Investment Principles. 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 Funds ISS is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund.

To view the Investment Strategy Statement in full please look at the next page.

The latest version of the Investment Strategy Statement is available on the Funds website:

Investment Strategy Statement, rebalancing and SRIP 2023 (eastsussexpensionfund.org)

Investment Strategy Statement

September 2021

Introduction and background

This is the Investment Strategy Statement ("ISS") of the East Sussex Pension Fund ("the Fund"), which is administered by East Sussex County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Isio. The Committee acts on the delegated authority of the Administering Authority. The ISS, which was approved by the Committee on 28 September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions are agreed by the Fund employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases in line with the relevant LGPS scheme rules.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Committee discuss the appropriateness of the Fund's strategic asset allocation at least once a year.

The Fund carries out an asset liability modelling exercise in conjunction with each actuarial valuation. A number of different contribution and investment strategies are modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considers the chances of achieving their long-term funding target and also considers the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding basis used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation and has implemented a rebalancing policy in Appendix A.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash, property and commodities, either directly or through the ACCESS LGPS pool. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review, in line with the LGPS (Management and Investment of Funds) Regulations 2016. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification and training is provided, if relevant.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the 2016 Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset class	Previous target allocation % September 2020	Target allocation % July 2021	Maximum invested* %	Role within the Strategy
Global Equity	40	40	44	Growth Assets
Absolute Return	21	17	23**	Part Growth Assets, Part Protection
Private Equity	5.5	5.5	7.5	Growth Assets
Property		7	10	Income Assets
Inflation-Linked Property	10	4	5	Income Assets
Infrastructure	6	11	12	Income Assets

Private Credit	3	5	5	Income Assets
Diversified Credit	8	10.5	12	Income Assets
Index-Linked Gilts	3	-	4**	Protection Assets
Corporate Bonds	3.5	-	4**	Protection Assets
Cash	0	-	2	Protection Assets
Total	100	100		

*The maximum invested figures are based on the rebalancing ranges agreed by the East Sussex Pension Committee within its rebalancing policy.

** Additional allowance to rebalancing figures whilst allocations to infrastructure, private debt and inflation linked property take place.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Each investment manager has an agreed benchmarks to compare returns against, so that in aggregate, they are consistent with the overall asset allocation for the Fund. As the Fund does not invest in any segregated mandate these benchmarks are considered when assessing the appropriateness of a sub fund within the LGPS pool or on selection of a new pooled fund. The Fund's investment managers will hold a mix of underlying holdings which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

When the Committee approves its new investment strategy, the Committee instruct officers and the Investment consultants to implement the strategic asset allocation investment decision. This can be by accessing a suitable sub fund from the ACCESS LGPS pool, where manager selection sits at pool level; or where there is no solution to implement the strategy through the LGPS pool, officers will carry out a manager selection process led by the Investment Consultant to short list the options available and assess these against the best strategic fit for the Fund. A recommendation is then laid out to the Committee as to the most suitable implementation solution to meet the approved investment strategy.

The approach to risk, including the ways in which risks are to be measured and managed

The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

The principal risks affecting the Fund are set out below.

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Fund measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund, which is reviewed on at least an annual basis. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The results from the 2019 valuation highlighted that the Fund - utilising its current stabilisation parameters for contributions – has a good chance of being fully funded in future without adopting an over prudent approach towards its investment strategy. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns quarterly. The Committee also assesses risk relative to liabilities by monitoring the funding position regularly.

The Committee reviews the demographic assumptions of the Fund every three years as part of its triennial valuation, to mitigate the risk that changes to longevity and other factors would have on the Fund. In addition, the Fund meet regularly with the Fund Actuary to ensure any major swings in longevity assumptions due to environmental or medical changes can be identified early.

The Committee seeks to mitigate systemic risk through a diversified portfolio; across asset classes, sectors, geographical region, investment manager styles and considers correlation of risk and return across different asset classes in construction of the investment strategy. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns. The Fund believes that climate change poses material risks to the Fund but that it also presents positive investment opportunities.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assesses the Fund's currency risk during their risk analysis.

Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager for various asset classes. In addition, the Fund has an allocation to passive mandates which have a lower tracking error to the market, the Fund accesses these through products that have an ESG tilt. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists or there are other concerns with the investment management or philosophy.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock Lending- The Fund will participate in any stock-lending arrangements in the future as part of the LGPS ACCESS pool. The Fund will ensure that robust controls are in place to protect the security of assets before entering into any stock lending arrangements. The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool Operator).

The Fund monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts, or has delegated such monitoring and management of risk to the appointed investment managers or ACCESS LGPS pool as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the ACCESS Pool. The ACCESS pool was set up following the 2015 Investment reform criteria and pooling guidance published in 2015.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. The ACCESS Pool has launched several sub-funds in which the East Sussex Pension Fund now participates and there are further launches planned for in the coming years in which East Sussex plan to be involved with.

The Fund holds investments with Longview, Ruffer, Newton and M&G through the ACCESS Authorised Contractual Scheme (ACS). In addition, the Fund has some remaining passive exposure to UBS which is also governed through the ACCESS pool.

An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. They key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has elected not to invest the following assets via the ACCESS Pool:

Table 2 – Assets held outside the pool

Asset class	Manager	Target % of Fund assets	Benchmark	Reason for not investing via the ACCESS Pool
Active Sustainable Equity and ESG tilted passive equity	WHEB /Wellington / Storebrand	20.0%	MSCI All Countries World	Currently, there are no funds available through the ACCESS funds platform that satisfy the Funds Responsible Investment requirements for active sustainable equity and systematic ESG/Carbon tilted portfolio. These will be held outside the pool temporarily until the pool is able to launch RI investment options.
Private Equity	Harbourvest Partners / Adam Street Partners	5.5%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Infrastructure	M & G Infracapital / UBS Infrastructure / Pantheon	4.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Private Debt	M & G	3.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.

Operational cash	East Sussex County Council	0.0%	N/A	East Sussex Pension Fund needs to manage its cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2022.

Structure and governance of the ACCESS Pool

East Sussex is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire	Kent
Essex	Norfolk
Hampshire	West Northamptonshire
Hertfordshire	Suffolk
Isle of Wight	West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership. ACCESS is working to a business plan in order to create the appropriate means to pool investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website http://www.accesspool.org/. The pool made further representations to the Government annually to report savings achieved by the LGPS pool.

The "ACCESS Pool" is not a legal entity. However, a Joint Committee (JC), comprising elected Pension Committee Chairmen from each Administering Authority and supported by the Officer Working Group has been established via an Inter Authority Agreement. Papers from previous and future ACCESS JC meetings papers can be found using the following link: https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898

ACCESS has taken advice on its sub-fund design and development of investment opportunities available. The pool appointed Link Fund Solutions to establish and operate the ACS carrying out all the FCA regulated aspects of the pool on liquid assets. Link are responsible for the overall management of the ACS including the creation of investment sub funds and the appointment of Investment managers on this platform. A through due diligence process is undertaken before the Investment Managers are appointed and robust monitoring and governance is applied to the managers on an ongoing basis. The ACS manages a significant portion of participating Authorities' liquid assets.

Passive assets are considered to be Investments under Pool Governance. The value of assets held within the Pool includes passively managed assets which are held in Life Policies. The Life Policies themselves will necessarily remain an agreement between the participating Authority and the appointed external investment manager. This was acknowledged as an acceptable outcome by Government. All passive assets will therefore be held out-side the ACS and will not be managed or administered by the Pool Operator.

The exercise of rights (including voting rights) attaching to investments Voting rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and will ask Investment managers to vote in accordance with a voting alert from LAPFF or explain why they have voted differently. The Fund publish an annual report of voting activity as part of the Fund's annual report. In addition, the ACCESS pool operator has set a voting guidance policy to all managers within the ACS structure.

Stewardship

The Fund understands that stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council, the Fund will be producing the first submission under the 2020 Stewardship code in 2022. A copy of the Fund's statement of compliance under the 2012Stewardship code can be found on the Fund's website https://www.eastsussexpensionfund.org/forms-and-publications/.

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories or comply with the Stewardship Code as published by the Financial Reporting Council. Under the 2012 code, Asset manager signatories were categorised in three tiers.

- **Tier 1** – Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.
- **Tier 2** – Signatories meet many of the reporting expectations but report less transparently on their approach to stewardship or do not provide explanations where they depart from provisions of the Code.
- **Tier 3** – Significant reporting improvements need to be made to ensure the approach is more transparent. Signatories have not engaged with the process of improving their statements and their statements continue to be generic and provide no, or poor, explanations where they depart from provisions of the Code.

The 2020 Stewardship code is still in its infancy so the Fund, and Investment managers are only just submitting their first submissions at the time of publishing this document.

The Committee expects both the ACCESS Pool and any directly appointed fund managers to also comply with the Stewardship Code.

In addition to the Fund's views on the Stewardship Code, the Fund believes in collective engagement and is a member of the LAPFF, the UN Principles of Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC), through which it collectively exercises a voice across a number of ESG principles including climate change. The Fund expects as a minimum, all its liquid investment managers to also be signatories of IIGCC and PRI.

Investment Management Stewardship Code tier and collaborative engagement membership

Manager	PRI Signatory date	Stewardship Code 2012	IIGCC
Longview Global Equity	08/04/2010	Tier I	Yes
M&G Absolute Return	11/01/2013	Tier I	Yes
M&G Corporate Bonds	11/01/2013	Tier I	Yes
UBS Europe Ex UK Equities	22/04/2009	Tier I	Yes
UBS North America	22/04/2009	Tier I	Yes
UBS Rest of the World	22/04/2009	Tier I	Yes
UBS UK Equities	22/04/2009	Tier I	Yes
Newton Absolute Return	13/02/2007	Tier I	Yes
Ruffer Absolute Return	15/01/2016	Tier I	Yes
Pantheon Infrastructure	05/10/2007	No	No
WHEB - Sustainability Fund	31/05/2012	Tier I	Yes
ATLAS Global Infrastructure Equity Fund	18/03/2019	No	Yes
Wellington – Global Impact Fund	26/04/2012	Tier I	Yes
Storebrand – Global ESG Plus Fund	27/04/2006	No	Yes
Harbourvest – Private Equity	25/11/2013	No	No
Adams Street – Private Equity	29/10/2010	No	No
Schroders – Property	29/10/2007	Tier I	Yes
M&G Infrastructure	11/01/2013	Tier I	Yes

Appendices

Appendix A – Rebalancing Policy

Appendix B – Statement of Responsible Investment Principles

Appendix A

Rebalancing Policy

September 2021

Rebalancing Ranges

The following ranges have been agreed by the Committee to set as points at which rebalancing should take place.

Asset class	Strategic target (%)	Range (%)
Listed Equities	40.0	35.0 – 45.0
Private Equity	5.5	3.5 – 7.5
Absolute Return	17	14.0 – 20.0
Total Growth	**62.5**	**52.5-72.5**
Property	11	8.0 – 14.0
Infrastructure	11	4.0 – 13.0
Private Credit	5	2.0 – 7.0
Total Income	**27.0**	**14.0-34.0**
Diversified Credit	10.5	7.0 - 12.0
Cash	0.0	0.0 – 2.0
Total Protection	**10.5**	**7.0 – 11.0**
Total	**100.0**	

Rebalancing for the Fund – General Rules

The following general rules will determine how a rebalancing process for the Fund will operate.

- **Rebalancing would apply only to equities, absolute return funds and bonds** - Due to the transaction costs and illiquidity associated with the other investments such as property, rebalancing for those asset classes will be considered on an annual/ad hoc basis;
- **Rebalancing would be monitored on a quarterly basis**
- **Each benchmark allocation would have a weighted tolerance range –** A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will occur;

- **Cash holdings to be used for rebalancing**. Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.
- **Rebalancing will occur at two levels; at the growth vs matching level, and at the mandate level –** The rebalancing process will determine if rebalancing is required between growth and matching assets, and separately if rebalancing is required between asset classes. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates.
- **Rebalancing transactions will aim to rebalance allocations out with their tolerance ranges to the midpoint (at least) of the tolerance range –** The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 60% allocation and a 54%-66% tolerance range, the upper mid-point would be the halfway point between 60-66% (i.e. 63%). The lower mid-point would be the halfway point between 54% and 60% (i.e. 57%). Analysis suggests that this is the best way of balancing the impact of transaction costs against returns.

The allocations to private equity and infrastructure (and to a lesser extent property) will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore, we do not anticipate any rebalancing being carried out in relation to the Fund's private equity or infrastructure investments.

Due to the nature of illiquid assets with timeliness of access to the market and long commitment call down periods, the illiquid assets will often be adrift of the strategic asset allocation while money is awaiting to be called by the investment managers, so these allocations will often be held in a low volatility liquid asset classes in the interim.

Appendix B

Statement of Responsible Investment Principles

September 2020

1. Introduction

- At East Sussex Pension Fund **(ESPF)**, we believe that Responsible Investment (RI) supports the purpose of the Local Government Pension Scheme **(LGPS)** – the provision of retirement income for individuals. We believe that it should reduce the risk associated with the invested assets that the Fund owns to pay pensions when they are due. Responsible investment is therefore a substantial factor driving returns alongside other investment considerations.

This Statement of Responsible Investment Principles **(SRIP)** complements ESPF's Investment Strategy Statement **(ISS)**, which is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (England) Regulations 2016. The SRIP explains our (ESPF's) approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment **(RI)** and Stewardship perspective.

RI is an approach to investing that aims to incorporate environmental, social and governance (**ESG**) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

While acknowledging the potential benefits of incorporating ESG factors into the investment process, the Fund recognises that there are many different approaches, there is no universally agreed standard of ESG measurement or assessment, and some methodologies may enhance returns while others may not. There may also be inherent conflicts between the Environmental, Social and Governance factors forming the ESG framework.

As a consequence, while acknowledging the opportunities for these factors to reduce risk and highlight opportunity, careful attention is required in manager or index selection to methodologies which incorporate both qualitative, quantitative and forward-looking approaches.

ESPF believes that ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc. Where successful, such companies might be expected to exhibit above average long-term growth characteristics.

RI is not the same as Ethical Investment (**EI**). EI is an investment approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations. ESPF should not be considered as either an "Ethical" or an "Unethical" investor, but as a responsible steward of capital. The management of ESG issues is a question of identifying and mitigating material financial risks, not a question of ethics.

At ESPF, we are guided in our roles as quasi-trustees, executive officers and investment managers by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities is provided by the Scheme Advisory Board, which took legal advice on this matter (https://lgpsab.scot/fiduciary-duty-guidance/). It advises the English Government (the Responsible Authority for the Fund) and English LGPS Funds themselves on policy issues.

The ESCC Pensions Committee (**the Committee**), comprising elected councillors, is responsible for fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.

The East Sussex County Council (ESCC) is the administering authority for the Fund, but the Fund is neither owned nor controlled by ESCC. Pension fund assets, which are earmarked for pension payments over the life of the fund, are ringfenced from 'Council Money'. There are around 130 employers and more than

78,000 members, whose pension payments will be funded by these and further employer and member contributions. The Fund's investment policy cannot be influenced by outside parties or by personal, political or moral beliefs. The Fund must seek to find a balance between its statutory and fiduciary obligations, and the views and interests of all of its member stakeholders.

2. Annual review

The SRIP will be subject to review by the Committee at least annually.

3. Objectives of ESPF's Statement of Responsible Investment Principles

The objectives of ESPF's RI policy are to:

reduce the likelihood that ESG issues and Climate Risk (**CR**) will negatively impact asset values and returns;

inform stakeholders on the action ESPF is taking to address and manage ESG and CR issues.

4. Responsible Investment Beliefs

The following beliefs in respect of RI underpin ESPF's RI principles and policies. ESPF believes that:

1 ESG issues and CR can present material financial risks to asset values and returns;

2 Implementation of effective RI policies can reduce risk and has potential to enhance returns;

3 Engagement with investment managers ("**IMs**") and investee companies can be effective in protecting and enhancing the long term value of investments;

4 Collaboration with other asset owners and IMs will help improve the effectiveness of engagement on ESG and CR issues;

5 Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies;

6 RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.

5. Responsible Investment Principles and ESPF Approach

ESPF is a signatory to the United Nations Principles for Responsible Investment (**PRI**), an organisation which supports and enables asset owners and asset managers to work collaboratively towards RI best practice. As a signatory, ESPF has committed to implement the six principles with the aspiration of contributing to the development of a more sustainable global financial system.

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

ESPF approach*:* The implementation of ESPF's investment strategy is delegated by the Pensions Committee to officers and external investment managers (IMs) to invest the Fund's assets.

How ESG factors are incorporated into investment analysis and decision-making processes varies according to the asset category and manager. All investments are externally managed; however, asset managers are required to have regard for the government's consultation on integrated risk management of climate change[3].

[3] The government consultation issued in March 2020, "Aligning Your Pension Scheme with TCFD Recommendations" which ended on 2 July 2020 includes recommendations within that consultation for asset managers to carry out climate scenario analysis in relation to portfolios which they administer on the Fund's behalf. Where the manager carries out scenario analysis, the Fund is recommended to ask for details of the scenarios as well as the output of the analysis in relation to the Fund's portfolio. Where portfolio-level analysis

The Fund gains its exposure to equity markets by recourse to a combination of Active managers and Passive index funds. The holdings of Active Managers are by their nature transitory and subject to continual change through the manager's stock selection process. Managers of index funds replicate an index and so bake in a longer run exposure to companies and sectors over which limited due diligence is performed. The choice of passive index is therefore an important deliberation. Where possible, the Fund seeks to acquire exposure to indices that are tilted in favour of companies that benefit from greener revenues, are less carbon intensive, and are better positioned than their peers to adapt to the Energy Transition. In some markets this option is not possible.

The ESPF have the following categories of asset managers:

Active Equity managers (segregated and pooled funds): As a part of the appointment process, we ensure that Managers demonstrate that they incorporate ESG filters into their investment analysis and asset acquisition processes. We monitor the managers' performance on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. Managers are encouraged to join PRI, IIGCC and Climate Action 100+ as signatories, where they are not already members.

Passive Index Funds with ESG tilts: Passive indices offer a low-cost complement to Active Managers. We select Passive indices based on the index's ability to reduce exposure to climate risks and to capture opportunities for investment in companies that are forward looking, generating green revenues, and better aligned to navigating the Energy Transition

Passive Index Funds without ESG tilts**:** the Fund can hold other forms of Passive investment to gain exposure to markets at lower cost such as Emerging Markets. These market cap indices are not adjusted to reflect ESG or responsible investment criteria. ***Corporate Credit managers:*** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. It is our ambition to appoint managers who devote greater focus in providing finance to companies or projects that are more compatible with the aims of the Paris Agreement.

Property managers: The capacity for Managers to incorporate ESG factors into the investment process alongside other key investment criteria will be required, monitored, and regularly reviewed. Managers will be encouraged to adopt PRI Transparency and GRESB reporting and to utilise CRREM assessment tools, as recommended by the IIGCC, in assessing their property portfolio alignment with the Energy Transition.

Real Asset management (infrastructure) managers**:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

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is not available, the Fund is recommended to ask for the results of any other analysis that the asset manager is using to identify and assess climate-related risks in relation to the portfolio, such as carbon footprint data. The Fund is also recommended to ask what the asset managers are doing differently as a result of the analysis, to mitigate the risks. Where no scenario analysis is taking place, particularly for easier-to-analyse asset classes such as equities and corporate bonds, the Fund is recommended to ask about asset managers' plans for adopting scenario analysis and encourage faster action if this is not ambitious enough.

ESPF approach:

***Voting*:** The Fund's asset managers vote on resolutions at the Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) of the Fund's equity holdings.

***Shareholder resolutions*:** The Fund's asset managers also file or co-file shareholder resolutions on important issues at the Fund's investee companies in the interests of agitating for better governance.

***Stock lending*:** ESPF does not participate in direct stock lending but may invest in investment funds which use stock-lending.

***Corporate engagement*:** The Fund's managers engage with our investee companies on material ESG issues. The Fund are members of the LAPFF, IIGCC, Climate Action 100+ and the UNPRI.

***Government engagement*:** we engage with government through responding to government consultations and aim to influence policy makers through the Funds collaborative engagement groups initiatives.

***Manager monitoring*:** we actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks. In addition, the Fund monitor its ESG impact assessment report annually and propose initiatives or actions for managers to consider as enhancements to their ESG practices.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

***Investee companies*:** through our investment managers we encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (**TCFD**).

***Investment Managers*:** we encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

***Commitment to PRI*:** we are transparent about being a signatory to the PRI and about how we implement the Principles. The Committee monitors its carbon footprint and energy transition at portfolio level and asset manager level. The Committee also review asset manager voting and engagement on a quarterly basis. The quarterly reports are published on the Fund's website to demonstrate implementation of the Principles and to promote them.

***Investment Managers*:** we endorse the Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach.

***Partnership with PRI*:** we partner with PRI to promote the universal use of the principles, and work with PRI during any consultations to improve the effectiveness of the principles and further improve RI adherence across the industry.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

***Collective Approach*:** we are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards.   A list of our collaborative partners and their roles are available on our website.

Principle 6

We will each report on our activities and progress towards implementing the Principles.

***PRI Assessment*:** we provide extensive details of our investment activities annually to the PRI for its independent assessment of our approach to RI.

***PRI Reports*:** we publish our PRI transparency report annually on our website and we publish our PRI assessment results on our website and in our annual report.

TCFD: we are committed to report annually in accordance with Taskforce for Climate-related Financial Disclosures (TCFD) recommendations.

***UK Stewardship Code*:** we report annually in accordance with the UK Stewardship Code requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.

6. Integrating RI into Strategy Implementation

At ESPF we are committed to acting as responsible investors and fully integrating our approach to ESG and CR into investment processes.

The Fund's approach is to invest in companies that have a high and sustainable return on investment.

The Fund does not exclude companies from its investible universe on the basis of their participation in certain industries. Rather the emphasis is on assessing the sustainability element of a company's returns.

Fully integrating ESG into the Fund's investment process means that the Committee, the legal person making the investment decision and the 'risk taker' is in possession of all the facts, it can determine how ESG impacts the investment case, including valuation and is in a position to engage with the managers of the business representing the interests of asset owners. This approach ensures that there is no gap between the assessment of ESG and the investment decision. Both are embodied in one decision by the Pension Committee. Short-termism and viewing ESG as an overlay to other assessment criterion is a sub-optimal approach.

7. Engagement with investee companies

The Fund scrutinises governance at every stage of our investment process and aims to influence governance through voting and engagement. This is an integral part of what makes a business sustainable, successful and a suitable investment target.

We will engage with their investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, we retain the ability to divest, since the failure to engage destroys value in the longer term. The issue of engagement is a vital aspect of ownership.

The Fund entrusts its assets to investment managers whose duty it is to represent the Fund's interest. Representing the Fund's interests as owners through engagement increases the Fund's knowledge and understanding of the company and leads to more accurate assessment of the firm's risks and opportunities and therefore the valuation assumption. Engagement through voting can effect corporate change and improve businesses to derive a broader social benefit.

8. Energy Transition

The Fund recognises that a prolonged Energy Transition is under way. It also acknowledges that a number of energy incumbents through their size, capacity to mobilise capital and engineering expertise offer the potential to play a substantial role in that transition. It seeks to balance the economic reality that fossil fuels currently provide 80% of the world's primary energy and that energy demand will grow by up to 50% by 2050, with global commitments, as yet not fully backed by detailed policy, to decarbonise the energy system by the second half of the century. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets.

The Fund is aware that there are a range of possible transition scenarios, evolving physical climate related risks and potential opportunities. There are also many uncertainties. This makes portfolio construction around such scenarios very challenging. Instead, ESPF seeks to broadly align its investment approach with the objectives of IIGCC and Climate Action 100+ initiatives.

9. Climate Change & Compliance with Taskforce for Climate-related Financial Disclosures (TCFD)

ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change[4]. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;

strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;

enhancing transparency of action and support through a more robust transparency framework.

ESPF understands that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund.

As such we make the following commitments to climate monitoring and action:

To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios

To continue our work with IIGCC and Climate Action 100+

To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy

To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022 reporting cycle, supported by external managers and GPs

Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.

Financial returns from current and future investments will affect ESPF's ability to fund future pension payments, and so we have committed to implement processes that adhere to TCFD recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS, namely:

(i) Governance: The Pensions Committee monitors stewardship of the Fund's assets through its submission of the Stewardship Code. The first submission in line with the 2020 Stewardship Code is planned for April 2022 and thereafter annually. This includes reporting on RI issues and specific climate-related risks and opportunities. The Pensions Committee and Pension Board are committed to undertake a

[4] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

comprehensive CPD programme through physical, online training and/or personal reading on RI issues and climate change-related risks and opportunities. The Pensions Committee:

- affirms the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends into its decision-making;
- delegates scrutiny and engagement with investment managers to Fund officers with advice from the Investment Working Group to ensure that they take ESG issues, including climate change and carbon risk, into account in their investment decision-making;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

(ii) Strategy: We work individually and with our collaborative partners to drive for openness and transparency on climate related issues affecting our investments.

- ESPF will review annually all strategy mandates and managers against climate metrics (e.g. impact on portfolio, manager compliance, exposure to certain sectors)
- We will review the weakest mandates based on this analysis and determine what action will be taken
- We will consider options for scenario analysis in respect of the Fund's mandates

(iii) Risk Management: We subscribe to data services and analytical tools, including company and industry specific data, and scenario models, to help understand and manage the climate risk within the Fund. Ways in which this data will be used for risk management include:

- Assessment of all existing mandates against quantitative risk metrics such as Weighted Average Carbon Intensity "WACI" on a regular basis. We will work to develop risk metrics appropriate to each mandate
- For all new mandates we will consider climate-related risks and objectives explicitly
- Engagement with managers on specific issues and risks identified by the data

(iv) Monitoring, Metrics* and Targets: We use various monitoring tools with the aim of mitigating risk to Fund assets from trends towards net-zero carbon and more broadly from climate change. We will select at least one Green House Gas (GHG) emissions and one non-emissions metric against which to assess Fund assets on climate related risks and opportunities as proposed under TCFD. At least annually, we will set one target to manage climate related risk with respect to the chosen metrics and measure performance against this target. All decision making, and investment monitoring, considers climate related risk and opportunities We will develop regular reporting of ESG and CR metrics to inform decision making and help assess and monitor progress towards our RI objectives.

***Carbon Analysis**: We note that carbon-equivalent foot printing produces simple metrics that can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, divestment is, of course, an option.

19. Appendix 4 – Communications Strategy

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.

The Communications strategy in place during this financial year was approved 22 June 2020 and updated annually with a full review every 3 years.

To access the Communications Strategy statement in full please view the detail on the next page.

The latest version of the communications Strategy is available on the Funds website:

https://www.eastsussexpensionfund.org/media/lzrj0hat/communication-strategy-2022-east-sussex-pension-fund.pdf

East Sussex Pension Fund

Communications Strategy 2020

Contents

Introduction

This is the statement outlining the Pension Communication Strategy for the East Sussex Pension Fund (the Fund) as per Regulation 61 of the Local Government Pension Scheme (LGPS) Regulations 2013. In consultation with the Pension Board employers in the Fund, scheme member representatives and other interested stakeholders this strategy will be reviewed annually and updated as necessary following each review.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme, and all stakeholders are kept informed of developments within the Fund, and effective communications will also help to maintain the efficient running of the Scheme.

East Sussex County Council (the administering authority) is responsible for the local administration of the Fund, which is part of the LGPS. The East Sussex Pension Fund liaises with over 130 scheme employers to provide pensions to over 70,000 members.

The East Sussex Pension Fund recognises that there are several distinct Stakeholders groups each with slightly different needs, including:

- Scheme members (active, deferred, pensioner and dependent members) and their representatives
- Prospective members and opt outs
- Scheme employers and prospective Scheme employers
- Pension Committee and Pension Board members
- Pension Fund Staff (including Orbis)
- Pension Fund advisors
- Other interested organisations including HM Revenue & Customs (HMRC), the Ministry for Housing, Communities and Local Government (MHCLG) and other relevant Government Departments and the Scheme Advisory Board (SAB)
- Council Tax payers.

The main means of communication with these key stakeholders are outlined in this statement, which includes making the best use of technology where appropriate, and noting a disparate and potentially vulnerable membership, to provide quicker and more efficient communications for the Fund's stakeholders.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:
Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —
(a) members;

(b) representatives of members;

(c) prospective members; and
(d) Scheme employers.

(2) In particular the statement must set out its policy on —
(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This strategy has been developed to include the information required by those provisions and to describe the Fund's approach in relation to meeting these requirements in the delivery of communications. Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and other legislation includes various requirements relating to the provision of information relating to pensions (in addition to the requirements in the LGPS Regulations). The Fund aims to adhere with all such legislation and related statutory or best practice guidance. This includes the Pension Regulator's Code of Practice.

There are other regulatory requirements that the Fund adheres to, including the General Data Protection Regulations and the Freedom of Information Act.

Our Aims and Objectives

To ensure that we are communicating effectively with our audiences and that we continue to enhance the service we offer, we have set the following objectives:

- To help members understand the valuable benefits on offer through membership of the scheme as part of their employer's remuneration and reward package
- Provide sufficient information so members can make informed decisions about their benefits
- Communicate in plain English and a clear, concise manner which is easy to access
- Ensure the most appropriate means of communication is used, taking into account the different needs of different stakeholders, including providing more accessibility through greater use of technology where appropriate as it may not be appropriate for some groups of members
- Regularly evaluate the effectiveness of communications with members and employers and shape future communications appropriately

Measuring whether we meet our Communication Objectives

The Fund will monitor success against our communication objectives as shown below:

Objectives	Measurement
To help members understand the valuable benefits on offer through membership of the scheme as part of their employer's remuneration and reward package	- Satisfaction levels achieved in biennial surveys of members - Responses to any specific questions in biennial survey issued to members in this area - Feedback from the Pension Board and Orbis Helpdesk to the Pension Board on a quarterly basis to evaluate service provided
Provide sufficient information so members can make informed decisions about their benefits	- Evaluate surveys and feedback to the committee on interventions needed
Communicate in plain English and a clear, concise manner which are easy to access	- Employer and member satisfaction levels achieved in biennial surveys of both groups - Responses to any specific questions in biennial survey issued to scheme employers and scheme members in this area, where appropriate
Ensure the most appropriate means of communication is used, taking into account the different needs of different stakeholders, including providing more accessibility through greater use of technology where appropriate as it may not be appropriate for some groups of members	- Increasing use of digital services for both scheme members and scheme employers - Responses to any specific questions in biennial survey issued to scheme employers and scheme members in this area

The Pension Board will regularly evaluate the effectiveness of communications with members and employers and shape future communications appropriately.	- Undertaking a satisfaction survey annually - Results from satisfaction survey - Are thoroughly analysed and investigated, and trends monitored from previous years. - Detailed analysis of survey results is used to identify areas to improve communications in future. - Compliments and complaints are - recorded and trends analysed - Pension Board to annually - Evaluate the effectiveness of

An overview of our performance against these objectives will be reported within the Fund's annual report and accounts and also reported on a quarterly basis to the Pension Board and Pension Committee.

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Fund will formulate an improvement plan. This will be reported to the Pension Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Delivery of Communications

East Sussex County Council has delegated responsibility for the management of the Fund to the East Sussex Pension Committee, taking into consideration advice from the Pension Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

The day-to-day delivery of member communication and associated administration related communications, employer data and data and information governance is undertaken by the Fund's shared service administrator, Orbis led by their Head of Business Operations. For scheme employer and other stakeholder related communications the Fund are directly responsible for this delivery led by the Head of Pension Fund.

The Fund has at its disposal a wide range of options for communicating with the diverse groups that it needs to serve. The method of communication will vary depending on what needs to be communicated and to whom. The methods used by the Fund to communicate with all interested parties are detailed below.

General Communication

When considering how to communicate with our stakeholders the intended audience is taken into account to ensure that messages are delivered in a useful and easy to follow manner. Communication is tailored to the recipient’s needs, making sure that messages are clear, consistent and use plain English. Communications are delivered using the most appropriate method and there will be continued development of digital platforms to encourage greater accessibility to the Fund’s services for all stakeholders.

Every communication has a clear purpose and fits into the overall communications plan, to ensure that they are cost effective. The Fund actively seeks feedback from each of its audiences to continually review, enhance and improve communication methods.

The Fund also adheres to other legislative requirements, including the General Data Protection Regulations, Freedom of Information Act, and pension disclosure legislation. The Fund also aims to adhere to good practice standards such as the National Website Standards.

Branding

As the Fund's administration is undertaken by Orbis, all literature and communications will include a combination of the branding of the East Sussex Pension Fund and Orbis.

Accessibility

The Fund is committed to ensuring that all stakeholders are able to access services equally and recognises that some individuals may require information to be provided in specific formats. While demand for alternative formats remains low at present, the Fund is able to issue documents in braille, large print or audio format on request.

Communication with Scheme Members

The Fund uses a variety of methods to communicate with active, deferred, pensioner and dependent members, and differentiates between them when delivering key messages to each specific audience groups. Scheme members can nominate representatives that the Fund will communicate with on their behalf, subject to the provision of an appropriate letter of authority signed by the scheme member. The Pension Board will be asked to comment on any new communication measures being considered and their views taken into consideration before this strategy is updated.

The core communication objective is that all active members are kept up to date with any changes in scheme benefits, can access scheme advice and have an awareness of the overall performance of the Investment Fund.

This is achieved by the following:

- Dedicated webpage on the County Council's and East Sussex Pension Fund website - the website https://www.eastsussexpensionfund.org/ includes extensive information and guides about the LGPS, and also contains factsheets, forms and up to date news about the Fund's activities and achievements.

- Orbis will issue electronic or paper-based newsletters as required. For other employer bodies, this is dispatched to a lead contact (usually within the HR and Payroll function) with a request that it is shared with all relevant staff - the contents cover current pension topics within the LGPS and wider pensions industry, along with important repeated messages. Additional newsletters may be issued to update members on important matters as they occur.

- Annual benefit statement - Personalised statements are provided to active and deferred scheme members every year. The statements are available online or posted to members who do not use the online facility (where addresses are known). Orbis will provide an annual update to the Pension Board to evidence that this is happening in practice.

- Notification of a dedicated telephone helpline provided for scheme members and maintained by Orbis.

- Maintenance and availability of Scheme Literature - A range of literature is produced by the Fund and is supplied to both employing bodies and to scheme members directly. Copies of all scheme literature are available on the East Sussex County Council website.

- Provision of member information on pension benefits accrued and leaving benefits are available on request.

Communication with Scheme Members and Prospective Members

The Fund works with scheme employers to promote the LGPS and reduce the number of members opting out of the scheme, particularly after automatic enrolment.

The core communication objective is to ensure that all employee joiners, to all scheme employers in the East Sussex Pension Fund, are made aware of the benefits of becoming a member of the LGPS – and are assisted in the subsequent joining arrangements.

This is achieved by the following:

- Prospective members are provided with joining information on the LGPS. The Fund's website (https://www.eastsussexpensionfund.org/) has a section aimed at potential new joiners setting out the main benefits provided by the LGPS

- Access to Orbis Helpdesk.

Communication with all Scheme Employers

To assist scheme employers participating in the LGPS, the Fund has a range of communication materials and methods that aims to increase their understanding of pension issues and help them fulfil their responsibilities as scheme employers.

The core policy communication objective is to ensure that all scheme employers are aware of:

- the Fund's Pensions Administration Strategy and Service Level Agreements, the Funding Strategy Statement and Investment Strategy Statement including the performance of the Fund's Investment's (given its impact on employer contribution rates).

- any scheme changes impacting on the employer's HR or workforce planning.

- any key discretions to be exercised by the individual employer;

- advice on the future valuation outlook; and

- advice and agreement on key frequent and annual data and financial transaction flows between the Fund and individual employers.

All this is in addition to the general pensions awareness scheme employers will wish to maintain as a 'good employer'.

This is achieved by the following:

- The Fund's Pensions Administration Strategy provides an overview of how the Fund and scheme employers will work together to achieve a high-quality service. It sets out, in detail, the obligations and responsibilities of both the

Fund and the scheme employer to achieve set performance standards. This is available on the Fund's website.

- Service Level Agreements (SLAs) ensure best practice and also compliance with audit requirements. The SLA sets out, in detail, the obligations and responsibilities of the scheme employer, the administering authority and the administrator, concerning all aspects of LGPS administration. These Agreements are reviewed and updated annually taking into account changes made to the regulations and feedback from the Fund's scheme employers. All the Fund's scheme employers are consulted on the administrative strategy annually to ensure they acknowledge their responsibilities.

- The Fund will request each scheme employer designate a named individual for Employer engagement with the appropriate delegations and who is the payroll contact for the employer. The scheme employer must keep the Fund aware of any changes pertaining to the contact details for that person.

- Specific communications on scheme changes for scheme employers as and when required.

- Annual employer forum meeting to which all scheme employers are invited dealing with administrative activity investment performance, actuarial insights and any scheme changes and current issues impacting the Fund and the LGPS.

- The HR employer guide, both paper based and maintained on the websites.

- Offer employer training on End of Year returns and the responsibilities of a new employer to the Fund and support in preparing policies such as the Discretionary Policy.

Communication with the Pension Committee and the Pension Board

The governance arrangements of the Fund centre on two bodies, the Pension Committee and the Pension Board.

The Fund works closely with the Pension Committee and the Pension Board, and the core communication objective is to ensure that all scheme members are fully informed on pensions matters including investment, funding, audit, governance, administration and risk. They have regular training to ensure they have sufficient knowledge to fulfil their duties and responsibilities.

This is achieved by the following:

- Providing relevant information on current issues at Pension Committee and Pension Board meetings and the majority of reports to the Pension Committee can be found on the Council's website -

https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?CommitteeId=373.

The Pension Board papers can be found on the Council's website –

https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?CommitteeId=374

Communication between the Pension Board, Scheme Members and Scheme Employers

The Pension Board was established in April 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS. The board is made up of three employer representative and three employee representatives and an independent chair. Minutes of board meetings are shared on the website.

Fund officers provide professional support to the Pension Board, ensuring regular communication with members and scheme employers through:

- Opportunity for members of the public to 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.
- Up to date information is posted on the Fund website with full terms of reference and polices on the Pension Board and how it operates.

Communication with other Key Stakeholders

There are a number of other interested parties with whom we communicate as required, including:

- Ministry of Housing, Communities and Local Government (MHCLG) - The Fund has regular contact with MHCLG as a responsible LGPS Fund, participating and responding to consultations, as required.
- Scheme Advisory Board - The national SAB was established following the Public Services Pensions Act 2013. It provides advice to the Fund and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. The Fund therefore liaises with the SAB as appropriate.
- Local Government Association - The LGA liaises with LGPS Funds and MHCLG to ensure that all LGPS regulations are administered correctly as per MHCLG’s instructions.
- The Pensions Regulator - The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. The Fund liaises with the Regulator as required to ensure that it is compliant with the Pensions Regulator's Code of Practice.
- AVC Provider(s) - Additional Voluntary Contributions (AVC) are held and invested separately from the LGPS. The Fund's current AVC providers are Prudential Limited.
- Fund Investment Managers, Advisers and Actuary - The Fund officers have regular meetings with
    - the Fund Managers who invest funds on behalf of the Fund
    - Investment Advisors who provide help and advice on the asset allocation and investments of the Fund
    - The Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund.

The Fund Actuary, Independent Adviser and Investment Adviser attend all Pension Committee meetings.

- ACCESS Pool - The Fund is a member of the ACCESS pool established by a group of 11 Funds to invest assets on a pooled basis for the LGPS Funds administered by those Councils. It is important that ACCESS understands the Fund's strategies so that the assets are invested in accordance with those strategies. Communication with ACCESS will be in a number of ways including directly at officer level and Joint Committee. The East Sussex Pension Committee will also receive regular updates on the activities of ACCESS and will also be responsible for deciding the assets to be invested in ACCESS.

Key Risks

The key (potential) risks to the delivery of this Strategy are outlined below. The Head of Pensions along with other officers will work with the Pension Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day-to-day delivery
- Significant external factors, such as national change, impacting on workload
- Issuing incorrect or inaccurate communications
- Failure to maintain scheme employer database leading to information not being sent to correct person
- Lack of clear communication to scheme employers, scheme members and pensioners.

Costs

All additional costs relating to this Strategy are met directly by the Fund unless mentioned otherwise.

Approval, Review and Consultation

This Communications Strategy was approved on 22 June 2020 by the East Sussex Pension Committee. It will be formally reviewed annually and updated by the Committee at least every three years or sooner if the communications arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Communications Strategy, please contact: Sian Kunert, Head of Pensions, East Sussex Pension Fund. Telephone 07701394423

20. Appendix 5 - Governance Policy and Compliance Statement

The Public Services Pensions Act 2013 introduced a new framework for the governance and administration of public service pension schemes. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish and keep under review a Governance Compliance Statement.

The Governance Compliance Statement of the East Sussex Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement.

The Governance and Compliance Statement in place during this financial year was approved 22 June 2021 and is updated annually.

To full Governance Policy and Compliance Statement can be viewed on the next page.

The latest version of the Governance and Compliance Statement is available on the Funds website

https://www.eastsussexpensionfund.org/media/q03plfjj/governance-and-compliance-statement-june-2023.pdf

EAST SUSSEX PENSION FUND

GOVERNANCE AND COMPLIANCE STATEMENT

Approved 22 June 2021

Contents

Governance Policy Statement

Introduction

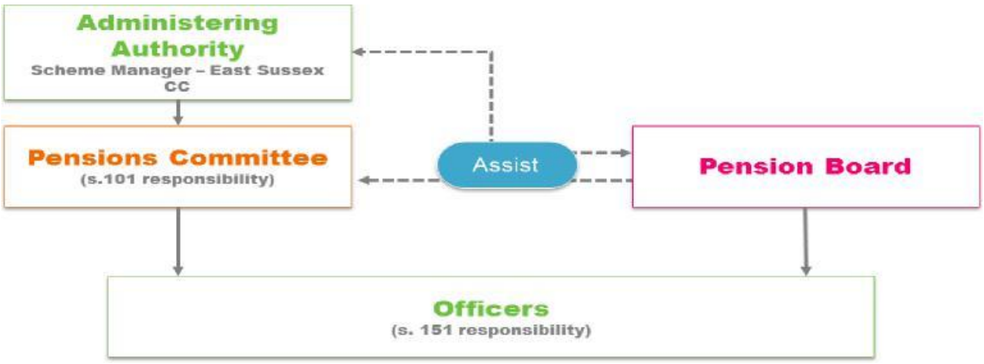
1. This is the Governance Policy Statement of the East Sussex Pension Fund (the Fund), which is managed by East Sussex County Council, the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish and keep under review a Governance Compliance Statement.
2. The Governance Compliance Statement of the East Sussex Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduces a new framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.
3. As a result of the Act, The Pensions Regulator introduced codes of practice covering specific areas relating to public sector pension schemes. The changes to the Fund because of the good governance review, concluded in 2020, require revisions to the existing East Sussex Pension Fund Governance Compliance Statement. It is noted that The Pensions Regulator intends to make changes to its Codes of Practice and the potential impact on the Fund is being monitored.
4. 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 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

5. East Sussex County Council operates a Cabinet style decision-making structure. Under the Constitution, the Pension Committee has 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 Fund admission agreements. It also has authority for the management of the Fund.
6. The Fund governance focuses on:

- The effectiveness of the Pension Committee, the Local Pension Board (Pension Board) and officers to which 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 Committee/Board members.
- The ability of the Pension Committee/Board and officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension 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 East Sussex Local Government Pension Scheme and for the approval of this document resides with the Pension Committee.



Responsibilities of the East Sussex Pension Committee

7. The Council's Pension Committee is established as the Fund's scheme manager and is responsible for arrangements for the investment, administration and management of the Fund. The Pension Committee is responsible for setting all Fund policies including the setting of the appropriate funding target for the East Sussex Pension Fund.
8. Detailed terms of reference for the Committee are included as **Appendix A.**

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;
- ensure effective and efficient governance and administration of the LGPS; and
- any other matters as the LGPS regulations may specify.

11. The role of the Pension Board will be oversight of these matters and not decision making. The Board seeks assurance that due process is followed by the Fund.

12. Detailed terms of reference for the Board are included as **Appendix B**.

Operational Procedures of the Pension Committee and Pension Board.

13. The Pension Committee receives and reviews quarterly reports in relation to all its Investment Fund Managers through its Investment Consultant, Isio. The Pension Committee is also advised by an additional Independent Advisor to help balance the advice providing additional challenge and debate to decision making.

14. In addition, the Pension Committee and Pension Board is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated Treasurer).

15. The Pension Board meets two weeks in advance of the Pension Committee to enable the Board to consider and comment on the reports due to be considered by the Committee. This ensures the Committee

takes into account the comments of the Board ahead of taking decisions, as the Board's minutes are included as part of the Committee agenda pack.

16. The Pension Board and Pension Committee consider reports on Administration of the Fund, the Risk register and any Fund Breaches at all core meetings.

17. Both the Pension Board and Pension Committee have access to professional advice via specialist advisers, where appropriate to work being carried out.

18. Agendas and reports for both the Board and Committee are published on the ESCC website at least 5 working days in advance of the meeting.

19. All meetings are open to the public except where the Board and Committee resolve to exclude the press and public due to the consideration of information that is exempt under section 12A of the Local Government Act 1972.

20. The work plan of both Board and Committee is set out in a work programme agreed at each meeting. This helps the stakeholders understand what will be discussed at future meetings.

Frequency of meetings of the East Sussex Pension Committee.

21. The Pension Committee meets at least 4 times a year.

Frequency of meetings of the East Sussex Pension Board.

22. The Pension Board meets at least 4 times a year.

Membership of the Pension Committee

23. The County Council appoints five members to the Committee in accordance with political balance provisions. All members of the Committee have voting rights.

24. In relation to pension matters, the Committee consider directly all issues relating to pensions administration, such as changes in benefit regulation, admission agreements, the Pension Fund Investments, etc.

Membership of the Pension Board

25. In accordance with Regulation 107 of the LGPS Regulations 2014, a 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.

26. Composition of the East Sussex Pension Board - The Pension Board shall consist of 7 members as follows:

- Employer representative x 3 (to represent all employers within the scheme)
- Scheme member representative x 3 (to represent all members of the scheme; active, deferred and pensioners)
- Independent Chair x 1

27. Employer representatives and scheme member representatives have voting rights. The Independent Chair does not have voting rights

28. Where possible the employer representatives will be appointed to represent each of Brighton and Hove City Council as the second largest scheme employer after ESCC; the five district and borough councils; and all other employers. However, in practice, all will actively represent the full range of employers in the scheme.

29. An independent chair is appointed to enhance the experience, continuity, knowledge, impartiality and performance of the Board. The chair of the Board is invited to attend Pension Committee meetings where they are able to report back on discussions and recommendations from the Board, to represent the views of the employer and member representatives into Fund decision making.

30. The term of office for Board members is 4 years. This can be extended following reselection by 2 years.

Pension Board Representatives nomination/appointment

31. The methodology for appointing employer and member representatives is not prescribed by the Regulations. It is therefore up to the Administrative Body's (ESCC) discretion to establish an appropriate process, which has been included within the East Sussex Pension Board constitution and terms of reference. For details see Appendix B to this statement.

32. The term of membership and the impact of seeking representations every 4 years, a phased approach to the term of office for Pension Board members have been developed. Not all Pension Board member's terms of membership come to an end in the same year. This will then ensure that at no point is the Pension Board required to seek nominations for more than 50% of the Board.

33. The ESCC Governance Committee has the delegated authority to either confirm a full appointment of a Pension Board member for 4 years or to agree a temporary extension of the term by 2 years where the same term has not already been extended without a full appointment being made.

Vice Chair appointment

34. Meetings of the Pension Board cannot go ahead without the Chair or Vice Chair present, so there is a risk that a meeting of the Board would not be able to proceed if the Chair is unable to attend for any reason.

35. The Pension Board agreed that in order to maintain the balance between scheme members and employer representation that a scheme member vice chair and an employer vice chair would be nominated from the existing Pension Board members, and that the role of vice chair would alternate between scheme member and employer at each meeting.

Consultation with Employing Authorities

36. All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by quarterly newsletter. They are encouraged to get in touch if they have questions.

37. In addition to these electronic briefings, the Fund holds an annual Employers' Forum to which all scheduled and admitted bodies of the Fund are invited. This was held virtually in 2020, due to the Covid-19 pandemic, but will be re-instigated as a physical event when Government guidelines permit. 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.

38. All employees receive periodic newsletter update on pension issues, especially on any changes affecting benefits. These updates are shared with all employers.

39. More detail on the approach to communication is covered in the separate Pension Fund Communication Statement.

Working Groups

40. The Fund has set up a number of working groups to help progress specific projects or areas of focus. The Pension Board are able to initiate working groups to focus on areas that would benefit from focus of the employer or member representatives.

41. An update is provided at each Pension Board and Pension Committee meeting to report back on the activities of each working group.

42. In 2020/21 the Pension Fund had a Data Improvement Programme working group, an Investment Implementation working group, a McCloud working group and had approved the creation of a Communications working group. There was an ESG (Environmental, Social and Governance) working group in operation during 2020 for research purposes but this was disbanded and absorbed into the Investment Implementation working group as it was agreed that ESG should not be considered as a separate issue but should be fully integrated within all investment decisions.

43. Each working group has its own terms of reference and membership which is firstly discussed at Pension Board and approved by Pension Committee.

44. Both the Data Improvement Programme working group and McCloud working group had member and employer representation during 2020/21.

Conflicts of interest

45. A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of their duties as a member of the Pension Board or Pension Committee. It is not permitted for a Pension Board member to have an actual conflict of interest.

46. To prevent conflicts of interest members of the Pension Board, Committee and Officers are required to disclose interests. Potential conflicts are also disclosable as a standing item on the agenda for Board and Committee meetings.

47. Where a potential conflict of interests is identified the person with the potential, or perceived, conflict is not able to take part in discussions on the topic, excluded from voting, or otherwise has the conflict managed at the discretion of the Chair or Vice Chair as appropriate.

48. The Fund approved its own conflict of interest policy in November 2020, to bring the Fund in line with the findings of the Scheme Advisory Board's (SAB'S) Good Governance Report.

Knowledge and understanding

49. It is a requirement that members of the Pension Board have sufficient knowledge and understanding to carry out their function. Where a new member joins the Pension Board they are to develop this level of knowledge as soon as possible. Whilst the law does not stipulate a timeframe it does for a new trustee of a private occupational scheme and an inference can be drawn the same six-month time period should apply.

50. The SAB's Good Governance Report says that Officers and Committee members should also have sufficient knowledge and understanding to carry out their functions. The Fund's Training Policy is in line with this recommendation and applies to Pension Board and Committee members as well as officers. It is linked to the CIFPA skills matrix.

51. The Fund has recruited a Pensions Training Co-ordinator. This Officer will engage with the Chairs of both the Pension Board and Pension Committee to establish the individual needs of members, as well as liaise with officers, to develop a detailed training plan. This plan will be in line with the published Training Policy. The amount of spent training will also be recorded.

52. New members of the Pension Board and Committee, along with those already in role and relevant officers, are invited to induction training. Some of this training is provided by the Fund's legal and actuarial advisors.

53. The Fund carried out a training needs analysis in 2020 with Committee and Board members through a knowledge based questionnaire. The results of these training needs lead to the creation of the annual training plan for Board and Committee members.

54. The Fund invite members of both the Board and Committee to a range of inhouse and external training sessions and conferences to help develop their knowledge and skills relevant to their roles. In addition, officers attend training sessions and conferences in compliance with the training strategy and their professional CPD requirements to stay current.

Good Governance report

55. In February 2021 the SAB published an updated version of its report following its review of good governance across the LGPS. This report covers representation, conflicts of interest and knowledge and understanding. The findings of these areas are referred to in the relevant sections above. Additionally, the SAB made a number of recommendations in the areas of service delivery along with compliance and improvement.

56. The SAB recommends that all funds in the LGPS should have a Pensions Administration Strategy. The Fund updated and enhanced their policy in 2020 to ensure this is more complete and accessible. This strategy was shared with employers in the Fund as part of a consultation process prior to implementation. The Pensions Administration Strategy is also publicly available on the Fund's website.

57. The SAB has also recommended that Fund's obtain a biennial independent governance review. The Fund has undertaken governance reviews with reports being produced by external consultants in both January 2019 and May 2020, highlighting a number of recommendations to Fund governance to be complaint with the recommendations from the SAB good governance projects phase 2 report published in November 2019. The fund finished implementing the recommendations from the second report in November 2020. The Fund has undertaken a series of audits on both administration and internal governance in the past year with the results shared with the Pension Board and Pension Committee. These reviews were conducted by Orbis Internal Audit team and the Fund is committed to undertaking regular audits, both internally and externally.

LGPS Asset Pooling Governance - ACCESS Pool

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

ACCESS Pool Governance

59. 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.

60. 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.

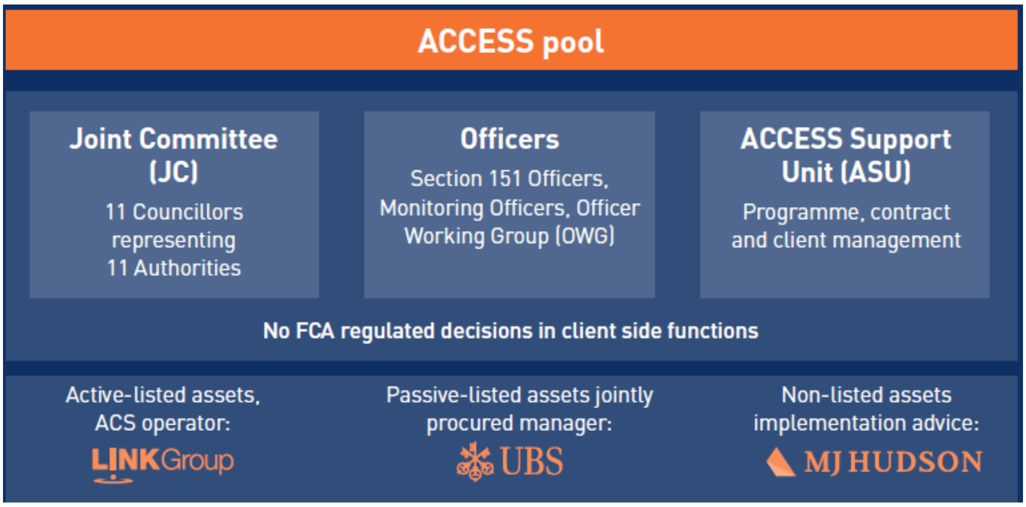
61. The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the S151 Officers, Officer Working Group and the ACCESS Support Unit. The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

62. 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.

63. The Section 151 Officer of each Pension Fund provide advice to the Joint Committee and in response to decisions made by the Joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

64. 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.

65. The diagram below sets out the overarching ACCESS governance arrangements.



ACCESS Pool Operator

66. Link Fund Solutions Ltd was appointed to provide a pooled operator service. Link is responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies and the appointment of the investment managers to those sub-funds. The operator role is FCA regulated.

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 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 Committee shall be responsible for approving the FSS.

Delegated to:

Pension 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 Committee shall be responsible for maintaining the Investment Strategy Statement (ISS).

Delegated to:

Pension 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 Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension 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 Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Committee (pension fund risk register approval)

Chief Finance Officer (maintaining the pension fund risk register)

Delegations by the administering authority are published in the Council's constitution which can be accessed at https://www.eastsussex.gov.uk/yourcouncil/about/keydocuments/constitution/

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 in July 2020 are shown in **Appendix A** to this document.

The Pension Board Terms of Reference as approved by Full Council in July 2020 are shown in **Appendix B** to this document.

Working groups of the Fund have terms of reference that are approved by the Pension Board and Pension Committee.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Committee shall oversee Pension Fund administration, funding, investment, communication, risk management and the overall governance process surrounding the Fund.

Any change in relation to the Funding Strategy Statement, is consulted with scheme employers prior to adoption.

Structure of the Pension Committee and representation:

Governance Principle: Effective committee delegation

The Pension 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.

The Pension Board is made up of three Scheme member representatives, to represent all members of the scheme; active, deferred and pensioners; three Scheme employer representatives to represent all employers within the scheme; and an Independent Chair.

Scheme member representatives and Scheme employer representatives are members of working groups.

Scheme employers are invited to an annual employer forum for training and information on developments within the scheme. Employers are able to raise topics of interest for this forum and ask questions of officers and advisers as required at the event.

The Fund created an Employer Engagement team to specifically focus on improving the information sharing and support to scheme employers.

Decision Making:

Governance Principle: Effective committee delegation; rigorous supervision and monitoring

The Pension Committee shall have full decision-making powers. Each member of the Pension Committee shall have full voting rights.

Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Committee shall meet quarterly. The Pension 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 Board for consideration by the Committee. Provision exists for the calling of special meetings if circumstances demand.

The Pension Board shall meet quarterly. The Pension Board shall receive full reports upon all necessary matters as decided by the Chief Finance Officer. Generally, the Pension Board receive the same reports as Pension Committee, excluding Investment reports. Pension Board then feed comments back to Committee in advance of decisions being made.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. This is laid out in the approved training strategy for the Fund.

Pensions Board have a statutory obligation to carry out sufficient knowledge and skills training.

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, the Pension Committee and the Pensions Board.

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 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 minutes are considered at the start of each Pension Committee meeting to ensure views of Board are taken into account for effective decision making.

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 in July 2020 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

(a) Membership

(i) The East Sussex Pension Committee will be composed of five members of East Sussex County Council, determined by the Council at the Council's Annual Meeting. (N.B. When making nominations Members should have regard to the need to ensure a balance of experience and continuity).

(ii) Named substitutes are permitted for East Sussex County Council members.

Terms of Reference

The Pension Committee's will exercise on behalf of East Sussex County Council all of the powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the East Sussex Pension Fund except where they have been specifically delegated to another Committee. The Pensions Committee will exercise its functions in accordance with the fiduciary duties of the Council as the administering authority of the East Sussex Pension Fund.

The Pension Committee will have the following specific roles and functions, taking account of advice from officers and the Fund's professional advisers.

(i) Ensuring the Fund is administered, managed and pension payments are made in compliance with the regulations and having regard to statutory guidance that govern the operation of the Local Government Pension Scheme from time to time, and other legislation.

(ii) (ii) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including but not limited to funding, investment, administration, communication and governance.

(iii) Determining how the various administering authority discretions are operated for the Fund.

(iv) Monitoring the implementation of all Fund policies and strategies on an ongoing basis.

(v) In relation to the LGPS ACCESS Pension Fund Pool;

a. considering pooling matters including recommendations made by the ACCESS Joint Committee;
b. determining the transition of the assets held by East Sussex Pension Fund in relation to the Pool and the funds or sub-funds operated by the Operator;
c. recommending to the Governance Committee a member of the East Sussex County Council Pension Committee to the Joint Committee as and when required, having regard to the advice of the Head of Pensions;
d. appointing an East Sussex County Council officer to working groups such as the Officer Working Group and Onboarding Sub-Group as and when required;
e. advising the representative on the Joint Committee and Officer Working Group on such matters as may be required;
f. monitoring the performance of the LGPS ACCESS Pool and its Operator and recommending actions to the ACCESS Joint Committee, Officer Working Group or ACCESS Support Unit, as appropriate;
g. receiving and considering reports from the LGPS ACCESS Joint Committee, Officer Working Group and the Operator;

h. undertaking any other decisions or matters relating to the operation or management of the LGPS ACCESS Pool as may be required, including but not limited to appointment, termination or replacement of the Operator and approval of the strategic business plan.

(vi) Making arrangements for actuarial valuations, ongoing monitoring of liabilities and undertaking any asset/liability and other relevant studies.

(vii) Making decisions relating to employers joining and leaving the Fund. This includes approving which employers are entitled to join the Fund, and any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.

(viii) Agreeing the policy for exit credits and terms on which employers may leave the Fund. Approving decisions on cessations, post cessation arrangements, guarantees and bonds.

(ix) Agreeing the terms and payment of bulk transfers into and out of the Fund.

(x) Ensuring robust risk management arrangements are in place, considering and making recommendations in relation to the internal audit strategy and internal audit report pertaining to the management of the fund and reviewing its findings.

(xi) Agreeing the Fund's annual business plan and annual and medium term budgets, and monitoring progress against them.

(xii) Selection, appointment and dismissal of the Fund's advisers and suppliers, including actuary, benefit consultants, investment consultants, global custodian, fund managers, lawyers, pension fund administrator, Additional Voluntary Contribution providers and independent professional advisors. This includes determining the services to be provided and monitoring those services, including where this relates to shared services arrangements.

(xiii) Agreeing the Fund's Knowledge and Skills Policy and monitoring compliance with the policy.

(xiv) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

(xv) Considering views expressed by employing organisations and staff representatives in relation to the operation of the East Sussex Pension Fund.

(xvi) Considering the Fund's financial statements and approving an Annual Report on the activities of the Fund in line with legislation and guidance.

(xvii) Considering the Breaches Register at every quarterly Pension Fund meeting and reviewing recommendations from the Pensions Board.

Notes: 1. No matters relating to East Sussex County Council's responsibilities as an employer participating within the East Sussex Pension Fund are delegated to the Pension Committee.

Notes: 2 As a Non-Executive Committee, no matters relating to the Pension Fund’s non-executive responsibilities as Scheme Manager are delegated to an Executive of East Sussex County Council.

Notes: 3 The Committee’s primary contacts will be the Head of Pensions, Chief Finance Officer and its retained advisors

Training

The East Sussex Pension Fund has a dedicated Knowledge and Skills Policy which applies to all members of the Committee and which includes the expectation to attend regular training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

Appendix B

Constitution and terms of reference of the East Sussex Pension Board

Introduction

(i) The Pension Board is established by East Sussex County Council (ESCC) under the powers of Section 5 of the Public Services Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Regulations 2013 ("the LGPS regulations" which includes such regulations as govern the Local Government Pension Scheme from time to time). ESCC is the scheme manager (and administering authority) to the East Sussex Pension Fund (ESPF).

(ii) The East Sussex Pension Fund Board was appointed by East Sussex County Council (the Scheme Manager and Administering Authority to East Sussex Pension Fund) as its Local Pensions Board in accordance with section 5 of the Public Service Pensions Act 2013 and Part 3 of the Local Government Pension Scheme Regulations 2013. As such, Parts 4 Rules of Procedure (Council's procedural Standing Orders) sub-parts 1, 2, 3, 4, 5 and 6 of the Constitution of East Sussex County Council do not apply to this Pension Fund Board unless expressly referred to within and permitted by these Terms of Reference and Rules of Procedure. The Board will exercise all its powers and duties in accordance with legislation and these Terms of Reference and Rules of Procedure. The Board shall have the power to do anything which is considered to facilitate, or is conducive or incidental to, the discharge of its functions. Powers of the Pension Board.

(iii) The Pension Board will exercise all its powers and duties in accordance with the law and this Terms of Reference.

(iv) ESCC considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision-making body in relation to the management of the Fund but instead can make recommendations to assist in such management. The Fund's management powers and responsibilities which have been, and may be, delegated by ESCC to committees, sub-committees and officers of ESCC, remain solely the powers and responsibilities of those committees, subcommittees and officers including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the ESPF Pension Committee.

(v) The Pension Board will ensure that in performing their role it:

a. is done effectively and efficiently and
b. complies with relevant legislation and
c. is done by having due regard and in the spirit of The Pensions Regulator's Code of Practice and any other relevant statutory or non-statutory guidance.

Objectives and role of the Pension Board

(vi) The role of the Pension Board is defined by the LGPS Regulations as being to assist the Scheme Manager (ESCC as Administering Authority) to:

a. secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS and requirements imposed in relation to the LGPS by the Pensions Regulator
b. ensure the effective and efficient governance and administration of the LGPS. This should be interpreted as covering all aspects of governance and administration of the LGPS including funding and investments.

(vii) In doing this the Pension Board:

a. shall assist the Scheme Manager with such matters as the LGPS Regulations and guidance may specify

b. shall seek assurance that due process is followed with regard to Pension Committee and may review any decisions made by or on behalf of the Scheme Manager or action taken by the Scheme Manager

c. shall seek assurance that any identified issues raised by Pension Board members are considered

d. shall comment on and assist in identifying and managing breaches of the law in relation to ESPF matters

e. shall make representations and recommendations to the Pension Committee as appropriate and shall consider and as required, respond to any Government / Responsible Authority or Scheme Advisory Board requests for information or data concerning the Fund

f. may also undertake other tasks, including (but not limited to):

    i. assisting the Pension Committee by reviewing aspects of the performance of the ESPF – for example by reviewing the risk management arrangements within ESPF (although the Pension Committee will remain accountable for risk management);

    ii. reviewing administration standards or performance or review efficacy of ESPF member and employer communications; o reviewing published policies to ensure they remain fit for purpose and are complete;

    iii. reviewing ESPF annual reports; o being part of any consultation process with the purpose of adding value to that process based on, for example, their representation of employers and ESPF members;

    iv. discussing strategic matters such as communications where requested by the Pension Committee.

g. will produce an annual report which is shared with the Scheme Manager. It will outline the work of the Pension Board throughout the scheme year, which will help to –

    i. inform all interested parties about the work undertaken by the Pension Board

    ii. assist the Pension Board in reviewing its effectiveness and identifying improvements in its future operations.

h. shall carry out an annual self-assessment of the effectiveness of the Pension Board and produce a report on this which will be shared with the Pension Committee.

i. must provide a record of each meeting to the following Pension Committee meeting and may make reports and recommendations to the Pension Committee insofar as they relate to the role of the Pension Board

j. shall assist in considering whether the East Sussex Pension Fund is being managed in accordance with the LGPS and other relevant legislation, 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

k. shall monitor administrative processes and support continuous improvements

l. will ensure the scheme administrator supports employers to communicate the benefits of the LGPS to scheme members and potential new members.

Membership

(viii) The Pension Board shall consist of:

a. 3 employer representatives - employer representatives that can offer the breadth of employer representation for the ESPF.

b. 3 scheme member representatives – member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners) to include:

    1. two will be nominated by the trade unions, and

    2. the rest will be drawn from the total ESPF active, deferred and pensioner membership.

c) 1 Independent Chair.

(ix) The Pension Board shall be chaired by an Independent Chair.

(x) Substitutes for Board members are not permitted.

(xi) The Quorum of the Board will be 3 Members, excluding the Independent Chair. To be quorate the meeting must include at least one employer representative and one scheme member representative.

(xii) The Board has the power to set up working groups

Appointment of members of the Pension Board

(xiii) The appointment process has been approved by the Governance Committee.

(xiv) All appointments to the Pension Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair. The Vice Chair will alternate between scheme member representatives and employer representatives at each meeting. The Vice Chairs will be nominated from the existing Board members whenever one of the existing Vice Chairs is replaced.

(xv) Appointments to the Pension Board shall be managed, wherever possible, so that appointment and termination dates are staggered such that there remains continuity for one meeting to the next.

Term of office

(xvi) Employer representative appointments will expire after a 4 year period from their date of appointment by the Governance Committee or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to this period by up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted. Appointment will automatically cease if the individual is no longer in the employment of that employer, no longer holds office in relation to that employer or is no longer an elected member of that employer, as appropriate.

(xvii) Scheme member representative appointments will expire after a 4-year period from their date of appointment by the Governance Committee 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. Appointment will automatically cease if the individual is no longer a trade union representative or representative of ESPF members (in accordance with the criteria set by the Governance Committee).

(xviii) The Independent Chair appointment will expire after a period of 4 years from their date of appointment by the Governance Committee. The Governance Committee may agree an extension to terms of office by up to a further 2 years after which there shall be a further appointment process. Reappointment of the Independent Chair is permitted.

(xix) Term dates may not be exact due to the period of the appointment process. The term of office may therefore be extended for this purpose or other exceptional circumstances by up to three months with the agreement of the Governance Committee.

(xx) A Pension Board member who wishes to resign shall submit their resignation in writing to the Independent Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.

(xxi) The role of the Pension Board members requires the highest standards of conduct and the ESCC Code of Conduct for Members will apply to the Pension Board's members. ESCC Standards Committee will monitor and act in relation to the application of the Code.

(xxii) Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Pension Board member by the Governance Committee.

(xxiii) Removal of the Independent Chair will be by the Governance Committee.

Chairing

(xxiv) It will be the role of the Chair to –

a. Settle with officers the agenda for a meeting of the Pension Board

b. Manage the meetings to ensure that the business of the meeting is completed

c. Ensure that all members of the Pension Board show due respect for process and that all views are fully heard and considered

d. Strive as far as possible to achieve a consensus as an outcome

e. Ensure that the actions and rationale for decisions taken are clear and properly recorded

f. Uphold and promote the purpose of the Pension Board, and to ensure that meetings are properly conducted and professional advice is followed

g. To use their expertise and experience and liaise with the Head of Pensions to arrange such advice as required subject to agreement by the Head of Pensions on such conditions as that officer determines

h. Sign the minutes of each Pension Board meeting following approval by the Board

i. Prepare with the Head of Pensions an appropriate budget for the Pension Board's consideration before being formally considered by the Scheme Manager along with the ESPF Annual Budget

j. Liaise with officers and advisors on the requirements of the Pension Board, including advanced notice for Scheme Manager officers to attend and arranging dates and times of Board meetings

k. Provide guidance on all points of procedure and order at meetings having regard to advice from officers

l. Other tasks which may be deemed appropriate by the Scheme Manager for the Independent Chair of the Pension Board

m. Liaise with the Chair of the Pension Committee as deemed appropriate

n. Other tasks that may be requested by the Board, within the remit of these Terms of Reference and subject to agreement with the Head of Pensions

o. Annually review and report on the activities of the Pension Board

p. Commission a triennial review of LGPS & public pension fund non-statutory best practice guidance (referencing the SAB & other relevant bodies deemed relevant by the Board) which then brings recommendations to the Committee (when appropriate) for amendments to the operation of the Fund. Support arrangements and administration

(xxv) ESCC officers will provide governance, administrative and professional support to the Pension Board, and ESCC Member Services will provide secretariat support to the Pension Board, and as such will ensure that:

a. meetings are timetabled for at least four times per year

b. adequate facilities are available to hold meetings

c. an annual schedule of meetings is produced

d. suitable arrangements are in place to hold additional meetings if required

e. papers are distributed 5 clear working days before each meeting except in exceptional circumstances

f. draft minutes of each meeting are normally circulated 7 working days following each meeting including all actions, decisions and matters where the Pension Board was unable to reach a decision will be recorded

g. final reports, minutes and agendas relating to the Pension Committee are shared appropriately with the Board.

(xxvi) The records of the meetings may, at the discretion of the Board, be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A (2) of that Act.

(xxvii) The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.

(xxviii) The Pension Board must comply with the General Data Protection Regulation and the Scheme Manager's data protection policy. It must also adhere to the Scheme Manager's requirements, controls and policies for Freedom of Information Act compliance.

Expert advice and access to information, including the Pension Committee

(xxix) The Pension Board will have access to professional advice and support provided by officers of ESCC and, via them and where appropriate, advisers to the ESPF. In addition, Pension Board members will receive the final reports, minutes and agendas relating to the Pension Committee, save where the Committee expressly decides otherwise such as where an item is exempt, although this is anticipated to be in exceptional cases.

(xxx) Insofar as it relates to its role, the Pension Board may also:

a. request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund
b. examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
c. access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major matters being considered, i.e. investment strategy, triennial valuation, etc.,
d. access to professional advice regarding non-major decisions will require the approval of the Pension Committee for additional resources
e. attend all or any part of a Pensions Committee meeting unless they are asked to leave by the Committee or as a result of a conflict of interest.

(xxxi) ESCC officers will provide such information as is requested that is available without incurring unreasonable work or costs.

Knowledge and Skills

(xxxii) Pension 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:

a. the scheme rules (i.e. regulations)
b. the schemes administration policies
c. the Public Service Pensions Act (i.e. being conversant with pension matters relating to their role) and the law relating to pensions.

(xxxiii) A programme of updates and training events will be organised by ESPF officers.

(xxxiv) It is for individual Pension Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

(xxxv) In line with this requirement, Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to:

a. participate in training events (a written record of relevant training and development will be maintained)
b. undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters

c. comply with the Fund's Knowledge and Skills Policy insofar as it relates to Pension Board members

Standards and Conflicts of Interest

(xxxvi) A conflict of interest is defined in the Public Service Pensions Act 2013 as: "in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the Pension Board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)."

(xxxvii) 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.

(xxxviii) The Pension Board shall adopt a policy for identifying and managing potential conflicts of interest.

(xxxix) Members of the Pension Board must provide, as and when requested by the Scheme Manager, such information as the Scheme Manager requires to identify all potential conflicts of interest and ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest at appointment or whilst a member of the Pension Board.

(xl) Part 5(1) of ESCC Code of Conduct shall apply in relation to the standards of conduct of Pension Board members, insofar as they can be reasonably considered to apply to the role of members of the Board, including the non-disclosure of confidential information.

(xli) Members of the Pension Board must adhere to the requirements of the ESPF Procedure for Monitoring and Reporting Breaches of the Law and should be mindful of the individual legal requirements in Section 70 of the Pensions Act 2004 relation to reporting breaches of the law in relation to ESPF matters.

Access to the Public and Publication of Pension Board information

(xlii) Members of the public may attend the Pension Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in ESCC's Constitution.

(xliii) In accordance with the Public Service Pensions Act 2013, ESCC is required to publish information about the Pension Board and up-to-date information will be posted on the ESPF website showing:

a. Names of and information regarding the Pension Board members
b. How the scheme members and employers are represented on the Pension Board
c. Responsibilities of the Pension Board as a whole
d. Full terms of reference and policies of the Pension Board and how it operates.

(xliv) In accordance with good practice, ESPF may publish other information relating to the Pension Board as considered appropriate from time to time and which may include:

a. the agendas and meeting records
b. training and attendance logs
c. an annual report on the work of the Pension Board.

(xlv) All or some of this information may be published using the following means or other means as considered appropriate from time to time:

a. on the ESPF website – https://www.eastsussex.gov.uk/yourcouncil/pensions/members/
b. on the ESCC website – http://www.eastsussex.gov.uk,

c. within the ESPF Annual Report and Accounts,

d. within the ESPF's Governance Policy and Compliance Statement.

(xlvi) Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

Expense reimbursement, remuneration and allowances

(xlvii) 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 ESCC's Constitution. In addition, scheme member representatives may be paid an allowance equivalent to the co-optees' allowance in the ESCC Scheme of Members' Allowances in relation to time spent at meetings and training events relating to their role as a ESPF Pension Board member, unless they are attending they are attending during their normal working day without a reduction in pay or leave (in which case no allowance will be paid for that time).

(xlviii) The Independent Chair's remuneration will be approved by the Governance Committee following consultation with the Chair of the Pension Committee.

(il) All costs will be recharged to the Fund.

Accountability

(l) The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the Local Government Pension Scheme Advisory Board. The Local Government Pension Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the MHCLG) and the Scheme Manager. The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues.

Decision Making Process

(li) Employer representatives and scheme member representatives have voting rights, albeit the Pension Board is expected to operate on a consensus basis. The Independent Chair does not have voting rights.

(lii) 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.

Reporting and escalation

(liii) The Pension Board must provide minutes of each meeting to the following Pension Committee meetings and may make reports and recommendations to the Pension Committee insofar as they relate to the role of the Pension Board. Any such reports or recommendations must be provided in advance of the next Pension Committee meeting to the S151 Officer.

(liv) An annual report of the Pension Board must be provided to the S151 Officer, the Monitoring Officer, the Pension Committee, and the Audit Committee and be published in the Fund's Annual Report and Accounts.

(lv) Where the Pension Board considers that a matter brought to the attention of the Pension Committee has not been acted upon or resolved to their satisfaction, the Pension Board will provide a report to the Monitoring Officer.

(lvi) The Breaches Register will be presented at each meeting and considered by the Pension Board who may make recommendations to the Pension Committee.

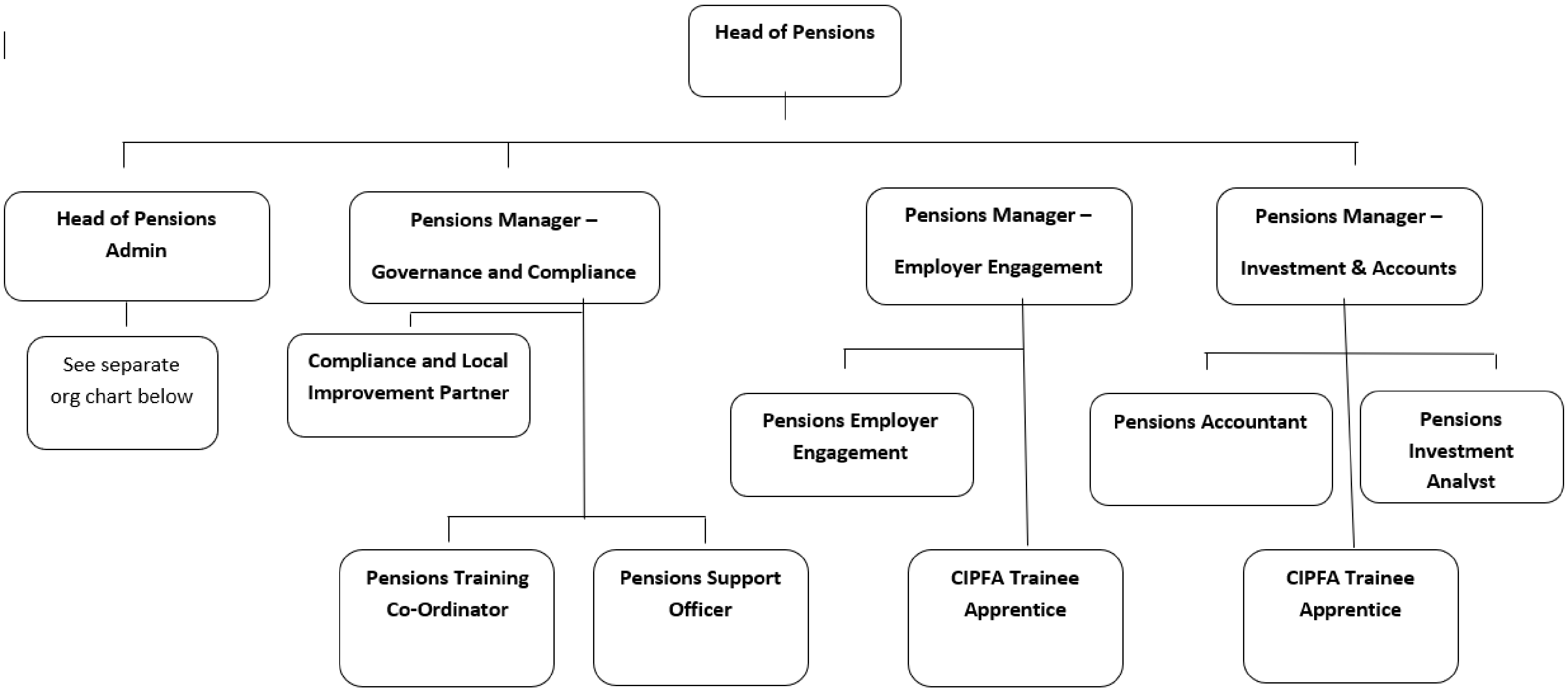
Review, Interpretation and Publication of Terms of Reference and Rules of Procedure

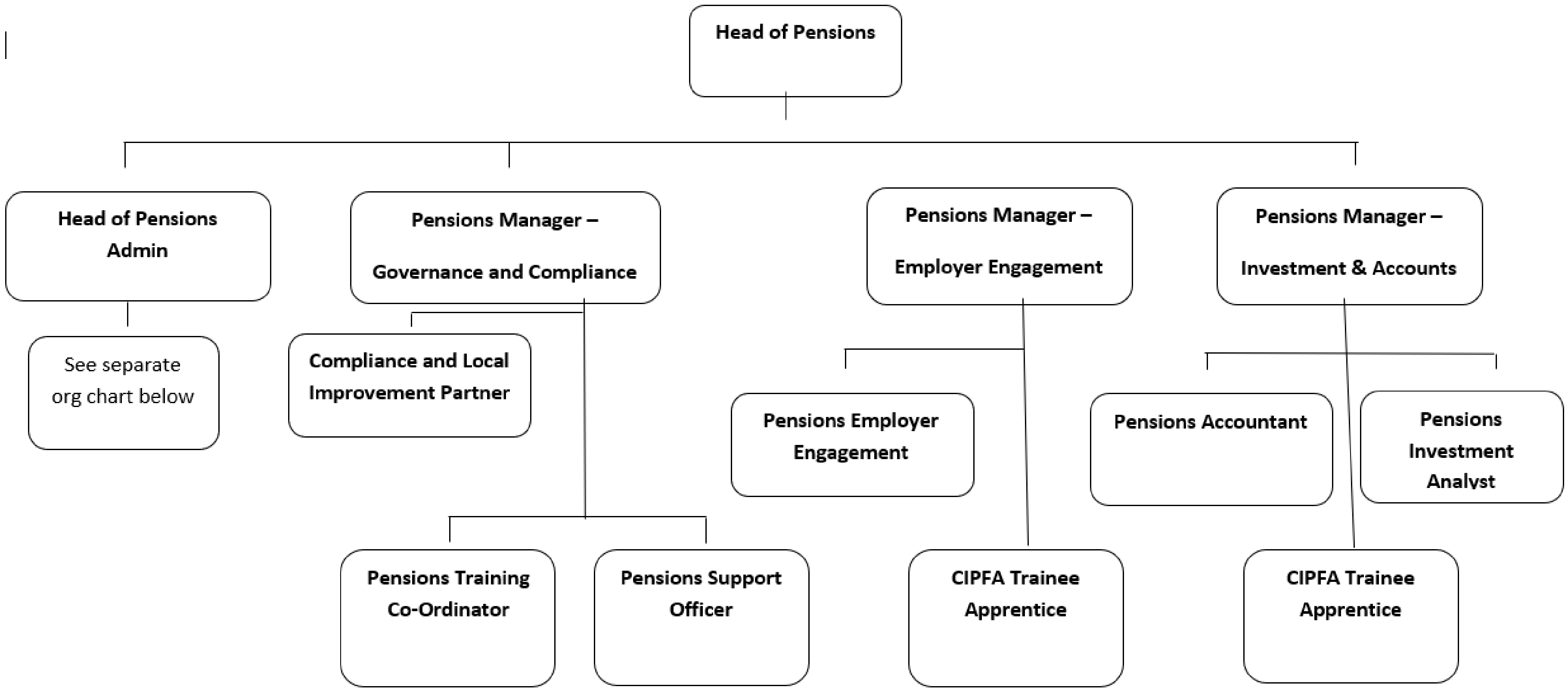
(lvii) These Terms of Reference have been agreed by ESCC. The Council will monitor and evaluate the operation of the Pension Board and may review these Terms of Reference and Rules of Procedure from time to time.

(lviii) These Terms of Reference are incorporated into the Council's Constitution and published on the Council's website and may be amended by the same means as permitted for the Constitution. It will also form part of the ESPF's Governance Policy and Compliance Statement which will be made available in accordance with the requirements of the LGPS Regulations.

Appendix C

Pension Team Structure


Head of Pensions
Head of Pensions Admin
See separate org chart below
Pensions Manager – Governance and Compliance
Compliance and Local Improvement Partner
Pensions Training Co-Ordinator
Pensions Support Officer
Pensions Manager – Employer Engagement
Pensions Employer Engagement
CIPFA Trainee Apprentice
Pensions Manager – Investment & Accounts
Pensions Accountant
Pensions Investment Analyst
CIPFA Trainee Apprentice


Head of Pensions
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Pensions Manager – Governance and Compliance
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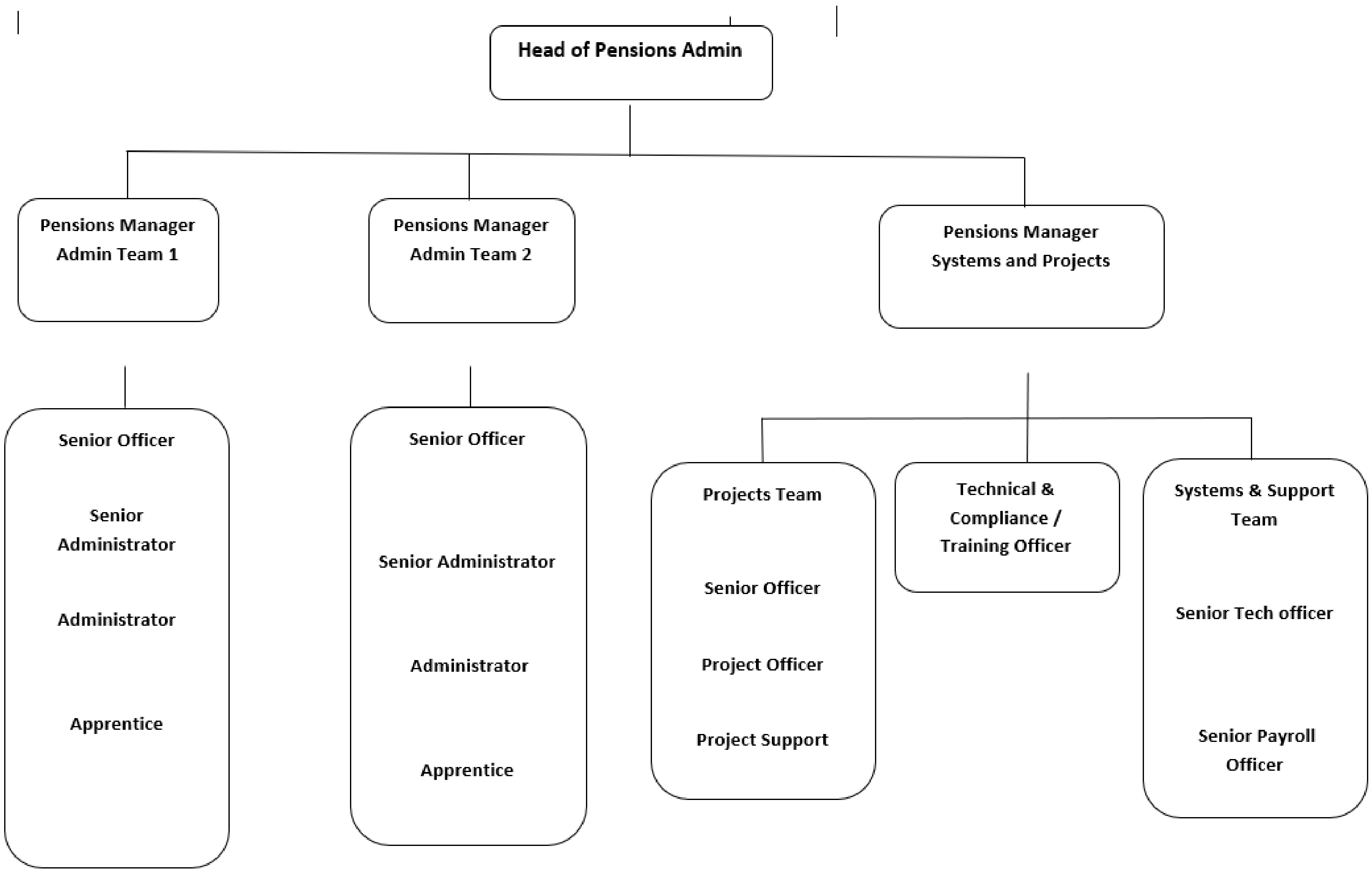
Head of Pensions Admin
Pensions Manager Admin Team 1
Pensions Manager Admin Team 2
Pensions Manager Systems and Projects
Senior Officer
Senior Administrator
Administrator
Apprentice
Senior Officer
Senior Administrator
Administrator
Apprentice
Projects Team
Senior Officer
Project Officer
Project Support
Technical & Compliance / Training Officer
Systems & Support Team
Senior Tech officer
Senior Payroll Officer