

# Public Document Pack

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23 August 2019

## **Pension Advisory Board**

A meeting of the committee will be held at **9.30 am** on **Wednesday, 4 September 2019** at **County Hall, Chichester, PO19 1RQ**.

Tony Kershaw  
Director of Law and Assurance

## **Agenda**

### **Part I**

#### **1. Declarations of Interests and Conflicts**

Members and officers must declare any pecuniary or personal interest, or any potential conflicts of interest in any business on the agenda. They should also make declarations at any stage such an interest becomes apparent during the meeting. Consideration should be given to leaving the meeting if the nature of the interest warrants it. If in doubt, contact Democratic Services before the meeting.

#### **2. Part I Minutes of the last meeting** (Pages 5 - 12)

The Board is asked to agree the Part I minutes of the meeting of the Board held on 22 May 2019 (cream paper).

#### **3. Urgent Matters**

Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.

#### **4. Part II Matters**

Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.

#### **5. Progress Report** (Pages 13 - 16)

This report contains updates on matters arising from previous meetings.

The Board is asked to note the report and the progress on actions.

6. **Pensions Panel Meetings** (Pages 17 - 28)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the report.

7. **Business Plan Update** (Pages 29 - 42)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the updates to the Business Plans of the Board and the Pensions Panel.

8. **Regulations and Guidance update** (Pages 43 - 58)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the current issues relating to Scheme Regulations and Guidance.

9. **Governance Reviews and Surveys** (Pages 59 - 68)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the publication of the Hymans Robertson Good Governance Review for future consideration; note the outcome of the Pensions Regulator's 2018 Survey; and agree the suggested responses to the draft Scheme Advisory Board's survey for 2019.

10. **Review of Pension Fund Policy Documents** (Pages 69 - 160)

Report by Director of Finance and Support Services.

The Board is asked to note the register of policy documents and provide feedback on the policy presented at the meeting.

11. **Funding Strategy Statement** (Pages 161 - 172)

The Board is asked to consider the following report by the Director of Finance and Support Services which went to the Pensions Panel on 24 July 2019.

12. **Date of Next Meeting**

The next meeting of the Board will be held at 9.30 am on 20 November 2019.

**Part II**

13. **Exclusion of Press and Public**

The Board is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the case, the public

interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

Exempt: paragraph 3, financial or business affairs of any person (including the authority).

14. **Part II Minutes of the last meeting** (Pages 173 - 174)

The Board is asked to agree the Part II minutes of the meeting of the Board held on 22 May 2019 (yellow paper).

15. **Pensions Panel Minutes – Part II** (Pages 175 - 180)

The Board is asked to note the confirmed Part II minutes from the meeting of the Pensions Panel on 29 April 2019 (yellow paper).

16. **Administration procedures and performance** (Pages 181 - 192)

Report by Director of Finance and Support Services attached for members of the Board only (yellow paper).

The Board is asked to note the report and confirm any further information that they require.

17. **ACCESS Update** (Pages 193 - 198)

The Board is asked to consider the following report which went to the Pensions Panel on 24 July 2019.

Report by Director of Finance and Support Services attached for members of the Board only (yellow paper).

**To all members of the Pension Advisory Board**

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## **Pension Advisory Board**

22 May 2019 – At a meeting of the Pension Advisory Board held at 9.30 am at County Hall, Chichester, PO19 1RQ.

Present: Peter Scales (Chairman)

Richard Cohen, Miranda Kadwell, Kim Martin, Becky Caney, Chris Scanes and Tim Stretton

### **Part I**

#### **1. Declarations of Interests and Conflicts**

1.1 None declared.

#### **2. Part I Minutes of the last meeting**

2.1 Resolved – That the part I minutes of the meeting of the Board held on 6 March 2019 be approved as a correct record and signed by the Chairman.

#### **3. Pension Advisory Board Membership**

3.1 The Board noted that the Chairman had agreed to reappoint both Richard Cohen and Chris Scanes as representatives on the Board for a second 4 year term.

#### **4. Progress Report**

4.1 The Board considered the progress report on matters arising from previous meetings (copy appended to the signed minutes).

4.2 Adam Chisnall (Democratic Services Officer) introduced the report and provided an update for the action against minute 76.5 in that the Chairman of the Pensions Panel would attend a Board meeting later in the year. It was likely that this would be the November Board meeting.

4.3 The Board considered the outstanding actions and agreed that the action against minute 74.6 could be removed.

4.4 Resolved – That the Board noted the report.

#### **5. Pensions Panel Minutes - Part I**

5.1 The Board considered the confirmed part I minutes from the 28 January 2019 Pensions Panel meeting; and the Agenda from the 29 April 2019 Pensions Panel meeting (copy appended to the signed minutes).

5.2 The Board considered the minutes and noted that the year within minute 84.1 should be 2018.

5.3 The Board considered the agenda and noted that the Board had previously considered discretions.

5.4 Resolved – That the minutes and agenda be noted.

## **6. Regulations and Guidance update**

6.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

6.2 The Chairman introduced the report and explained that the most recent CIPFA bulletin had not been included and that the Good Governance Project referenced in Appendix B was included on the Board agenda.

6.3 The Board discussed report and commented on the possibility of a change in guidance. The Board felt that there was confusion with statutory and guidance information and that this required clarification.

6.4 Resolved – That the Board notes the current issues relating to Scheme Regulations and Guidance.

## **7. Business Planning and Performance**

7.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

7.2 The Chairman introduced the report and explained the report looked to bring consistency with the Business Plan for the Pensions Panel. Objectives had been included for the Board with key tasks, activities and identified risks outlined.

7.3 The Board made comments including those that follow.

- Queried the title 'West Sussex County Council Pension Fund' in the Business Plan. – *Rachel Wood (Pension Fund Investment Strategist) clarified that the County Council was the administering authority for the West Sussex Pension Fund.*
- Commented that the wrong 'complimentary' had been used in the document.
- Asked if policy documents should be considered within the work programme. – *The Chairman felt the timing of the item would depend on the work of the Pensions Panel and when different policies would be updated. Policy documents was a standing agenda item for the Board and so documents could be monitored when timing was appropriate.*
- Queried if the Business Plan would go to the Pensions Panel. – *Rachel Wood confirmed that the Business Plan would be approved by the Governance Committee and would then go to the Pensions Panel.*

7.4 Resolved – That the Board agrees the draft Business Plan for 2019/20; agrees to refer the Business Plan to the Governance Committee for their approval; and agree that the Business Plan is provided to the Pensions Panel for noting.

## **8. Review of Pension Fund Policy Documents**

8.1 The Board received a report by the Director of Finance and Support Services (copy appended to the signed minutes).

8.2 Rachel Wood introduced the report and asked members to consider the list of policy documents at Appendix A.

8.3 The Board made comments including those that follow.

- Noted the lack of Board review date in the list. – *Rachel Wood explained that the next date of review column referred to the Board. Tara Atkins (Principal Pensions Consultant (Administration & Employers)) added that the previous appendix had included the last officer review date. The Board requested that in future the appendix should include the last time the Board reviewed the document, when it should be reviewed next and a link to the document.*
- Queried the lack of the Treasury Management policy which had previously been reviewed by the Board. – *Rachel Wood resolved to add this to future appendices.*

8.4 Tara Atkins introduced the Communications Strategy and explained that processes had changed following the appointment of Hampshire County Council (HCC) for pension administration. HCC had sent out their newsletter and officers would now work with them on the format and contents for next year. Webpages had been updated to give reassurance and clarification over the change in administration provider.

8.5 The Board made comments including those that follow.

- Asked who wrote the newsletters. – *Tara Atkins confirmed that HCC wrote the newsletters, that were previously written by Capita. The process was currently in a transition period. HCC would discuss future newsletters with the Board. HCC would be expected to attend Board meetings for the Administration Procedures and Performance item which could be utilised for newsletter discussions. The Board proposed a working group with HCC on newsletters. Tara Atkins agreed to discuss this with HCC.*
- Queried the definition of 'reasonable timescales' for response to letters, emails, enquires and phone calls. – *Tara Atkins confirmed that deadlines were covered within the administration strategy. Rachel Wood clarified that the timescale would be 5 working days. The Board felt this detail should be added to the policy document.*
- The Board commented that members expect immediate response to email and acknowledged that HCC used an auto response system for emails to confirm receipt.

- Sought clarity on the phone query process. – *Tara Atkins confirmed that HCC had a dedicated team for this. The team also monitored the mailbox and would attempt to keep members informed if queries were likely to take longer than expected. The transition period was resulting in a higher volume of queries than normal.*
- Queried the frequency of payslips for pensioner members. – *Tara Atkins confirmed that pensioner members would receive an annual payslip, but would also receive another payslip if amounts changed. Payslips were available on the portal. The £1 threshold had been set by HCC.*
- Asked why the Firefighters Scheme would be looking at Pension Advisory Board documentation. – *Tara Atkins confirmed that this related to the Pension Advisory Board for the Firefighters Scheme. Tara Atkins resolved to check the title of the Board.*
- Queried if information such as 50/50 contributions was advertised. – *Tara Atkins confirmed that it was the expectation for employers to refer their employees to relevant information. Newsletters had previously included this information.*
- Felt that communications between the Pensions Panel and the Pension Advisory Board should be clarified. – *Tara Atkins noted that the Board had different objectives to the Panel.*
- Asked if Orbis could be utilised for the legal arrangements. – *Tara Atkins explained that legal were only required for admissions and not for legislative discussions.*
- Highlighted the employer briefing sessions from HCC which had been well received and attended.

8.6 Rachel Wood introduced the Funding Strategy Statement which would be a key piece of work for the valuation. The Statement outlined how the actuary would consider the funding position. The statement would be sent to employers for consideration.

8.7 The Board made comments including those that follow.

- Highlighted that the regulation extract was from Regulation 58 and not Regulation 61.
- Commented on the difficulty for the Board to ensure compliance when the guidance kept changing.
- Queried the impact of employer rates from the outcome of the McCloud case. – *Rachel Wood confirmed that employer rates were likely to increase in both outcomes of the appeal.*
- Asked if there had been much take up of ill health insurance. – *Rachel Wood confirmed that this had mainly been taken up by town and parish councils. As part of the valuation work this could be highlighted to employers.*

8.8 Resolved – That the Board notes the register of policy documents, the contents of the Communication Strategy and the Funding Strategy Statement.



## 9. Administration procedures and performance

9.1 The Board received a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

9.2 The Board welcomed Lois Downer, Deputy Head of Pensions at Hampshire County Council (HCC). Lois introduced herself to the Board and explained that HCC provided pension administration service for Hampshire Police and Hampshire Fire Services. West Sussex County Council was the only external local government client.

9.3 Tara Atkins introduced the report and reported that officers were liaising with HCC over benefit arrangements for members who had been affected by the amendment to the regulations.

9.4 The Board made comments including those that follow.

- Asked if an exit credit had ever been paid. – *Rachel Wood reported that there was currently one pending which concerned an employer who was in surplus.*
- Queried officer progress with the MHCLG Valuation Cycle consultation. – *Rachel Wood confirmed that officers were drafting a response. Officers could send Board members a draft of the response and the submitted version could be brought to the next Board meeting for noting. Officers were working on an approach to inform employers of the consultation.*
- Asked why there were so few West Sussex County Council pensioners, (14,599) out of 27,253. – *Tara Atkins commented that this may be linked to who the final employer was for the member. Rachel Wood resolved to look into this and check the figures.*
- Sought clarity on the figure for the number of employers that was missing from Appendix D. – *Rachel Wood confirmed it should be 201.*
- Commented that it would be interesting to look at the number of people who have signed up to the portal compared to the previous system. – *Rachel Wood resolved to look into this. Tara Atkins commented that the Annual Benefit Statement (ABS) notifications would be expected to increase portal sign up.*
- Sought clarity on the number of open cases from Capita that HCC were working through. – *Rachel Wood explained that HCC were working to understand the open cases and any disparity with members with open/closed cases.*

9.5 The Board commented that guidance should be statutory.

9.6 Lois Downer gave a presentation to the Board which gave an overview of Hampshire Pension Services (copy appended to the signed minutes).

9.7 Lois Downer explained that HCC used the Civica system to handle pension workflow. The system allowed urgent cases to be identified and prioritised. The system also highlighted cases nearing Service Level Agreements (SLA), which allowed them to be picked out and resolved to ensure compliance. Temporary staff had been hired to assist with the

workload following the transfer. It was acknowledged that the initial month would miss the 100% SLA due to the transfer work. Steps had been put in place to make improvements going forwards. Call volumes had been five to six times higher than expected. Members seemed reassured with how their cases were being handled. Differences had been noted with employer annual returns, and so HCC were working with West Sussex County Council on data cleansing work.

9.8 Rachel Wood confirmed that officers would be working with HCC and the actuary, Hymans Robertson, towards the valuation work. A data improvement plan was being drafted.

9.9 The Board made comments including those that follow.

- Commented that systems were only as good as the users. – *Lois Downer reported that it was a central team that inputted data, so cases were not waiting on individuals.*
- Sought clarity on the process for queries. – *Lois Downer explained that HCC had moved away from queries having an individual case officer. The central team could look into queries and also see who was the last officer to look at a case. Most queries related to estimates. The system resulted in better resilience as all officers were able to see all information. Members would still be able to speak to senior officers for complex cases.*
- Sought clarity on the process for complaints. – *Lois Downer explained that informal complaints were handled straight away, ensuring that members were not given unrealistic expectations. Formal complaints went to a specific team, which would enable lessons to be learnt as an investigation would follow.*
- Queried the sort of issues that had been discovered with the data. – *Tara Atkins reported that there were issues with historic data. Rachel Wood reported that HCC were already working on data improvements outside of the formal plan. Lois Downer confirmed that HCC were prioritising the issue as it would impact the valuation and it was important that members were able to see their ABSs.*
- Commented on the data that the Board would like to see in standard reports going forwards. – *Tara Atkins reported that officers had not had membership data discussions with HCC yet. The intention would be to match previous report information following a discussion with HCC.*
- The Board highlighted that they would want to communicate with HCC on communication newsletters.

9.10 Lois Downer expressed her wish to work openly with the County Council and resolve any transparency issues. HCC had a customer service excellence accreditation which they were keen to retain.

9.11 Resolved – That the Board notes the report and requests that reports include more data following officer discussions with Hampshire County Council.

## 10. Good Governance

10.1 The Board received a report by the Director of Finance and Support Services (copy appended to the signed minutes).

10.2 Vickie Hampshire (Finance Manager - Pension Fund Governance) introduced the report and explained that the Scheme Advisory Board (SAB) had engaged with Hymans Robertson to facilitate a consultation on good governance structures. The project was not about separating host authority pension functions but looking to ensure a good system and removing any conflicts of interest. It had been acknowledged that all funds were different. The report appendix outlined the different options. The SAB had said a status quo was not an option, but a hybrid of options was expected.

10.3 The Chairman spoke through the different options that had been proposed during the project and some of the consultation responses that had been received. Comments received had included concerns like the lack of elected member continuity following elections; recruitment for authorities if they had recruitment bans in place; representation impact for county, district and parish; conflicts of interest with fund goals versus authority goals.

10.4 The Board made comments including those that follow.

- Queried the impact of the changes during pooling arrangements. – *The Chairman felt that the governance arrangements for West Sussex were as good as they should be and was not aware of any conflicts. Any option introduced would ensure clearer guidance for what all parties should be doing.*
- Asked if pools consolidating the administration arrangements had been considered. – *Rachel Wood confirmed that administration had been discussed in the past.*
- Raised concerns over the cost of any changes. – *Vickie Hampshire confirmed that the cost of options would be considered.*

10.5 The Chairman confirmed that he was due to meet with Steven Law from Hymans Robertson and would be discussing his views. Other Board members were encouraged to contact Vickie Hampshire if they had any particular views.

10.6 Resolved – That the Board notes the report and asks that their comments be passed to Hymans Robertson.

## 11. Training

11.1 The Board received a document outlining the training that been recorded for Board members (copy appended to the signed minutes).

11.2 The Board made comments including those that follow.

- Queried if the Pension Regulator Toolkit had been updated since it was completed by the Board members. – *Vickie Hampshire resolved to look into this.*

- Sought an update on Internal Audit training. – *Rachel Wood noted that Internal Audit training had been proposed for November. Vickie Hampshire resolved to look into training timeframe to see if the training would align with the November plan.*

11.3 Resolved – That the Board members note the training log and will continue to report progress on training.

## **12. Date of Next Meeting**

12.1 The Board noted that its next scheduled meeting would take place on Wednesday 4 September 2019 at 9.30 a.m. at County hall, Chichester.

## **13. Exclusion of Press and Public**

Resolved – That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

## **14. Part II Minutes of the last meeting**

The Board agreed the Part II minutes of the 6 March 2019 meeting.

## **15. Pensions Panel Minutes – Part II**

The Board noted the contents of Part II minutes from the 28 January 2019 Pensions Panel meeting.

## **16. Investment Pooling**

The Board considered an Investment Pooling report by the Director of Finance and Support Services which had gone to the 29 April 2019 Pensions Panel Meeting.

The Director's title at the time of the Pensions Panel was Director of Finance, Performance and Procurement.

The Board noted the report.

The meeting ended at 12.35 pm

Chairman

## Pension Advisory Board

4 September 2019

### Progress Report

<b>Date received / Minute No:</b>	<b>Subject:</b>	<b>Matters Arising</b>	<b>Officer Contact:</b>
<b>22/11/18 Minute No. 77.5 1st Bullet</b>	<b>Pensions Panel Representative Member Roles</b>	Change in role title	Rachel Wood
<b>May Update</b>	<p>The Board queried if the Pensions Panel's 'Employee' representative role should be 'Member' representative.</p> <p style="text-align: right;"><b>In Progress</b></p> <p style="text-align: right;">Wording to be updated and considered in report going to the 25 November Governance Committee.</p>		
<b>22/11/18 Minute No. 77.5 3rd Bullet</b>	<b>Governance Policy and Compliance Statement</b>	References to the Board	Rachel Wood
<b>May Update</b>	<p>Query if there should be more references to the Board, e.g. Board meeting frequency.</p> <p style="text-align: right;"><b>In Progress</b></p> <p style="text-align: right;">Document to be updated pending the outcomes from the Hymans Robertson Good Governance report</p>		
<b>22/11/18 Minute No. 77.5 4th Bullet</b>	<b>Governance Policy and Compliance Statement</b>	Representative member duration	Rachel Wood
<b>May Update</b>	<p>The Board sought clarity on the terminology 'usual maximum length' of representative members.</p> <p style="text-align: right;"><b>In Progress</b></p> <p style="text-align: right;">Reference to terms of reference will be included in paper that is going to the 25 November Governance Committee.</p>		
<b>06/03/19 Minute No. 89.3</b>	<b>The Pension Regulator</b>	Invitation to a Board meeting	Rachel Wood
<b>May Update</b>	<p>The Board proposed inviting The Pension Regulator to a future Board meeting</p> <p style="text-align: right;"><b>In Progress</b></p> <p style="text-align: right;">To be scheduled</p>		

<b>Date received / Minute No:</b>	<b>Subject:</b>	<b>Matters Arising</b>	<b>Officer Contact:</b>
<b>22/05/19 Minute No. 8.3 1st Bullet</b>	<b>Review of Pension Fund Policy Documents</b>	Policy review dates	Rachel Wood
<b>September Update</b>	<p>The Board requested that the Policy report appendix should include the last time the Board reviewed a document, when it should be reviewed next and a link to the document.</p> <p style="text-align: right;"><b>Complete</b></p> <p style="text-align: right;">Detail added to reports.</p>		
<b>22/05/19 Minute No. 8.3 2nd Bullet</b>	<b>Review of Pension Fund Policy Documents</b>	Treasury Management Policy	Rachel Wood
<b>September Update</b>	<p>The Board queried the lack of Treasury Management Policy in the report appendix.</p> <p style="text-align: right;"><b>Complete</b></p> <p style="text-align: right;">Detail added to reports.</p>		
<b>22/05/19 Minute No. 8.5 3rd Bullet</b>	<b>Review of Pension Fund Policy Documents</b>	Newsletters	Tara Atkins
<b>September Update</b>	<p>The Board proposed a working group with Hampshire County Council to look at newsletters</p> <p style="text-align: right;"><b>In Progress</b></p> <p style="text-align: right;">Officers to raise this proposal with Hampshire County Council.</p>		
<b>22/05/19 Minute No. 9.4 2nd Bullet</b>	<b>Administration procedures and performance</b>	MHCLG Valuation Cycle consultation	Rachel Wood
<b>September Update</b>	<p>The Board asked to see the consultation response.</p> <p style="text-align: right;"><b>Complete</b></p> <p style="text-align: right;">This was provided at the 24 July Pension Panel and is included within the current Board agenda.</p>		
<b>22/05/19 Minute No. 9.4 3rd Bullet</b>	<b>Administration procedures and performance</b>	Pensioner numbers	Rachel Wood
<b>September Update</b>	<p>The Board queried the number of pensioners within the West Sussex Pension Fund.</p> <p style="text-align: right;"><b>Complete</b></p> <p style="text-align: right;">Officers investigated and found that there has been an error in transposing figures to the wrong categories.</p> <p style="text-align: right;">There were 10,547 West Sussex County Council pensioners out of a total of 19,895 (53%)</p>		

<b>Date received / Minute No:</b>	<b>Subject:</b>	<b>Matters Arising</b>	<b>Officer Contact:</b>
<b>22/05/19 Minute No. 9.4 5th Bullet September Update</b>	<b>Administration procedures and performance</b>	Pension portal usage	Rachel Wood
	<p>The Board queried the number of people who have signed up to the portal compared to the previous system.</p> <p style="text-align: right;"><b>Complete</b></p> <p>As of 31 March 2018 there were 16,599 registered users on the Capita portal (25% of total membership at the time).</p> <p>Portal data will continue to be reported in each monitoring report.</p>		

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## **Pension Advisory Board**

**4 September**

### **Pensions Panel Meetings**

#### **Report by the Chairman of the Pension Advisory Board**

##### **Executive Summary**

The Board is asked to consider the minutes of the Panel's meeting on 29 April, the agendas for the meeting of the Panel on 24 July and the Annual Meeting with employers that followed. The report includes the Chairman's brief overview of those meetings.

##### **Recommendations**

That the report is noted.

#### **1. Pensions Panel minutes and agenda**

- 1.1 A copy of the signed minutes of the Panel's meeting on 29 April and the agenda for the meeting on 24 July are attached to this report.

#### **2. Pensions Panel**

- 2.1 The Pension Advisory Board (PAB) Chairman gave the Panel a brief outline of the Board's work in introducing the PAB minutes of the meeting on 6 March and the agenda for 22 May. It was noted that the Board would be considering the annual report at its next meeting and that the draft Funding Strategy Statement had been reviewed on 22 May. The responses from employers were noted.
- 2.2 Under Part II of the agenda, the Panel discussed in some detail the progress being made on the transition of assets into the ACCESS pool, administration performance under the new arrangements, and investment performance, receiving presentations from Aberdeen Standard (property) and Baillie Gifford (multi-asset).
- 2.3 The Panel asked about administration performance and were informed that due to 'inherited' backlogs and a greater volume of workload than expected, cases had to be prioritised but that it was hoped the position would be resolved by December. Work was progressing well on end-year data processing which is a high priority for the valuation.
- 2.4 The PAB Chairman informed the Panel that PAB had considered whether it should be directly represented on the ACCESS Joint Committee but had concluded that this was not necessary as the PAB's role in relation to investments was more focussed on the Panel's arrangements for compliance and performance monitoring.
- 2.5 The PAB Chairman was able to form the view that the Panel was diligent in its work, well informed and that good governance was evident.

### **3. Annual Meeting with employers**

- 3.1 The agenda for this meeting is included as an appendix. The PAB Chairman together with two other members of the Board joined the Annual General Meeting. Members of the Panel also joined the meeting, which was introduced by the Panel Chairman, and there were a reasonable number of employers represented.
- 3.2 Presentations were made covering the draft annual report and accounts, investment markets (Baillie Gifford), actuarial matters (Hymans Robertson) and an update on pension administration (Hampshire were in attendance).
- 3.3 A number of questions were raised by those attending, particularly in relation to the valuation process and when the new contribution rates would be announced. There was a question about addressing the impact of climate change on the Fund's investments

### **4. Equality Impact Review**

- 4.1 An Equality Impact Review is not required as there are no relevant decisions to be taken.

#### **Peter Scales**

Chairman of the Pension Advisory Board

**Contact:** Adam Chisnall, Democratic Services Officer, 033 022 28314

#### **Appendices**

Appendix A - Pensions Panel minutes (Part I) of 29 April 2019

Appendix B - Pensions Panel agenda for 24 July 2019

Appendix C - Annual Meeting agenda for 24 July 2019

## **Pensions Panel**

29 April 2019 – At a meeting of the Pensions Panel held at 10.30 am at County Hall, Chichester.

Present: Mr Hunt (Chairman)

Mr Bradford, Mr Elkins, Mr Jupp, Mrs Urquhart, Dr Walsh, Mr Donnelly and Ms Taylor

Apologies were received from Mrs Dennis

### **Part I**

#### **1. Declarations of Interests**

1.1 Mr Donnelly declared a personal interest as he was a shareholder with Aberdeen Standard and Baillie Gifford.

1.2 Mr Hunt declared a personal interest as Chairman of the Chichester Harbour Conservancy.

#### **2. Part I Minutes of the last meeting**

2.1 The Panel agreed an amendment to the final sentence in minute 86.3; changing 'would look' to 'were looking'.

2.2 Resolved – That the Part I minutes of the Pensions Panel held on 28 January 2019, amended as above, be approved as a correct record, and that they be signed by the Chairman.

#### **3. Business Plan 2019/20**

3.1 The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

3.2 Rachel Wood, Pension Fund Investment Strategist, introduced the report and explained that the Business Plan looked at the priorities for 2019/20. A key piece of work would be the valuation taking place in 2019. A transfer would also be taking place to a new custodian, Northern Trust. It was also reported that the Scheme Advisory Board had commissioned Hymans Robertson to do some work on Good Governance.

3.3 The Panel made comments including those that follow.

- Queried the increase in costs by 30%. – *Rachel Wood explained that this was a reflection of Hampshire County Council as the new pension administration provider. It was clearly understood at the time of the decision to transfer, that costs would increase, regardless of the provider, in order to provide a better service for members. As service improved it was hoped that costs may reduce, such as actuary costs reducing due to improved reporting mechanisms.*

- The Panel discussed the different roles of the Pensions Panel and the Pension Advisory Board.
- Requested clarity on which training sessions would be useful to attend. - *Rachel Wood explained that all training invitations came with recommendations, but officers could look at bespoke individual member recommendations.*

3.4 Resolved – that the Panel notes the updates to the 2018/19 Business Plan and agree the proposed activities for the 2019/20 financial year.

#### **4. Policy Documents (Administering Authority Discretions, Administration Strategy and Communication Policy Statement)**

4.1 The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

4.2 Rachel Wood introduced the report which outlined the policy documents which had been changed as part of the transfer of pension administration to Hampshire County Council. The Pension Advisory Board, and employers had reviewed Administering Authority Discretions and the Administration Strategy

4.3 The Panel commented that schools may find it difficult to pay up front retirement costs and queried if this was normal practice. - *Rachel Wood explained that it was normal practice for schools to pay a lump sum, but there was an option to spread the cost over three years. It was normal for there to be up front payments. Steven Law, Hymans Robertson, added that the size would be capped soon and that there was currently a consultation out on this. Rachel Wood confirmed that employers could always have a discussion with Katharine Eberhart, Director of Finance, Performance and Procurement, if they wished to discuss costs.*

4.4 Resolved – That the Panel notes the Administering Authority Discretions; the Administration Strategy; and the Communication Policy Statement.

#### **5. Administration Transfer and Performance**

5.1 The Panel considered a paper by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

5.2 Rachel Wood introduced the report and explained that the transfer of the Pension Administration service, which commenced on 4<sup>th</sup> March, had been successfully completed. The performance information in the report covered a two-week period. Officers were working with Hampshire County Council on legacy issues. Communications had been sent to all active members referring them to the new pension portal, pensioner members would receive communications soon, followed by deferred members.

5.3 Andrew Lowe, Hampshire County Council (HCC), joined the meeting and reported that targets had been hit and that April performance was looking good. Employer training sessions had been run and newsletters

had been published. HCC were currently receiving high call volumes and were answering 80% of calls. West Sussex calls were taking longer to complete due to the complexity of issues being raised following the transfer. There were currently no concerns on the volume, but the situation would be monitored and extra resources added if necessary.

5.4 The Chairman commented that he felt the transfer had gone well. Ms Taylor reported that she had received no complaints from UNISON members, and personally found the portal easy to use.

5.5 The Panel made comments including those that follow.

- Queried the missing figure at paragraph 6 in the report. – *Rachel Wood confirmed this should be 120.*
- Sought clarity on how complaints were being handled. – *Rachel Wood reported that complaints were still being received, but HCC were turning queries around quickly. Many complaints had subsequently turned into compliments. Issues were expected to reduce when HCC were operating at a 'business as usual' level.*

5.6 Resolved – That the Panel notes the update.

## **6. Date of the next meeting**

6.1 The Panel noted that its next scheduled meeting would take place on 24 July 2019 at County Hall, Chichester.

## **7. Exclusion of Press and Public**

Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

## **8. Part II Minutes of the last meeting**

The Panel agreed the Part II minutes of the Pensions Panel held on 28 January 2019.

## **9. Investment Strategy**

The Panel considered a report by the Director of Finance, Performance and Procurement.

The Panel considered the report and made recommendations to officers concerning the Investment Strategy for the pension fund.

## **10. Investment Pooling**

The Panel considered a report by the Director of Finance, Performance and Procurement.

The Panel considered the report and made recommendations for pooled investments.

**11. Review of Pension Performance**

The Panel considered a paper by the Director of Finance, Performance and Procurement.

The Panel received an update from Caroline Burton relating to the quarterly performance reports from the fund managers.

The Panel welcomed the advice.

**12. Presentation by UBS**

The Panel received an update from Malcolm Gordon, Jonathan Davies and Steve Magill from UBS on the portfolio performance for the quarter.

**13. Triennial Valuation (Funding Strategy Statement)**

The Panel considered a report by the Director of Finance, Performance and Procurement.

The Panel noted the timetable for the triennial valuation.

The meeting ended at 2.15 pm

Chairman

**Tony Kershaw**  
Director of Law and Assurance

If calling please ask for:

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16 July 2019

## **Pensions Panel**

A meeting of the panel will be held at **10.30 am** on **Wednesday, 24 July 2019** at **County Hall, Chichester**.

**Tony Kershaw**  
Director of Law and Assurance

## **Agenda**

### **Part I**

10.30 am      1.      **Declarations of Interests**

Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make any declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered.

It is recorded in the register of interests that:

- Mr Donnelly is a Horsham District Councillor
- Mr Hunt is the Chairman of the Chichester Harbour Conservancy
- Mr Jupp has a daughter who works for Blackrock
- Dr Walsh is a Member of the Littlehampton Harbour Board, Arun District Council and Littlehampton Town Council

These financial interests only need to be declared at the meeting if there is an agenda item to which they relate.

10.32 am      2.      **Part I Minutes of the last meeting** (Pages 5 - 8)

The Panel is asked to agree the Part I minutes of the meeting of the Panel held on 29 April 2019 attached (cream paper).

10.34 am      3.      **Urgent Matters**

Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.

- 10.34 am 4. **Part II Matters**
- Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.
- 10.35 am 5. **Pension Advisory Board Minutes - Part I**
- The Panel is asked to note the confirmed Part I minutes from the meeting of the Pension Advisory Board on 6 March 2019 and the agenda from the meeting of the Pension Advisory Board on 22 May 2019.
- (a) **6 March - Part I Pension Advisory Board Minutes** (Pages 9 - 16)
- (b) **22 May - Pension Advisory Board Agenda** (Pages 17 - 20)
- 10.40 am 6. **Annual Report and Accounts** (Pages 21 - 100)
- Report by the Director of Finance and Support Services
- The Panel is asked to consider the recommendation within the report.
- 10.55 am 7. **Funding Strategy Statement** (Pages 101 - 158)
- Report by the Director of Finance and Support Services.
- The Panel is asked to consider the recommendation within the report.
- 11.15 am 8. **Business Plan** (Pages 159 - 164)
- Report by the Director of Finance and Support Services.
- The Panel is asked to consider the recommendation within the report.
- 11.35 am 9. **Date of the next meeting**
- The next meeting of the Pensions Panel will be 10.00 a.m. 25 October 2019 at County Hall.

**Part II**

- 11.35 am 10. **Exclusion of Press and Public**
- The Panel is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the



case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

- 11.35 am      11.      **Part II Minutes of the last meeting** (Pages 165 - 170)
- To confirm the Part II minutes of the meeting of the Panel held on 29 April 2019, for members of the Panel only (yellow paper).
- 11.38 am      12.      **Pension Advisory Board Minutes - Part II** (Pages 171 - 174)
- The Panel is asked to note the confirmed Part II minutes from the meeting of the Pension Advisory Board on 6 March 2019 (yellow paper).
- 11.40 am      13.      **ACCESS Update** (Pages 175 - 180)
- Report by the Director of Finance and Support Services attached for members of the Panel only (yellow paper).
- The Panel is asked to consider the recommendations within the report.
- 11.50 am      14.      **Administration Performance** (Pages 181 - 186)
- Report by the Director of Finance and Support Services attached for members of the Panel only (yellow paper).
- The Panel is asked to consider the recommendations within the report.
- 12.00 pm      15.      **Review of Pension Performance**
- The following reports are for the Panel to review Pension performance over the last quarter.
- (a)      **Transaction and Performance** (Pages 187 - 274)
- Portfolios from Aberdeen Standard and Baillie Gifford are attached for members of the Panel only. The UBS report is to follow.
- Paper by the Director of Finance and Support Services summarising transactions and performance during the quarter, for members of the Panel only (yellow paper) – to follow.
- (b)      **Independent Fund Advisor Comments**
- Paper from the independent fund advisor giving comments on the quarter, for members of the Panel only (yellow paper) – to follow.
- 12.10 pm      16.      **Presentation by Baillie Gifford**

The Panel to receive a presentation on portfolio performance.

**To all members of the Pensions Panel**

**Tony Kershaw**  
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If calling ask for Rachel Wood

17 July 2019

## **ANNUAL MEETING BETWEEN THE WEST SUSSEX COUNTY COUNCIL PENSION FUND PENSIONS PANEL AND THE EMPLOYERS IN THE FUND**

A meeting will be held with employers in the fund on Wednesday 24 July at 2.15 pm at County Hall Chichester.

Please note that the meeting is in Committee Room 3, County Hall, Chichester, West Sussex, PO19 1RQ.

Tony Kershaw  
 Director of Law and Assurance

### **Agenda**

- |         |    |   |
|---------|----|---|
| 2.15 pm | 1. | <b>Welcome</b>  |
| 2.20 pm | 2. | <b>Draft Annual Report of the Pension Fund</b><br><br>The draft Annual Report of the Pension fund for the year ended 31 March 2019  |
| 2.35 pm | 3. | <b>Investment Markets</b><br><br><b>Tim Gooding and Anne-Marie Gillon (Baillie Gifford)</b><br>outline their views on markets, investment returns and outlook for the future. |
| 2.50 pm | 4. | <b>Actuarial Matters</b><br><br><b>Steven Law (Hymans Robertson)</b> will provide an update on funding and valuation matters.   |
| 3.10 pm | 5. | <b>Pension Administration Update</b><br><br><b>West Sussex County Council and Hampshire County Council</b> to provide an update on the pension administration services        |
| 3.25 pm | 6. | <b>Close</b>  |

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**Pension Advisory Board****4 September 2019****Business Plan Update****Report by the Chairman of the Pension Advisory Board****Executive Summary**

The Board approved its Business Plan for 2019/20 and 2020/21 at its meeting on 22 May 2019. This report provides an update on progress against the Plan and provides an opportunity for the Board to consider any changes to the risk profiles or work plan. A copy of the update report to the Pensions Panel is also included.

**Recommendation**

That the updates to the Business Plans of the Board and the Panel are noted.

**1. Background**

- 1.1 The Board agreed its Business Plan on 22 May which was approved by the Governance Committee on 24 June. The Board agreed to review progress on the Plan at each meeting and update the Plan where necessary.

**2. Business Plan update**

- 2.1 A brief review of progress in delivering key tasks is set out in Appendix A and includes an 'aide memoire' column as a reminder of action to be taken. For ease of reference, Appendix B is the work plan agreed for 2019-20.
- 2.2 The Board is making good progress on core activities but more work is needed on administration performance data, communications, pool governance arrangements and training needs. The intention to review MHCLG guidance on pooling and a revised Investment Strategy Statement in September is deferred awaiting action from MHCLG.
- 2.3 The report by Hymans Robertson on Good Governance was published at the end of July and is included as a background paper for ease of reference. [See also Agenda Item 9 "Governance Reviews and Surveys".] The expectation is that the governance framework will be subject to change but that a clearer indication of this will not be available until the calendar year end. Inevitably this will impact on the Business Plan at some point over the next six months.

**3. Risks**

- 3.1 A new potential risk has been identified in relation to SAB and tPR surveys where there is a danger of those bodies misinterpreting 'crude' responses to survey questions. The outcome of the Good Governance review may offer the opportunity to clarify roles and responsibilities, and also the methods of monitoring and accountability.

#### **4. Training**

- 4.1 The agreed Training Strategy is being followed and training activity recorded on the log for regular review. All members have completed the tPR toolkit but there is no further news as to when this will be revised.
- 4.2 Both the Scheme Advisory Board and the Pensions Regulator have indicated that regulations and guidance are under review, and will lead to a need to update and review requirements for knowledge and understanding.

#### **5. Pensions Panel Business Plan**

- 5.1 Given the link now established between the Board's and the Panel's Business Plans a copy of the Update Report for the Panel's Plan is attached as Appendix C.
- 5.2 The Board may find the update on priorities a useful summary of how the Panel's work is progressing and the issues covered. They may also wish to consider whether the Board's update report should be submitted to the Panel for noting in order to extend the sharing of information between the Board and the Panel.

#### **6. Equality Impact Review**

- 6.1 An Equality Impact Review is not required as there are no relevant decisions to be taken.

#### **Peter Scales**

Chairman of the Pension Advisory Board

**Contact:** Adam Chisnall, Democratic Services Officer, 033 022 28314

#### **Appendices**

Appendix A - Update on progress on Business Plan

Appendix B - PAB Work Plan 2019/20

Appendix C - Update report on Pensions Panel Business Plan

Appendix D – Training Log

#### **Background papers**

[Hymans Robertson's report on good governance in the LGPS July 2019](#)

## Pension Advisory Board - Business Plan 2019/20

### Update on progress to 4 September 2019

#### Aide memoire

##### Business planning and performance

- Programme of work, budget and resources agreed 22/05/19
- Plan reported to Governance Committee and Pensions Panel
- Attendance at Pensions Panel and AGM in July

- Arrange self-assessments for January
- No new risks

##### Compliance checks

- Register of interests linked on website
- Members attended briefing on statement of accounts
- Annual Report and Accounts reviewed 04/09/19
- Draft FSS reviewed 22/05/19
- Communications Policy reviewed 22/05/19
- Regulation changes, LGPC Bulletins and SAB meeting notes reviewed at each meeting

- Monitor LGPS website
- Monitor SAB website
- No new risks

##### Governance arrangements

- Pensions Panel meetings monitored
- SAB meeting notes monitored for policy changes
- SAB draft survey considered 04/09/19
- PAB minutes now reported to Pensions Panel
- Contribution made to Good Governance Review

- Watch for tPR survey
- New risk of misinterpretation by SAB and tPR

##### Administration procedures and performance

- Reports from Hampshire and pension team reviewed at each meeting
- Key monitoring indicators being developed
- Data recovery plan under review
- Key requirements being reported to Panel and PAB

- Early workload problems
- Monitor priorities
- ABS performance

##### Investment and funding

- Progress on MHCLG guidance being monitored
- FSS reviewed in draft - employers' comments noted
- Receiving reports on valuation process
- Request for ACCESS governance memorandum

- Watch for new guidance
- Role to be clarified by SAB

##### Communications

- More information requested on use of portal
- Monitoring transition to new administrator

- Pick up role on newsletters

##### Training

- Training log maintained and reviewed
- Monitoring 'outwash' from Good Governance review

- Be alert to training needs

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## Pension Advisory Board - Work plan for 2019-20

Standing agenda items	
Declarations of interests and conflicts Minutes of the previous meeting Progress report Pensions Panel business Business planning and performance Regulations and guidance update Review of pension fund policy documents Administration procedures and performance Investment pooling and ACCESS work update Training	
Wednesday 4 September 2019	
PrAM: 31 Jul	Despatch: 26 Aug
Standing agenda items  Special activities and reviews <ul style="list-style-type: none"> <li>• Review annual report and CIPFA guidance</li> <li>• Review ISS and MHCLG guidance</li> </ul>	
Wednesday 20 November 2019	
PrAM: 30 October	Despatch: 11 Nov
Standing agenda items  Special activities and reviews <ul style="list-style-type: none"> <li>• Review internal audit programme</li> <li>• Test internal controls for potential weaknesses</li> </ul>	
Wednesday 26 February 2020	
PrAM: 5 Feb	Despatch: 17 Feb
Standing agenda items  Special activities and reviews <ul style="list-style-type: none"> <li>• Review other local pension boards operations</li> <li>• Reviewing tPR e-training requirements</li> </ul>	

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<b>Pension Panel</b>
<b>24 July 2019</b> <b>Part 1</b>
<b>Business Plan Update</b>
<b>Report by Director of Finance and Support Services</b>
<p><b>Summary</b></p> <p>The Pensions Panel approved its Business Plan for 2019/20 when it met on 29 April 2019.</p> <p>The Panel will receive an update on progress against the Business Plan objectives, details impact on risk (where applicable) and proposes actions each quarter.</p> <p><b>Recommendation</b></p> <p>That the updates to the Business Plan are noted.</p>

## Background

1. The Business Plan sets out the aims and objectives of the fund over the coming year, its core work and how the objectives will be achieved.
2. The Pensions Panel approach, historically, has been to review its business plan annually at the start of the year and consider the risks faced by the Fund. A report based on any emerging key business issues, any issue with the highest levels of risk identified, any area of concern with administration performance or any other matter the Director of Finance Performance and Procurement wishes to bring to the attention of the Panel is then provided to the Panel each quarter.
3. The Fund's overarching objectives are set out below:
  - **Governance:** Act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, and well based, ensuring sound governance, risk management and compliance and that the management of the Fund is undertaken by people who have the appropriate knowledge and expertise.
  - **Investments and Funding:** To maximise returns from investments within reasonable risk parameters and with clear investment decisions based on a prudent long term funding priorities given the preference to keep employer contribution rates are reasonably stable where appropriate.
  - **Administration and Communication:** Deliver a high quality administration service to all stakeholders with processes and procedures to ensure that the Fund receives all income due and payments are made to the right people at the right time, clear communication and robust accounting and reports.

## Update on Business Plan Priorities – Q1

4. The table below provides an update on the Business Plan Priorities for 2019/20.

	Area	Update
<b>a)</b>	Pension Administration (including Employer data quality)	<p>Hampshire Pension Services have completed their End of Year process to provide updated membership data for the Actuarial Valuation and to members via the Annual Benefit Statements.</p> <p>Work is now underway between Hampshire Pension Services and West Sussex County Council to agree and implement plans for data quality improvement.</p> <p>A detailed update is provided elsewhere on the agenda.</p>
<b>b)</b>	Reconciliation to HMRC of GMP (Guaranteed Min Pension)	Results from the Capita specialist Guaranteed Minimum Pension (GMP) team on the responses from HMRC to the reconciliation issues raised are expected in September 2019. This will determine appropriate 'next steps'.
<b>c)</b>	Annual Report and Accounting	<p>The Annual Reports has been provided to the Pension Panel for their consideration and the Accounts have been approved by the County Council's Regulation, Audit and Accounts Committee following external audit work by Ernst &amp; Young.</p> <p>A detailed update is provided elsewhere on the agenda.</p>
<b>d)</b>	GDPR	No update.
<b>e)</b>	Investment Strategy	Following the Pension Panel's decision in April officers have engaged with the County Council's procurement team to determine the appropriate route.
<b>f)</b>	<p>Working collaboratively on the ACCESS Pool</p> <p>Working at Fund level to reflect the addition of the ACCESS Pool</p>	<p>The ACCESS Joint Committee met on 11 June 2019 and considered matters including transfer of assets to the Authorised Contractual Scheme and the governance arrangements relating to the Pool.</p> <p>A detailed update is provided elsewhere on the agenda.</p>
<b>g)</b>	ESG	Further representation has been made by Worthing Climate Action Network to the Chairman regarding the Pension Fund's investment strategy and holdings in fossil fuel companies.

	It is proposed that the Pension Panel receive further training on this matter in the autumn.
<b>h)</b> Custodian transition	The transfer to the new custodian (Northern Trust) was completed on schedule (1 July 2019).
<b>i)</b> 2019 valuation preparation	The draft Funding Strategy Statement has been considered by the Pension Advisory Board and circulated to employers as part of the Pension Fund's consultation.  Data is due to be submitted to the Actuary in late June 2019.
<b>j)</b> Work by the Scheme Advisory Board	Engagement with employers on the valuation outcomes is expected in Autumn 2019. Officers have participated in the Good Governance survey, commissioned by the Scheme Advisory Board. An initial report is expected later in July 2019.

## Risks

- There are no changes to the risks relating to the Pension Fund activities to draw to the Pension Panel's attention.
- The Risk Monitor is included in Appendix 1.

## Training

- A Training Strategy has been established to aid the Pension Panel and Pension Advisory Board members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities.
- Appropriate training events are listed below for the Panel to consider:

Dates	Event	Venue
5 – 6 September 2019	LGC Investment Summit	Celtic Manor, Newport
25 September 2019	CIPFA Introduction to the LGPS	Canary Wharf, London
1 October 2019	UBS Trustee Training Step 1	Liverpool Street, London
3 October 2019	LGA Fundamentals Day 1	Westminster, London
9 – 10 October 2019	Baillie Gifford LGPS Conference	Edinburgh
5 November 2019	UBS Trustee Training Step 2	Liverpool Street, London
6 November 2019	LGA Fundamentals Day 2	Westminster, London
13 November 2019	CIPFA Pensions Network Conference	London Stock Exchange, London
18 December 2019	LGA Fundamentals Day 3	Westminster, London
18 – 20 May 2020	PLSA Local Authority Conference	Cotswolds

**Katharine Eberhart**

**Director of Finance and Support Services**

Contact: Rachel Wood, Pension Fund Strategist (0330 222 3387)

## Appendix 1

<b>Risk Theme</b>	<b>Action</b>
Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy	Prudent assumptions adopted by the Fund Actuary. Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement. Regularly review investment performance and funding levels.
Insufficient resources to comply with the Administering Authority's Regulatory responsibilities.	Develop and monitor Business Plan on a regular basis. Ensure service contracts are clearly specified and obligations met.
Poor quality data resulting in error and misstatement.	Develop and implement a Data Improvement Plan. Maintain robust accounting records.
Officer, Panel and Board knowledge and understanding resulting in poor decision making and disengagement on key issues.	Develop, implement and monitor a Training Strategy.
Performance of the Fund's assets creates volatility and pressure on employer contribution rates.	Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement. Clear Investment Management Agreements in place. Regularly review investment performance and funding levels. Consideration of Environmental, Social and Governance issues on the performance of the portfolio.
The introduction of asset pooling impacts on the Fund's ability to implement its investment strategy successfully or the Administering Authority is considered to not comply with the relevant statutory guidance.	Continued strong involvement in the work of the ACCESS Group at officer and at Fund Chairman level.
Change to payroll and pension admin provider resulting in incomplete or inaccurate data being transferred and stakeholders not adopting new requirements.	Well defined project which is robustly managed including appropriate due diligence and testing throughout the project. Clear communication with stakeholders during project and as part of business as usual.
Failure to secure value for money through managing contracts with third parties	Strong contract management Compliance with procurement requirement and standing orders for provision of services to the Fund.
Political environment (locally or nationally) impact on investment markets and legislative requirements.	Work closely with investment managers, other suppliers and advisers to understand potential impacts and responses. Develop, implement and monitor a Training Strategy.
Conflict of interest for members and employers	Clearly defined roles and responsibilities for those working for the Pension Fund. Maintenance of Conflict of Interest policy and register by the County Council.
Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations.	Clear Admission Agreements in place. Guidance published and reviewed relating to the Scheme requirements. Proactive engagement with employers.
Cyber crime resulting in personal data for members being accessed fraudulently.	Strong IT environment for administration system and web-based Portals.

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**Training Sessions Delivered at County Hall and External**

	22 June 2015	22 June 2015	23 October 2015	23 October 2015	16 March 2016	6 December 2016	27-Feb-17	2 March 2017	21 June 2017	28 June 2017	29 & 30 June 2017	5 July 2017	19 September 2017
	Training from Baillie Gifford on Investment Managers work	Training from Steve Harrison on background of the West Sussex LGPS	Training from Peter Scales on Pension Board Governance	Training from Clare Chambers on the work of Capita	Training from EY and from Internal Audit	Training from Peter Scales on the Investment Regulations	CIPFA LGPS Spring Seminar for LPPs	Training from Richard Cohen on the UK taxation system and the wider pension landscape.	Pensions Panel Induction Training	CIPFA LPBs Two Years On	LGA LGPS Trustees Conference	LGPS Pooling Update	Pension and Lifetime Savings Conference
Peter Scales	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓	✓
Richard Cohen	✓	✓	✓	✓	✓			✓	✓			✓	✓
Christopher Scanes	✓	✓	✓	✓	✓	✓		✓			✓	✓	
Kim Martin						✓		✓	✓				
Tim Stretton													
Becky Caney													
Miranda Kadwell													

	26 February 2018	13-Jun-18	27-Jun-18	18-Jul-18	15-Oct-18	21-Nov-18	27-Feb-19	06-Mar-19	22-May-19	13-Jun-19	26-Jun-19
	CIPFA Local Pension Board seminar	WSPF Financial statements	CIPFA Local Pension Board Annual Event	Risk Framework (internal training)	CIPFA Local Pension Board seminar	Actuary Training	CIPFA Local Pension Board Seminar	WSPF Overview	Hampshire Pension Administration Training	Financial Statement Training	CIPFA Local Pension Board Annual Event
Peter Scales	✓	✓		✓	✓	✓	✓	✓	✓		
Richard Cohen		✓		✓		✓		✓	✓	✓	
Christopher Scanes		✓	✓	✓		✓	✓	✓	✓		
Kim Martin		✓				✓		✓	✓	✓	
Tim Stretton	✓		✓			✓		✓	✓		✓
Becky Caney						✓		✓	✓		
Miranda Kadwell						✓	✓	✓	✓		

### Pension Regulator Toolkit - Module Progress

	Conflicts of Interest	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
Peter Scales	Passed	Passed	Passed	Passed	Passed	Passed	Passed
Becky Caney	Passed	Passed	Passed	Passed	Passed	Passed	Passed
Richard Cohen	Passed	Passed	Passed	Passed	Passed	Passed	Passed
Miranda Kadwell	Passed	Passed	Passed	Passed	Passed	Passed	Passed
Kim Martin	Passed	Passed	Passed	Passed	Passed	Passed	Passed
Christopher Scanes	Passed	Passed	Passed	Passed	Passed	Passed	Passed
Tim Stretton	Passed	Passed	Passed	Passed	Passed	Passed	Passed

## **Pension Advisory Board**

**4 September 2019**

### **Regulations and Guidance Update**

#### **Report by the Chairman of the Pension Advisory Board**

##### **Executive Summary**

Members of the Pension Advisory Board (PAB) are required to maintain a suitable level of knowledge and understanding in relation to the Scheme Regulations and Guidance.

This report provides an update on issues covered by the LGPC bulletins, by the Scheme Advisory Board at its meeting on 8 July 2019, and other guidance.

##### **Recommendations**

The Board is asked to note the current issues relating to Scheme Regulations and Guidance.

#### **1. Knowledge & Skills Resources**

- 1.1 Access to the LGPS website remains the primary source of information on the LGPS regulations and guidance, and to changes under consideration or consultation. There are no new regulations of which Board members should be aware

#### **2. LGPS Bulletins**

- 2.1 Since the May meeting report was prepared, LGPC have issued four bulletins and brief details of these, together with a brief status report on any action required, including in relation to past bulletins, are set out in **Appendix A**. Full details are available on the LGPC website.

#### **3. Scheme Advisory Board**

- 3.1 A summary of the meeting held on 8 July 2019 has been issued and is attached at **Appendix B**. More details are available on the website. [[www.lgpsboard.org](http://www.lgpsboard.org) "Board Publications" section] Progress on the Good Governance review and the annual survey are reported separately on the agenda.

#### **4. Guidance**

- 4.1 **MHCLG draft guidance on pooling** - There appears to have no further information issued by MHCLG on this consultation.

4.2 **The Investment Consultancy and Fiduciary Management**

**Investigation Order 2019** - This order has been causing quite a stir with pension funds including LGPS over the past months. However, it is no longer thought to apply in full to LGPS. The SAB has issued this statement;

"The Pensions Regulator has published a consultation on new guidance to support tougher rules on investment governance. This consultation along with that issued by the DWP on the 29th of this month [July] appears to reflect a position of the LGPS only being in scope for CMA remedy 7 - the obligation to set strategic objectives for investment consultants.

Authorities should therefore take note of and consider responding to the consultation in particular the draft guide 'Setting objectives for providers of investment consultancy services'.

The Board briefing note on the CMA Order and its impact on the LGPS has been further revised to take into account the currently understood position that only remedy 7 will apply to the LGPS."

4.3 A copy of the briefing note is attached as **Appendix C** for information.

4.4 **Responsible investment guidance from SAB** - Further information about this guidance appeared in the media on 5 August and a copy is attached as Appendix D,

**5. Equality Impact Review**

5.1 An Equality Impact Review is not required as there are no relevant decisions to be taken.

**Peter Scales**

Chairman of the Pension Advisory Board

**Contact:** Adam Chisnall, Democratic Services Officer, 033 022 28314

**Appendices**

Appendix A - Knowledge & Skills Resources - LGPS Bulletins

Appendix B - Scheme Advisory Board meeting - main points

Appendix C - Scheme Advisory Board briefing note on the Investment Consultancy and Fiduciary Management Market Investigation Order 2019

Appendix D - Article "LGPS advisory board pursues ESG-related guidance updates"

**Background papers**

None

**West Sussex Pension Advisory Board**  
**Knowledge & Skills Resources - LGPS Bulletin update**

<b>Bulletin</b>	<b>Relevant content</b>	<b>Report</b>
<b>2018 176 Sept</b>	<b>The Pensions Regulator</b> - New approach to workplace pensions regulation - for further review as details emerge	<b>TBR</b>
<b>2019 181 Feb</b>	<b>Consultation on fair deal</b> to strengthen the pension protections for employees transferring to a service provider	<b>TBR</b>
<b>185 May</b>	Update on MHCLG consultations and advice on McCloud, SAB updates, and actuarial factors	<b>For noting</b>
<b>186 June</b>	McCloud judgement update, ill health certificates, updates on guides and NI Databases.	<b>For noting</b>
<b>187 July</b>	NI databases, retention schedules, SAB updates, and flexible retirement, and tPR to combine codes of practice	<b>For noting</b>

**TBR** = To be reported

August 2019

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## **Scheme Advisory Board meeting on 8 July 2019**

### **Main points circulated by Pensions Secretary**

This note summarises the meeting of the Scheme Advisory Board on the 8th July 2019. Full details of the meeting and agenda papers can be found on the website. [www.lgpsboard.org](http://www.lgpsboard.org)

The Chair opened the meeting by thanking former Councillor, Denise Le Gal, for all the help and support she has given during her membership of the Board.

Under "Actions and Agreements" the Board was asked to seek further clarification from the Pensions Regulator about the scope of Codes of Practice and other guidance, apart from Code of Practice 14, that LGPS administering authorities need to have regard to. This follows a case involving one English shire county fund who has been fined for failing to alert all their scheme members to a late payment of contributions. The Secretariat will be meeting the Pension Regulator's public service pension team on the 13th August and will raise this matter with them. Contrary to what was reported, the Pensions Regulator has since confirmed that no fine was imposed and no enforcement action was taken in this specific case.

### **Good Governance**

The project team at Hymans Robertson presented the final draft report to the Board. The Board agreed that the report should be published before the end of July to allow Board members a short period to submit any comments they may have. The Board also agreed that following publication of the report, the Secretariat should commence work, in conjunction with scheme stakeholders, to outline the practical steps necessary to implement the main options set out in the report for consideration by the Board in November. Once approved, scheme stakeholders will be given the opportunity to comment on the Board's recommendations before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance.

### **SAB Levy Invoices**

The Board was advised that there were still four administering authorities who have yet to pay SAB levy invoices dating back to 2017/18. The Secretariat will continue to discuss payment with these authorities but for the future, the Board agreed that failure to pay the SAB levy within a reasonable timeframe could result in non-payees being identified in summary reports and with certain services and access to LGA/SAB events being withdrawn.

### **MHCLG Consultations**

A: 95k Cap

Following consultation with Board members and those of the Cost Management, Benefit Design and Administration committee, a response to HM Treasury's consultation was submitted. The response included individual examples where the proposed 95K cap was impacting on the local government workforce unfairly and disproportionately with long serving members as well as the high paid being subjected to the proposed cap. A response from the LGA has also been submitted.

B : Fair Deal

The Board was advised that discussions are continuing with MHCLG, in particular, on what the default position should be if negotiations between employer and contractor fail to reach agreement. The Board agreed that the “deemed employer” option should be the default position given that it would give employers, contractors and scheme members complete clarity about the position should no agreement be reached on whether the “deemed employer” or “admitted body” should apply. The Board agreed the draft response.

C : Four Year Valuation period; exit payments/credits and HE/FE

On the proposal to move local fund valuations in the scheme to a four yearly valuation cycle in line with valuations undertaken by unfunded public service pension schemes and all scheme valuations. The next round of scheme valuations will be undertaken in 2020 and 2024 which means that there would be a potential 5 years between the current 2019 LGPS local valuations and the first of the four year period valuations. The Board agreed that five years without local valuations would not be the best way forward and that despite the administrative complexities of the alternative of an interim full set of valuations after 3 years, that is, in 2022 followed by another set in 2024, this was marginally the better of the two options. The Board also agreed that the response should record some concern about allowing administering authorities too much flexibility in exercising the proposed facility to hold an interim valuation. The Board took the view that the regulations and guidance must be clear that the circumstances in which the interim valuation power is to be used must be fully set out in an authority’s Funding Strategy Statement.

On exit payments, the Board was advised that the proposals included a new concept of “deferred employer” that would allow employers to continue to be recognised as such despite having no active members and having exited the scheme. The Board agreed the draft response on exit payments and noted that supplementary guidance would help to provide a robust framework to govern the exercise of the proposed power.

On exit credits, the Board was advised that the draft response included representations to close an unintended loophole whereby administering authorities were liable to pay exit credits at the end of a contract even though steps had been taken by the employer to remove any risk from the contractor. The draft response agreed by the Board proposes that the amending regulations should include a provision requiring fund actuaries to take any side agreement into consideration when assessing exit credit payments.

On the proposal in the consultation to change the status of HE/FE bodies from scheduled to designated bodies, although a view was expressed that the proposed response was too negative regarding the potential impact on the scheme; the substantive view taken was that that this part of the consultation should be deferred until the outcome of the Third Tier Employer’s project is concluded and that such a delay was necessary to properly assess the impact of the proposed changes on scheme membership and cash flow positions. The Board agreed that the Board Secretary should re-draft the relevant section of the consultation response to reflect the different views expressed by Board members.



Copies of all the draft responses referred to above can be found at <http://lgpsboard.org/index.php/about-the-board/prev-meetings>

### **Pensions Tax**

The Board was advised that HM Treasury is willing to hear representations from public service pension schemes concerned about the impact annual and lifetime allowances are having on the effectiveness of their workforces and service delivery. Particular reference was made to the situation in the health sector where it is claimed that waiting list targets are not being met because NHS staff are refusing to work overtime and additional shifts for fear of taking earnings and pension benefits over tax thresholds. It was suggested that some of these claims were being exaggerated. There was also a concern whether any remedy forthcoming from government may apply retrospectively to put right decisions taken in the past to avoid tax thresholds. The Board noted that the Secretariat will continue to attend the working group established by a number of public service pension schemes to lobby HM Treasury

### **McCloud**

The Board was advised that a meeting between MHCLG, external auditors and GAD would take place shortly to discuss the implications of the Supreme Court's decision to refuse the government's application to appeal the McCloud judgement and, in particular, the impact this is having for signing off local authority accounts. Although there is now certainly that the McCloud judgement stands and that the case will now go back to the Employment Tribunal for remedy, there was clear support for the Board to issue a message to scheme stakeholders clarifying the uncertainties that remain. The Board agreed that the Secretariat should prepare a draft statement for consideration and approval of the Chair.

### **Local Pension Board Survey**

The Board agreed that members should be given until the end of July to comment on the draft survey prepared by the Investment, Governance and Engagement committee. The Secretariat will then prepare the survey for publication in August with a deadline of completion by the end of November. This will allow provisional findings to be reported to the Board when it next meets on the 4th November. The Secretariat was also tasked to open discussions with stakeholders on the best way of distributing the survey to ensure a good response.

### **Dates of next meetings**

These are scheduled for the 4th November and the 3rd February, 11th May, 3rd August and the 2nd November 2020.

**Bob Holloway**  
**Pensions Secretary**

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## **The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 ('the Order') Revised 1st August 2019**

The intention of this briefing is to set out, as far as is currently understood, the position of LGPS administering authorities under the Order and subsequent consultations. It is NOT a complete or definitive guide to the Order or subsequent consultations nor does it constitute advice as to the action LGPS authorities should or should take with regard to the Order or subsequent consultations.

### **Summary**

The Order appeared to apply two new obligations to the LGPS

1. A requirement to tender for services provided by some pool companies which fall under the definition of Fiduciary Management (FM)
2. A requirement to set strategic objectives for providers of Investment Consultant (IC) services
3. It also flagged a potential change to the FCA's regulatory perimeter to bring advice on strategic asset allocation within the definition of a regulated activity

Following extensive dialogue with CMA, MHCLG and DWP and subsequent consultations published by DWP and TPR it appears the position in brief is that although the risk of requirement 1 (FM) has subsided to a significant degree requirement 2 (IC) will apply and change 3 is still intended. It would therefore be prudent for authorities to assume that the IC requirement will apply and therefore respond to the TPR consultation on draft guidance in particular that for setting strategic objectives for investment consultants.

Authorities should also be mindful that should FCA go ahead with the extension of the definition of regulated advice they may need to review the provision of advice on strategic asset allocation. We understand that FCA do not intend to consult on any provisions on the back of the Order before the first Quarter of next year.

### **The Order**

On 10th June the Competition and Market's Authority (CMA) published the Order placing new obligations on service providers and pension schemes with regard to Fiduciary Management (FM) and Investment Consultancy (IC) Services. The Order implements the CMA's recommended remedy 1 (tendering for FM services) in Part 3 and remedy 7 (Setting objectives for IC) in Part 7.

### **Subsequent consultations**

Since then the DWP have published a consultation entitled Trustee oversight of investment consultants and fiduciary managers which seeks to enact the obligations placed on schemes under Parts 3 and 7 of the Order. Also The Pensions Regulator

has published a set of draft guides on engaging with investment consultants and fiduciary managers

**Q1 Do the obligations in Part 3 (Remedy 1) and Part 7 (Remedy 7) of the Order apply to the LGPS?**

Although the Order appeared to clearly include the LGPS as set out in parts 1 and 2 of the Order. In particular by including in the definition of Pension Scheme Trustees the managers of occupational schemes including LGPS scheme managers (administering authorities). Subsequent draft DWP Regulations seem to have 'clarified' the intention with regard to the LGPS of it only being in scope for Part 7 (and Part 9 insofar as it relates to Part 7).

Such clarification is in line with correspondence received from the CMA that in spite of the wording of the Order it was never the intention for LGPS scheme managers to be required to tender FM services provided by 'in house' pool companies. Furthermore CMA have stated that they would not seek to enforce the Order in a way as would result in such a tender exercise.

Draft DWP regulations (29th July 2019) state that;

**Scope of Part 6**

*30.— (1) This Part applies in relation to relevant trust schemes.*

*(2) A "relevant trust scheme" is an occupational pension scheme established under a trust other than—*

*(3) a public service pension scheme,*

Furthermore LGPS scheme managers should note that Chapter 2(1) of the consultation document states;

*The CMA order prescribes that all registrable DB and DC occupational pension schemes with 2 or more members are in scope of both remedy 1 and 7 with a number of exceptions including:*

*....public service pension schemes (PSPSs) as defined by the Pensions Act 2004, although local government pension scheme (LGPS) are in scope for remedy 7*

It is therefore understood that LGPS scheme managers are not in scope for Part 3 of the Order (Remedy 1) but are in scope for Part 7, and Part 9 insofar as it relates to Part 7, (Remedy 7)

Chapter 2(3) It goes on to state that;

*Our regulations do not therefore apply to the LGPS. In particular, we have made no provision for applying remedy 7 to the LGPS, as regulations and guidance in relation to the LGPS are a matter for Ministry of Housing, Communities and Local Government*

Therefore it would appear that Part 7 (and Part 9 insofar as it relates to Part 7) of the Order will apply until such time as MHCLG make regulations and/or guidance which implements remedy 7 into the LGPS. The rest of this summary is based on this assumption.

## **Q2 When does the Order come into effect and when does it cease?**

Parts 7 and 9 come into effect 10th December 2019 and remain in force for 10 years, unless varied by the Enterprise Act 2002 or until;

*Article 1.4 (a) the date on which the CMA confirms that equivalent provisions have been brought into force as part of the regulatory regime of a Relevant Sector Regulator*

Based on the above it would appear that once the DWP draft regulations are in force and MHCLG have brought forward provisions on remedy 7 the Order will fall away for LGPS scheme managers. However that is yet to be confirmed by CMA.

## **Q3 In summary what does Part 7 contain?**

Part 7 prohibits Pension Scheme Trustees (including LGPS scheme managers) from entering into a contract or continuing to obtain IC Services without setting strategic objectives for the IC Provider

## **Q4. How does the Order define an Investment Consultancy (IC) Service?**

An IC Service is the provision of advice, this includes advice on which investments are to be made, advice that the scheme manager is required by law to take (for LGPS this includes proper advice under regulation 7(1) of the Investment Regulations 2016), advice on investment strategy and advice on manager selection.

Part 2 of the Order defines IC Service as:

**'Investment Consultancy Services'** means the provision to Pension Scheme Trustees of services where the provider advises the Pension Scheme Trustees in relation to one or more of the following:

*(a) Investments that may be made or retained by or on behalf of the Pension Scheme Trustees;*

*(b) Any matters in respect of which the Pension Scheme Trustees are required by law to seek advice in relation to the preparation or revision of the statement of investment principles;*

*(c) Strategic asset allocation;*

*(d) Manager selection.*

*The reference to 'advises' means the provision of advice on the merits of the Pension Scheme Trustees taking or not taking a specific course of action and includes a recommendation or guidance to that effect*

It is interesting to note the inclusion of advice on strategic asset allocation, as currently this is not included in the FCA Handbook definition of regulated advice. This appears to flag a future change to bring such advice within the definition of regulated and therefore only to be provided by an FCA authorised Provider.

We understand that FCA do not intend to consult on changes to implement the provisions of the Order on service providers until the first quarter of next year. The secretariat will continue to liaise with MHCLG and the FCA regarding confirmation and potential timing of such a change and the impact on LGPS scheme managers.

#### **Q5. Are there any exclusions to the definition of IC services?**

Yes, the definition excludes advice by the principal or controlling employer of the scheme (the administering authority in the LGPS) or commentary by the scheme actuary in the valuation report, as set out in part 2 of the Order:

*The services do not include:*

*(a) the provision of advice by a provider to the Pension Scheme Trustees of a pension scheme of which the provider (or an Interconnected Body Corporate of the provider, or a partnership or joint venture with the provider) is the Principal Employer or Controlling Employer;*

*(b) The high-level commentary provided by the scheme actuary in or in respect of triennial valuation reports and with regard to the link between the investment approach and the pension scheme's funding objectives.*

#### **Q6. What are the obligations of Scheme managers under the Order in respect of IC services?**

Scheme managers must set strategic objectives for their IC Provider as set out in part 7 of the Order

*12.1 Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy*

#### **Q7. What are Strategic Objectives?**

Strategic objectives are defined in the Order as follows;

**'Strategic Objectives'** means the objectives for the Investment Consultancy Provider's advice as applicable by reference to (a) to (d) of the definition of Investment Consultancy Services, in accordance with the Pension Scheme Trustees' investment strategy.

On 31st July The Pensions Regulator published a consultation on a draft set of guides for schemes covering the obligations under the Order. These include a guide to Setting objectives for providers of investment consultancy services.

The draft guide sets out the legal obligations of schemes, provides examples of Investment Consultancy services and expands on setting objectives including stating that

*Adviser objectives can be quantitative and qualitative in their nature, for example these could be set in relation to investment performance delivered relative to the liabilities, adviser performance against service level agreements, communication skills, value for money and performance against specific tasks, such as asset transitions or investment manager selection exercises.*

The guidance also provides examples of the areas that objectives may cover as outlined in the DB and DC case studies.

#### **Q8. Do scheme managers have any other obligations under the Order?**

Yes, they are obliged under Part 9 to submit a statement of compliance with their obligations under Part 7 of the Order within 12 months and 4 weeks beginning with 10th December 2019, and thereafter annually.

*15.1 As applicable, Pension Scheme Trustees, IC-FM firms, Investment Consultancy Providers and Fiduciary Management Providers subject to any of Parts 3, 4, 5, 6, 7 and 8 must submit Compliance Statements to the CMA within 12 months and four weeks beginning with the date on which each of the relevant applicable Articles of any of Parts 3, 4, 5, 6, 7 and 8 come into force and annually thereafter. A Compliance Statement shall confirm the extent to which the relevant applicable Articles of the relevant Part or Parts of the Order that were in force during the reporting period have been complied with during that period.*

The statement must be accompanied a certificate which confirms it has been prepared in accordance with the Order and that all relevant aspects of the Order have been complied with and is signed by a person (or persons) named in the Order.

*16.1 As applicable, Pension Scheme Trustees, IC-FM firms, Investment Consultancy Providers and Fiduciary Management Providers must ensure that any Compliance Statement required by this Part 9 is submitted together with a signed certificate stating that:*

*(a) the relevant Compliance Statement has been prepared in accordance with the requirements of this Order; and*

*(b) for the period to which the Compliance Statement relates, the Pension Scheme Trustees, IC-FM firm, Investment Consultancy Provider or Fiduciary Management Provider (as applicable) has or have complied in all material respects with the requirements of this Order and reasonably expect to continue to do so.*

*16.5 Where the certificate is completed by Pension Scheme Trustees, it must be signed by:*

*(a) a director of any sole corporate trustee; or*

*(b) the Chair of the Board of Trustees; or*

*(c) only if there is no Chair or the Chair is not available, any other member of the Board of Trustees*

SAB Secretariat  
1st August 2019



**LGPS advisory board pursues ESG-related guidance updates**  
**5 August 2019 By [Susanna Rust](#) IP&E**

The advisory board for the UK's local government pension scheme (LGPS) intends to recommend that statutory guidance for the scheme be modified to reflect the government's policy on climate change and wider responsible investment considerations.

According to Jeff Houston, secretary to the scheme advisory board (SAB), the board plans to come up with proposed amendments to the guidance over the coming months and to present them to the new local government minister for consideration.

Robert Jenrick replaced James Brokenshire as the secretary of state for housing, communities and local government upon Boris Johnson becoming the UK's new prime minister on 24 July, and Luke Hall was appointed minister for local government and homelessness, replacing Rishi Sunak.

The SAB's plan comes after the Department for Work and Pensions (DWP) adopted regulations that introduced new responsible investment-related requirements for trustees of most private sector occupational pension schemes.

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"If you just look at the regulations and guidance you could think we're behind when in fact, in lots of ways, LGPS funds and pools are way ahead in terms of responsible investment," Houston told IPE.

According to Houston, statutory guidance issued in 2017 by the department responsible for the LGPS requires local authority funds in England and Wales to include in their investment strategy statement an explanation of their policy on environmental, social and corporate governance (ESG) considerations. However, there is no specific requirement to include a policy statement on how risks associated specifically with climate change are taken into account in investment decision-making.

The DWP's amended investment regulations specifically mention climate change as an environmental consideration that could be financially material to investors. The Pensions Regulator's guidance for defined contribution (DC) schemes is more explicit, stating that trustees need to understand the implication of "the systemic risk of climate change" on investment decisions.

In addition to coming up with recommendations to present to the local government minister, the SAB also intends to provide the funds in the LGPS with its own guidance on responsible investment in the autumn.

"That will set out the existing regulatory and overriding duties on local authorities when they're making investment decisions to take into account things like ESG – how much they have to take into account, how much they have to report," said Houston.

The guidance is intended as a resource for individuals such as a newly elected councillor becoming a member of the pensions committee. The aim is to help decision-makers understand what their legal obligations are and what type of investment practices they can adopt with regard to ESG considerations, while continuing to meet these duties.

## **Pension Advisory Board**

**4 September 2019**

### **Governance Reviews and Surveys**

#### **Report by the Chairman of the Pension Advisory Board**

##### **Executive Summary**

This report refers to the published report by Hymans Robertson on their Good Governance Review, the Pensions Regulators published results of their 2018 Survey, and suggested responses to the Scheme Advisory Board's draft survey of local pension boards for 2019.

##### **Recommendations**

The Board is asked to:

- (i) note the publication of the report by Hymans Robertson on their Good Governance Review for future consideration;
- (ii) note the outcome of the Pensions Regulator's 2018 Survey;
- (iii) agree the suggested responses to the draft Scheme Advisory Board's survey for 2019.

#### **1. Hymans Robertson's report on good governance**

- 1.1 A draft report was submitted to the Scheme Advisory Board (SAB) on 8 July and published in its final form on 31 July. [See also Agenda Item 7 "Business Plan Update".]
- 1.2 In brief their proposals are that improved practice should be achieved through a new 'outcomes-based' approach with minimum standards, enhanced training requirements for s151 officers and s101 committee members, and with updated relevant guidance and better sign-posting.
- 1.3 The SAB agreed that the Secretariat commence work, in conjunction with scheme stakeholders, to outline the practical steps necessary to implement the main options for consideration in November.
- 1.4 The Board can expect to be consulted in some way as these proposals are developed.

#### **2. The Pensions Regulator's Survey 2018**

- 2.1 The Board contributed to the 2018 survey at the end of last year and the results have recently been published. A brief summary is attached as Appendix A.
- 2.2 The Board's governance arrangements have evolved since 2018 but the survey results provide a useful background against which to assess the adequacy of the current arrangements and to inform the response to the 2019 Survey when issued.

### **3. Local Pension Board Survey 2019**

- 3.1 The SAB is to issue a survey in August on similar lines to previous surveys as a basis for monitoring local pension board activity. A copy of the draft survey with suggested responses from the PAB is attached as Appendix B.
- 3.2 The nature of the questions provides a good indication of how activity and performance is being measured and monitored
- 3.2 The Board is asked to consider the responses and agree a basis for the Chairman to respond when the final version is issued.

### **4. Equality Impact Review**

- 4.1 An Equality Impact Review is not required as there are no relevant decisions to be taken.

#### **Peter Scales**

Chairman of the Pension Advisory Board

**Contact:** Adam Chisnall, Democratic Services Officer, 033 022 28314

#### **Appendices**

Appendix A - Summary of tPR 2018 Survey results

Appendix B - SAB draft survey for 2019 with suggested responses

#### **Background papers**

None

## **The Pensions Regulator Governance and Administration Survey 2018**

1. Each year the Pensions Regulator (tPR) issues a survey of all Pensions Boards to gather information about public service pension schemes and to determine the level of compliance with their code of practice 14. The Pension Advisory Board received notice of the 2018 survey at their meeting on 21 November 2018.
2. The 4th annual governance and administration 2018 survey for public service pension schemes results and commentary has now been released by The Pensions Regulator (TPR).

### **Outcome**

3. The policy response sets out the tPR's view in relation to key issues, specifically:
  - Pension Board meetings
  - Knowledge and understanding
  - Board membership
  - Risk registers
  - Collecting data
  - Cyber security
  - Data quality
  - Annual benefits statements
  - Administration

### **Response**

4. The Pension Fund has already addressed a number of the issues identified by the regulator (including the minimum number of meetings, increasing of membership and inclusion of risk register to the agenda). However, the following may be relevant for further consideration:
  - Monthly data collection  
This would require employers to complete a monthly return with full information for all employees. Currently employers only complete an annual return with the required information. In order to change to a monthly return we would need Hampshire Pension Services to facilitate this. This is not currently on the immediate work plan.
  - Cyber security  
The Fund has Data Sharing Agreements in place with both employers and relevant third parties with whom we share information. We are in the process of discussing with Hampshire Pension Services what their information security arrangements are.
  - Data quality  
Officers are currently working with Hampshire Pension Services to put a Data Improvement Plan in place to increase to quality of the data held.

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**LOCAL PENSION BOARD SURVEY – 2019**  
**Draft considered by the Board on 8<sup>th</sup> July 2019**

Please complete and return to your response to this survey by [date]. Please ensure that one survey response is submitted in respect of each Fund's Local Pension Board. If not completed directly by the Local Pension Board members, the survey response should at least be approved by the Chairperson of the Board, and preferably also agreed by all Board members. However, individual Board members may submit their own responses where they wish to include alternative responses to some questions.

*List of definitions and terms:*

*"Required"* – this means something that is a prerequisite within the Board's terms of reference

*"Scheme manager"* – the Administering Authority e.g. the Council

*"Scheme manager officers"* – the officers who are responsible for the management of the pension fund, including the section 151 officer.

*"Board"* – Local Pension Board

*"Pension Committee"* – the section 101 committee which has delegated responsibility for pension fund matters, or where there is no formal committee, any equivalent advisory committee or panel.

<b>Draft questions</b>	<b>Draft PAB response</b>
Q1a. Is the Board constituted under regulation 106 of the Local Government Pension Scheme Regulations 2013?	<b>YES</b>
Q1b. If the answer is "No", under what power is the Board currently constituted?	N/A
Q2. Who is responsible for recruiting and appointing Board members?	<b>Chairman and SM officers</b>
Q3. How often is the Board required to meet? <b>[N.B. Increased from three to four from July 2018]</b>	<b>No fewer than four meetings a year</b>
Q4. How often did the Board meet in – a) 2015/16 b) 2016/17 c) 2017/18 * March meeting re-scheduled to April due to bad weather d) 2018/19	<b>Three Four Two * Four</b>
Q5. What is the required number of employer representatives?	<b>Three</b>
Q6. How many employer representatives were vacant on the 1st April 2019?	<b>None</b>
Q7. What is the required number of member representatives?	<b>Three</b>

Q8. How many member representatives roles were vacant on the 1st April 2019	<b>None</b>
Q9. Is the Chair of the Board selected by – a) the scheme manager's officers? b) Board members? c) Any other (please describe)?	<b>NO</b> <b>NO</b> <b>Governance Committee</b>
Q10. Is the Chair independent?	<b>YES</b>
Q11a. Excluding reimbursement of direct expenses: i) is the Chair of the Board remunerated? ii) are other Board members remunerated?	<b>YES</b> <b>NO</b>
Q11b. If the answer "YES", explain below the level of remuneration, in relation to what period, i.e., per meeting or per annum and any restrictions? i) Chair of the Board ii) Other Board members	<b>£16,000 pa</b> N/A
Q12. Are expenses paid to Board members?	<b>YES</b> (reimbursed)
Q13. On a scale of 1 (very difficult) to 5 (very easy), how easy has it been to recruit and appoint new employer representatives?	<b>4</b>
Q14. On the same scale of 1 to 5, how easy has it been to recruit and appoint new member representatives?	<b>4</b>
Q15a. Does the Board have terms of reference or equivalent that sets out the roles and responsibilities of the Board and how it operates?	<b>YES</b>
Q15b. If the answer is "YES", were the terms of reference approved by the scheme manager?	<b>YES</b>
Q16. If the answer is "NO", explain below who approved the terms of reference.	N/A
Q17. Are Board members subject to a conflicts of interest policy that is: a) Local Pension Board Policy b) Pension Fund Policy c) Other – please explain	<b>YES</b> <b>YES</b> <b>County Council</b>
Q18a. Have all Board members completed a declaration of their potential conflict of interests?	<b>YES</b>
Q18b. If the answer is "YES", when did this last happen?	<b>2019</b>



Q19. Are Board members provided with a copy of the Fund's procedures for identifying and managing pension's breaches of the law?	<b>YES</b>
Q20. Are Board members provided with or have access to a copy of the Fund's record of breaches of the law?	<b>YES</b>
Q21a. In 2018/19 did the Board itself identify any breaches of the law?	<b>NO</b>
Q21b. If the answer is "YES" describe them below including how they were identified	N/A
Q22. Are Board members provided with or have access to a copy of the Fund's risk register?	<b>YES</b>
Q23. Does the Board have a training or knowledge and skills policy?	<b>YES</b>
Q24. On average, how many hours of training per Board member were completed in – a) 2015/16 b) 2016/17 c) 2017/18 d) 2018/19 <b>[N.B This is training specific to WSPAB only]</b>	<b>2.5</b> <b>2.5</b> <b>3.5</b> <b>3</b>
Q25a. Have Board members been asked to complete any form of self-assessment of their knowledge and skills?	<b>YES</b>
Q25b. If the answer is "YES", when did this last happen?	<b>2019</b>
Q26. Where "YES" has been given to Q17, Q20, Q22, Q24 and Q25, on a scale of 1 (very poor) to 5 (excellent), how would you evaluate – a) The terms of reference b) Conflict of interest policy c) The register of breaches d) The risk register, and e) The knowledge and skills policy	<b>5</b> <b>5</b> <b>5</b> <b>5</b> <b>5</b>
Q27. Is specialist Local Pension Board personal liability or indemnity insurance provided to Board members?	<b>YES</b>
Q28. Give up to three examples of significant achievements by the Board  <ul style="list-style-type: none"> <li>• <b>Introduction of key learning resources and updates on agenda</b></li> <li>• <b>Practical contribution to employer and member communications</b></li> <li>• <b>Systematic in-depth review of policy documents</b></li> </ul>	

<p>Q29. Give up to three examples where the Board is working well</p> <ul style="list-style-type: none"> <li>• <b>Relationship with Scheme Manager and officers</b></li> <li>• <b>Comprehensive agendas and reports</b></li> <li>• <b>Strong participation by all Board members</b></li> </ul>	
<p>Q30. Give up to three examples where the Board could improve what it does</p> <ul style="list-style-type: none"> <li>• <b>Establish working relationship with new external administrator</b></li> <li>• <b>Help construct good pool governance arrangements and contribute</b></li> <li>• <b>Review communications under new administration arrangements</b></li> </ul>	
Q31a. Do you think the Board is restricted in any way in carrying out its responsibilities?	<b>NO</b>
Q31b. If the answer is "YES", give the reasons below	N/A
Q32a. Has the Board ever reviewed the scheme manager's compliance against TPR's Code of Practice 14?	<b>YES</b>
Q32b. If the answer is "YES", when?	<b>Annually</b>
<p>Q33. On a scale of 1(very poor) to 5 (excellent), how would you evaluate –</p> <p>a) The relationship between the scheme manager officers and the Board</p> <p>b) The relationship between the pension committee and the Board</p> <p>c) The Board's ability to identify non-compliance with legal requirements</p> <p>d) The Board's ability to make recommendations to the scheme manager officers and/or pension committee where noncompliance has been identified</p> <p>e) The scheme manager officer/pension committee's response(s) to such recommendations, if any</p> <p>f) The Board's ability to identify areas of improvement in the effective and efficient administration and governance of the scheme manager</p>	<p><b>5</b></p> <p><b>5</b></p> <p><b>5</b></p> <p><b>5</b></p> <p><b>5</b></p> <p><b>5</b></p>
Q34. Other than scheme manager officers supporting the Board (e.g. the Board secretary), does the scheme manager in any other capacity regularly attend Board meetings?	<b>YES</b>
Q35. Who is responsible for setting the agenda for Board meetings?	<b>Chairman with SM Officers</b>
Q36. Were any scheduled Board meetings in 2018/19 non-quorate or became non-quorate and if so, how many?	<b>NO</b>

Q37. Who drafts the section about the Board for including in the scheme manager's Pension Fund Annual Report required by regulation 57 of the 2013 Regulations and CIPFA Preparing the Annual Report Guidance?	<b>SM Officers with Chairman</b>
Q38. During 2018/19 did the Board prepare a Local Pension Board annual report?	<b>YES</b>
Q39a. Does the Board have a web page(s)?	<b>YES</b>
Q39b. If the answer is "YES" is the web page part of the scheme manager's website or elsewhere?	<b>Integral part of SM website</b>
Q40. Does the web page(s) including the following? a) Board Agenda b) Board reports c) Board minutes d) Board terms of reference e) Board members' identities f) How stakeholders can contact a member of the Board g) The latest Board annual report	<b>YES YES YES YES YES YES YES</b>
Q41a. During 2018/19 was a review of the effectiveness of the Board undertaken?	<b>YES</b>
Q41b. If the answer is "YES", who undertook the review	<b>SM Officers</b>
Q42a. Are Board members able to attend pension committee meetings other than as a member of the public?	<b>YES</b>
Q42b. If the answer is "YES", are they able to attend Part 2 of the committee meeting?	<b>YES</b>
Q42c. If the answer is "YES", are Board members able to participate in pension committee meetings?	<b>YES</b>
Q43a. Does the Board have a budget?	<b>YES</b>
Q43b. If the answer is "YES" – i) What was the size of the budget for 2018/19 ii) How much of that budget was spent in 2018/19? iii) Can it be used to access independent external advice?	<b>£35,000 £24,165 YES</b>
Q43c. If the answer to the last point is "YES" give examples below where such advice has been commissioned	<b>It has not been necessary to access advice</b>

Q44. On average, how much time as a percentage is spent at each Board meeting on the following topics; a) Governance? b) Administration and Communications? c) Other? <b>[Training]</b>	<b>60%</b> <b>30%</b> <b>10%</b>
Q45. During 2018/19, did the Board consider any aspect of the governance of asset pooling?	<b>YES</b>
Q46. Describe below ways in which the relationships between the Board, scheme manager officers and pension committee could be improved  <b>Little needs to be done to improve relationships but the Board will continue to develop its role as 'critical friend', seek to avoid duplication of reporting, provide advice on good governance examples in other pension funds, help improve links with employers, and represent the West Sussex Pension Fund and Advisory Board nationally as a well governed organisation.</b>	
Q47. Use the space below to comment on any other aspect of the governance arrangements that you consider to be relevant.  <b>The role of local pension boards needs to be clarified on a legal basis, particularly in relation to the investment decision making process. Guidance issued needs to be clearly based in law, concise and clear in order that local pension boards can better judge compliance. Regulations and guidance needs to be simplified and separated from technical example of good practice. Those responsible for the oversight of the LGPS, e.g. MHCLG, Scheme Advisory Board, the Pensions Regulator, should do more to evidence a suitable level of knowledge and understanding. Governance arrangements should be allowed to settle and not be subject to continual 'tinkering'.</b>	

Submission details

Name of Pension Fund -

**West Sussex Pension Fund**

Person submitting this:

Name -

**Peter Scales**

Role within Pension Fund -

**Chairman Pension Advisory Board**

Email address -

Telephone contact number -

If person submitting is not Local Pension Board Chairperson, please confirm this submission has been agreed by the Board Chairperson

Has this submission been agreed by the Local Pension Board as a whole? **YES**

Date -

## **Pension Advisory Board**

**4 September 2019**

### **Review of Pension Fund policy documents**

#### **Report by Director of Finance and Support Services**

##### **Summary**

Following the review of the Terms of Reference of the Pension Advisory Board in 2018 it was agreed to update the regular agenda items including the review of policy documents.

##### **Recommendations**

- (1) That the Board note the register of policy documents
- (2) That the Board feedback on the policy presented at the meeting

##### **Background**

1. The Pension Regulator Code of Practice 14 requires that "Pension board members must be conversant with their scheme rules, which are primarily found in the scheme regulations, and documented administration policies currently in force for their pension scheme".
2. Under the recent review of the Boards Terms of Reference it was agreed that the regular agenda items would be increased to include, amongst others, a review of policy documents.
3. By reviewing policy documents on a regular basis the Board will be fulfilling their role in supporting the Scheme Manager by ensuring compliance with regulations. This would also assist members in ensuring they have the relevant knowledge and understanding.

##### **Pension Fund policy documents**

4. The Pension Fund is required by law to keep and maintain a number of policy documents. A list of all Pension Fund Policy Documents is included at Appendix A.
5. It is proposed that as policies are reviewed by Officers they will be presented to the Board for review against Regulations or Guidance.

##### **Annual Report**

6. The Pension Fund's 2018/29 Annual Report has been provided for the Board's review (Appendix D).

7. The draft Annual Report was considered by the Pension Panel at their meeting on 24 July. The Panel agreed the report and noted the Statements of Accounts and the comments by the External Auditors. The report has since been published online.
8. The Regulations require the County Council to prepare an Annual Report. An extract is included in Appendix B. The Regulations require that "In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State". In this context, CIPFA's has published guidance on Preparing the Annual Report 2019 (published April 2019), which is available on request.
9. The CIPFA guidance uses 'Must', 'Should' and 'May' in relation to compliance and states that where significant variation from the guidance is considered appropriate an explanation should be provided.

Criteria	Commentary
<b>Must</b>	Compliance is mandatory. Any non-compliance should be clearly identified in the annual report and an explanation provided.  The Fund is compliant with 81% of these requirements.
<b>Should</b>	Compliance is anticipated but is discretionary. Where non-compliance may be significant or material for the readers the non-compliance should be identified and explained.  The Fund is compliant with 67% of these requirements.
<b>May</b>	Compliance is recommended but is discretionary.

10. A full checklist is included within the CIPFA guidance. Appendix C indicates where the Pension Fund's latest Annual Report is not fully compliant with aspects of the guidance. As identified, there are a few areas where it has not been possible to meet the guidance in full due to factors including the timing of publication of the guidance, the transfer of administration to a new provider and the availability of information.

Katharine Eberhart

**Director of Finance and Support Services**

**Contact:** Rachel Wood, Pension Fund Investment Strategist, 033 022 23387

#### **Appendices**

Appendix A – List of All Policy Documents

Appendix B – Regulation Extract relating to Annual Report

Appendix C – Exceptions to compliance with *Preparing the Annual Report 2019*

Appendix D – Annual Report

#### **Background Papers**

[Pension Panel Report Agenda Item 6 Annual Report and Accounts \(24 July 2019\)](#)

Requirement	Importance
Statutory required (must have)	
Highly recommended	
Recommended	

List of Policy Documents - August 2019

POLICY	Where to find policy	Regulation	Link to regulation	Importance	How often it should be reviewed	Previous PAB review date	Next date for PAB to review
Abatement policy		Regulation 70 LGPS (administration) Regulations 2008			Every 3 years	Policy no longer applicable	
Actuarial valuation	<a href="https://www.westsussex.gov.uk/media/12635/lgps_wscc_pension_fund_valuation_report.pdf">https://www.westsussex.gov.uk/media/12635/lgps_wscc_pension_fund_valuation_report.pdf</a>	Regulation 62 LGPS Regulations 2013	<a href="http://www.legislation.gov.uk/uksi/2013/2356/regulation/62/made">http://www.legislation.gov.uk/uksi/2013/2356/regulation/62/made</a>		Every 3 years		May-20
LGPS Administering Authority Discretions	<a href="https://www.westsussex.gov.uk/media/12976/admin_authority_discretions_policy.pdf">https://www.westsussex.gov.uk/media/12976/admin_authority_discretions_policy.pdf</a>	Regulation 60 LGPS Regulations 2013	<a href="http://www.legislation.gov.uk/uksi/2013/2356/regulation/60/made">http://www.legislation.gov.uk/uksi/2013/2356/regulation/60/made</a>		Every 4 years	Apr-19	Apr-23
Pension Administration Strategy	<a href="https://www.westsussex.gov.uk/media/12977/pension_admin_strategy.pdf">https://www.westsussex.gov.uk/media/12977/pension_admin_strategy.pdf</a>	Regulation 59 LGPS Regulations 2013	<a href="http://www.legislation.gov.uk/uksi/2013/2356/regulation/59/made">http://www.legislation.gov.uk/uksi/2013/2356/regulation/59/made</a>		Annually	Mar-19	Mar-20
Annual Report	<a href="https://www.westsussex.gov.uk/media/13122/lgps_annual_report_2018-19.pdf">https://www.westsussex.gov.uk/media/13122/lgps_annual_report_2018-19.pdf</a>	Regulation 57 LGPS Regulations 2013	<a href="http://www.legislation.gov.uk/uksi/2013/2356/regulation/57/made">http://www.legislation.gov.uk/uksi/2013/2356/regulation/57/made</a>		Annually		Sep-19
Breaches policy	<a href="https://www.westsussex.gov.uk/media/7103/pensions_breach_policy.pdf">https://www.westsussex.gov.uk/media/7103/pensions_breach_policy.pdf</a>	Regulation 70 Pensions Act 2004	<a href="http://www.legislation.gov.uk/ukpga/2004/35/pdfs/ukpga_20040035_en.pdf">http://www.legislation.gov.uk/ukpga/2004/35/pdfs/ukpga_20040035_en.pdf</a>		Every 2 years	May-19	May-21
Communications Policy Strategy	<a href="https://www.westsussex.gov.uk/media/5557/communication_policy_statement.pdf">https://www.westsussex.gov.uk/media/5557/communication_policy_statement.pdf</a>	Regulation 61 LGPS Regulations 2013	<a href="http://www.legislation.gov.uk/uksi/2013/2356/regulation/61/made">http://www.legislation.gov.uk/uksi/2013/2356/regulation/61/made</a>		Annually	May-19	May-20
Conflict of Interest	<a href="http://www2.westsussex.gov.uk/ds/constitution/part5-1.pdf">http://www2.westsussex.gov.uk/ds/constitution/part5-1.pdf</a>	Regulation 5(4) and 5(5) The Public Service Pension Act 2013	<a href="http://www.legislation.gov.uk/ukpga/2013/25/section/5">http://www.legislation.gov.uk/ukpga/2013/25/section/5</a>		Every 3 years		Apr-21
Employers Guide - West Sussex LGPS	Employer Administration Tools and Guidance   Hantsweb				Every 3 years		
Funding Strategy Statement	<a href="https://www.westsussex.gov.uk/media/9536/lgps_funding_strategy_statement.pdf">https://www.westsussex.gov.uk/media/9536/lgps_funding_strategy_statement.pdf</a>	Regulation 58 LGPS Regulations 2013	<a href="http://www.legislation.gov.uk/uksi/2013/2356/regulation/58/made">http://www.legislation.gov.uk/uksi/2013/2356/regulation/58/made</a>		Every 3 years	May-19	May-20
Governance Policy and Compliance Statement	<a href="https://www.westsussex.gov.uk/media/7105/governance_policy_and_compliance_statement.pdf">https://www.westsussex.gov.uk/media/7105/governance_policy_and_compliance_statement.pdf</a>	Regulation 55 LGPS Regulations 2013	<a href="http://www.legislation.gov.uk/uksi/2013/2356/regulation/55/made">http://www.legislation.gov.uk/uksi/2013/2356/regulation/55/made</a>		Annually		Nov-19
IDRP (Internal Dispute Resolution Procedure)	<a href="https://www.westsussex.gov.uk/media/12556/internal_dispute_resolution_procedure.pdf">https://www.westsussex.gov.uk/media/12556/internal_dispute_resolution_procedure.pdf</a>	The Pension Regulator & Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008	<a href="https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/scheme-management/resolving-internal-disputes">https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/scheme-management/resolving-internal-disputes</a>		Every 3 years		Nov-21
Investment Strategy Statement	<a href="https://www.westsussex.gov.uk/media/10157/lgps_investment_strategy_statement.pdf">https://www.westsussex.gov.uk/media/10157/lgps_investment_strategy_statement.pdf</a>	LGPS Regulations (Management and Investment of Funds) 2016	<a href="http://www.legislation.gov.uk/uksi/2016/946/regulation/7/made">http://www.legislation.gov.uk/uksi/2016/946/regulation/7/made</a>		Every 3 years		Jul-20
LGPS Privacy Notice	<a href="https://www.westsussex.gov.uk/media/8756/lgps_privacy_notice.pdf">https://www.westsussex.gov.uk/media/8756/lgps_privacy_notice.pdf</a>	Data Protection Act 2018 and General Data Protection Regulation (EU) 2016/679	<a href="https://www.westsussex.gov.uk/media/8756/lgps_privacy_notice.pdf">https://www.westsussex.gov.uk/media/8756/lgps_privacy_notice.pdf</a>		Every 3 years		Mar-21
Risk Register	<a href="https://westsussex.moderngov.co.uk/documents/b6532/Items%205%206%207%2012%2015%20to%20follow%20documents%2029th-Apr-2019%2010.30%20Pensions%20Panel.pdf?T=9">https://westsussex.moderngov.co.uk/documents/b6532/Items%205%206%207%2012%2015%20to%20follow%20documents%2029th-Apr-2019%2010.30%20Pensions%20Panel.pdf?T=9</a>	The Pensions Regulator Code of Practice no.14	<a href="https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice">https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice</a>		Annually		Sep-20
Treasury Management Strategy	<a href="https://westsussex.moderngov.co.uk/documents/b6406/Items%206%2011a%2011b%2028th-Jan-2019%2010.00%20Pensions%20Panel.pdf?T=9">https://westsussex.moderngov.co.uk/documents/b6406/Items%206%2011a%2011b%2028th-Jan-2019%2010.00%20Pensions%20Panel.pdf?T=9</a>				Annually	Mar-19	Mar-20

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## **Pension fund annual report**

*Extract from The Local Government Pension Scheme Regulations 2013 //*  
*Regulation 57*

1. An administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains—
  - a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
  - b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;
  - c) a report of the arrangements made during the year for the administration of each of those funds;
  - d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;
  - e) the current version of the statement under regulation 55 (governance compliance statement);
  - f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;
  - g) an annual report dealing with –
    - i. the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 59 (pension administration strategy), and
    - ii. such other matters arising from a pension administration strategy as it considers appropriate;
  - h) the current version of the statement referred to in regulation 58 (funding strategy statement);
  - i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (statement of investment principles);
  - j) the current version of the statement under regulation 61 (statements of policy concerning communications with members and Scheme employers); and
  - k) any other material which the authority considers appropriate.
2. The authority must publish the pension fund annual report on or before 1st December following the Scheme year end.
3. In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

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## Compliance with CIPFA Guidance

The table below highlights where the Fund is not compliant with the guidance from CIPFA in relation to the Annual Report.

Criteria	Category	Description Guidance check list (Appendix 1 of guidance)	Reason for non-compliance	Actions
MUST	Pension scheme Administration	4.3 Details of new pensioners analysed by ill health, early and normal retirements	Due to the timing of the publication of the guidance and the transfer of administration this was not possible to provide	Discuss with Pension Administration Service for 31 March 2020 report.
MUST	Pension scheme Administration	4.4 Services provided to members, pensioners and employing bodies, together with an explanation of how these services are delivered	Due to the timing of the publication of the guidance and the transfer of administration this was not possible to provide	Review what information is required and what we are able to provide with a view to include in 31 March 2020 report.
MUST	Pension scheme Administration	4.5 A statement on value for money	Due to the timing of the publication of the guidance and the transfer of administration this was not possible to provide	Review what information is required and what we are able to provide with a view to include in 31 March 2020 report.
MUST	Pension scheme Administration	4.7 A summary of staffing levels	Due to the timing of the publication of the guidance and the transfer of administration this was not possible to provide	Discuss with Pension Administration Service for 31 March 2020 report.

Criteria	Category	Description Guidance check list (Appendix 1 of guidance)	Reason for non-compliance	Actions
Should	Pension scheme Administration	Key performance data should include:  4.11 Satisfaction levels of employers and members	Surveys were not run due to transfer of service	Hampshire Pension Services do not provide customer satisfaction levels. They have a Customer Service Excellence award. In achieving this accreditation HPS are able to demonstrate how they deliver against 50 criteria in five key areas (customer insight, culture of the organisation, information and access, delivery and timeliness and quality of service).  Information about the Customer Services Excellence accreditation will be included in the 31 March 2020 report.
Should	Pension scheme Administration	Key staffing indicators should include:  4.15 Staff numbers and trends 4.16 Staff to fund member ratios 4.17 Average cases per member of staff 4.18 Benchmarking of staff levels against appropriate comparators	Due to the timing of the publication of the guidance and the transfer of administration this was not possible to provide	Discuss with Pension Administration Service for 31 March 2020 report.

Criteria	Category	Description Guidance check list (Appendix 1 of guidance)	Reason for non-compliance	Actions
Should	Pension scheme Administration	<p>A CIPFA working group has recommended that the following information is collected and the results should be summarised in the annual report.</p> <p>4.19 Time taken to process the following:</p> <ul style="list-style-type: none"> <li>• Acknowledgement of death</li> <li>• Death benefit/and or survivor pension</li> <li>• Provide Pension or CETV estimate</li> <li>• Payment of lump sum retirement</li> <li>• Calculate and notify deferred benefits</li> <li>• Transfers in and out</li> <li>• Calculate and pay a refund</li> <li>• Send formal notification of joining</li> </ul> <p>4.20 Actual time taken compared to legal requirements and internal target/ KPI</p> <p>4.21 Numbers of each case type processed each year and outstanding at the year end</p> <p>4.22 Average caseload per FTE</p> <p>4.23 Satisfaction levels of employers and members</p> <p>4.25 Staff to fund-member ratio</p>	Due to the timing of the publication of the guidance and the transfer of administration this was not possible to provide	Discuss with Pension Administration Service for 31 March 2020 report.

Criteria	Category	Description Guidance check list (Appendix 1 of guidance)	Reason for non-compliance	Actions
		4.26 Summarise arrangements and information available to members and employees via websites, self-service options and other information sources 4.27 Contact details		
Should	Investment Management Cost	6.3 The annual report should explain how the pension fund is responding to the Scheme Advisory Board's Transparency Code and what use is being made of the information obtained from fund managers using the Scheme's template reports	This information was not available	Review whether it is relevant and useful to provide this information for 31 March 2020 report.
Should	Post Pool Reporting	7.6 The Annual Report should compare gross and net investment yield for each class of asset, analysed between pooled & non pooled investments and comparing actual return achieved during the year to the relevant passive return index (for quoted investments) or the local target return (for non-quoted investments)	The Fund has no assets within the ACCESS pool currently. This is stated within the Annual Report.	Review whether it is relevant and useful to provide this information for 31 March 2020 report
Should	Governance policy and compliance statement	9.8 The annual report from the local Pension Board	We have a statement from the PAB	Continue with statement

Criteria	Category	Description Guidance check list (Appendix 1 of guidance)	Reason for non-compliance	Actions
Should	Governance policy and compliance statement	<p>9.9 Annual Reports <b>should</b> include some form of commentary to illustrate how governance works in everyday terms for the reader. This <b>may</b> include for example;</p> <ul style="list-style-type: none"> <li>• Explanations of how codes of conduct operate in practice</li> <li>• How the CIPFA Knowledge and Skills Framework has been applied</li> </ul> <p>Details of training offered and take-up</p>	<p>The explanation of how Codes of Conduct operate in practice was not feasible within time frame.</p> <p>Information about CIPFA's Knowledge and Skills framework is included within the Training Strategy, which is linked to from the Annual Report. Details of events attended are included in the annual report.</p>	Provide additional information where not already within a relevant policy document in 31 March 2020 report.
Should	Governance policy and compliance statement	9.10 How the fund and pool operator are meeting the requirements of the CIPFA/SOLACE Good Governance Framework	Information not available due to the timing of the publication of the guidance.	Review what information is relevant and applicable for 31 March 2020 report.
Should	Funding Strategy Statement	<p>13 This section of the report should also include a commentary on matters relating to the implementation and application of the FSS during the period, such as;</p> <p>13.2 Implementation of any contribution increases</p> <p>13.3 Management of admitted bodies</p> <p>13.4 Any bonds or any other secured funding arrangements entered into.</p> <p>13.5 Links between the FSS &amp; ISS should be set out in the annual report.</p>	This information is included within the Funding Strategy Statement.	Review what information is relevant and applicable for 31 March 2020 report.

Criteria	Category	Description Guidance check list (Appendix 1 of guidance)	Reason for non-compliance	Actions
Should	Investment Strategy Statement	14.2 The Annual Report should set out the extent to which the ISS and FSS meet statutory guidance and explain the reasons for any areas of non-compliance identified.	This information is included within the Funding Strategy Statement and the Investment Strategy Statement.	Provide additional information where not already within a relevant policy document in 31 March 2020 report.



# **West Sussex Pension Fund Annual Report 2018/19**



## Forward by the Panel Chairman

The West Sussex Pension Fund retained its approach as a long term, active investor with a high degree of commitment to managing the Pension Scheme in the best interests of its stakeholders.

In May 2018, I took the decision to transfer its pension administration with the intention to improve the customer service experience and strengthen resilience. Following the successful transfer of over 75,000 member records across 201 employers in March 2019, the team are working hard to secure strong member outcomes and to develop the service. This has been a significant change in service for staff, members and employers but initial feedback from stakeholders has been very positive.

As part of the new service, members are able to register to a user-friendly Member Portal which allows current active members to view the personal details, membership information and the nominations held by the pension administration team. Member can also update certain information directly which helps ensure that their records are up to date. We would encourage all employees who participate in the Scheme to register and view their details.

In respect of our £4,306m investment portfolio, the managers are appointed to manage a mix of assets based on market opportunities and their best ideas to deliver strong relative returns.

As a result of this active approach, the Fund has outperformed the market by 1.9% and 1.2% per annum, net of fees, over the last three and ten years respectively. This equates to c. £300m outperformance over the decade and fulfils our objective of maximising the returns from investments within an appropriate risk framework.

We continue to be strongly involved with the ACCESS pool and are working ensure that it complies with the Government requirements regarding pooling whilst maintaining local accountability and value for money for the West Sussex Fund stakeholders/members.

As a long term shareholder, the managers have been directed to actively engage with the companies held within its portfolio with good practice in terms of environmental, social and governance (ESG) issues being considered a key driver to a companies' financial performance. This stewardship role is recognised actively through dialogue with companies and the exercising of voting rights on behalf of the Fund. During the year, the Fund managers voted at 99% of domestic and 97% of foreign meetings, and had informed engagements with invested companies.

The above is all undertaken with the objective of maintaining a strong funding level. In meeting this core objective, the 2016 national comparators showed the Fund was the best funded open Local Authority Pension Scheme in England and Wales and the subsequent strategic decision to reduce equities in favour of bonds has also been of benefit during the volatile market environment, with the fund being estimated as fully funded ahead of the 2019 valuation.

Jeremy Hunt  
Chairman of the West Sussex Pensions Panel

## Forward by the Board Chairman

The Pension Advisory Board was established on 1 April 2015 under the provisions of the LGPS Regulations 2013 to assist the Scheme Manager, in matters of governance and administration, to secure compliance with regulations, guidance and other legislation; with requirements imposed by the Pensions Regulator; and to help secure effective and efficient governance and administration. The Board meets four times per year.

The Board is required to have a minimum of four members with equal representation of employers and scheme members. In April 2018, following a review, it was agreed to increase the size to six members and the meetings to four each year. Each member continues to demonstrate their commitment to meeting their responsibilities, to gaining new knowledge and understanding of the issues, by preparing for each meeting and by participating effectively in discussion.

The Board has continued to operate well in developing circumstances, particularly as regards the new pooling arrangements and other changes taking place. The business for each meeting has been planned by reference to the work plan agreed in April 2018 and is based on the responsibilities of the Board and guidance issued about key issues to cover. All items have been covered during the year and there have been no disputes in the decisions reached. Key items covered include administration performance, late payment of contributions, the websites and newsletters, policy statements, data quality, new regulations and guidance, the new pooling arrangements with ACCESS, and knowledge and skills requirements.

The Board has formulated its training plan to cover the individual requirements of each member based on guidance issued by CIPFA, using the suggested framework to ensure coverage of all items over a reasonable period of time and this was updated during the year. Training sessions are held as part of each Board meeting and additional induction training given to new members. Progress on training is monitored and discussed at each meeting, and reviewed annually in the year-end performance review one-to-one meetings.

The Board is satisfied that the West Sussex Pension Fund is operated in compliance with statutory regulations and other legislation, and with guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA. The requirements imposed by the Pensions Regulator are being met and the Board is monitoring the effectiveness and efficiency of the governance and administrations arrangements, particularly in relation to pooling and to the switch to a new administration service provider.

Peter Scales  
Chairman of the West Sussex Pension Advisory Board

## Key Facts

### Members and Employers

There are **201 active employers** in the Pension Fund and **75,191 members** (contributors, pensioners and deferred).

### Funding level

The Pension Fund was **95% funded** at the most recent formal valuation (March 2016). It is estimated that at 31 March 2019 the West Sussex Pension Fund was fully funded.

### Administrative performance

Administration performance against Key Performance Indicators (KPI's) during the year has been set out below.

	Target	2017/18 Actual	2018/19 Actual
<b>Payment of pension benefits</b> within 10 working days of receipt of all required information.	97.00%	91.62%	78.75%
<b>Provision of pension estimates to members of the scheme and to employers</b> within 10 working days of request, and the provision of information on deferred benefits to people who are leaving the pension scheme within 20 working days from receipt of all required information.	97.50%	73.51%	74.15%
<b>Calculation of Deferred Benefits</b> within 20 working days of the request being submitted	97.50%	52.88%	81.36%

### Investment Performance

The Pension Fund invests in equities, bond, property and private equity as shown below.

	2017/18 £m	2018/19 £m
Equities	1,977	2,165
Bonds	1,514	1,557
Property (direct)	344	377
Alternatives	121	108
Cash or equiv.	102	99
<b>Total</b>	<b>4,058</b>	<b>4,306</b>

Return of the Fund's assets is summarised below compared to a market benchmark.

	12 months	3 years pa	10 years pa	15 years pa
Fund	7.06%	13.12%	12.83%	9.35%
Benchmark	7.68%	11.19%	11.67%	8.69%
<i>Difference</i>	-0.62%	1.93%	1.16%	0.66%

The Pensions Panel has instructed the fund managers to be active stakeholders. In addition to engaging with companies, **the fund managers voted at 99% of domestic and 95% of overseas meetings during the year.**

## Policy Documents

The latest policy documents can be downloaded and can be made available on request.

Policy Document	Description
Administration Strategy <sup>1</sup>	<p>The Strategy is a statement outlining the policies and performance standards aimed at providing high quality pensions and administration service.</p> <p>The Strategy is effective from 4 March 2019.</p>
<a href="#">Administration Authority Discretions</a>	<p>This Policy sets out how the Pension Fund applies provisions of the Scheme that are discretionary. Employers will maintain their own Discretions policy which relates to decisions which they can make under the Scheme.</p> <p>Please Note: The Local Government Pension Scheme (LGPS) is a statutory scheme. The rules and regulations governing the scheme are laid down under Act of Parliament.</p>
<a href="#">Breaches Policy</a>	<p>This Policy sets out the Fund's procedures for the identification and reporting of breaches of statutory requirements to the Pensions Regulator.</p>
<a href="#">Business Plan</a>	<p>This Annual Plan considers performance against the Fund's objectives during the year and out the future priorities.</p>
<a href="#">Communications Strategy Statement</a>	<p>This Statement sets out how the Fund will communicate with members, representatives of members, prospective members and employing authorities.</p>
<a href="#">Funding Strategy Statement</a>	<p>This Strategy identifies how employers' pension liabilities are best met going forward (whilst maintaining as near as possible constant employer contribution rates) and sets out how the Fund will take a prudent long term view of funding those liabilities.</p>
<a href="#">Governance Policy and Governance Compliance Statement</a>	<p>These two Statements detail the Fund's governance and stewardship arrangements and report the extent of compliance against a set of best practice governance principles.</p>
<a href="#">Investment Strategy Statement</a>	<p>This Strategy outlines how investment decisions are made, the types of investment held, fees paid, risk and corporate governance</p>

<sup>1</sup> To be added on publication



## The Scheme and Benefit Structure

The Local Government Pension Scheme (LGPS) is a valuable part of the pay and reward package for employees. Benefits are set nationally, and key features are described below.

The Scheme is paid for by member contribution, which are set nationally and range from 5.5% of pay to 12.5% of pay, employer contribution rates, which are determined locally by the Fund Actuary and range from 0% of pay to 42.7% of pay, and investment returns.

- **A funded Scheme**  
Unlike other public sector Schemes the Local Government Pension Scheme is funded, which means that it pays for benefits out of assets held by the Pension Fund
- **Secure pension**  
The Scheme is known as 'defined benefits' which means each year 1/49th of a members pensionable pay is put into your pension account; at the end of the year the total amount of pension in your account is adjusted to take into account the cost of living. It is not dependent on the returns achieved on the Fund's assets.
- **Flexibility to pay more or less contributions**  
A member can boost their pension by paying more contributions and have the option to pay half normal contributions in return half the normal pension (the 50/50 section).
- **Tax efficient now and in the future**  
Members receive tax relief on the contributions paid plus the option on retirement to exchange part of a member's pension for tax-free cash.
- **Freedom to choose when to take a pension**  
The Pension is usually payable from a member's normal pension age which is linked to a members State Pension age (with a minimum of 65). However a member can choose to retire and take their pension at any time between the age of 55 and 75, with adjustments.
- **Flexible Retirement**  
If a member reduces their hours or moves to a less senior position at or after age 55 they can, with an employers' consent (and provided they have met the two years vesting period), draw some or all of the benefits built up. Benefits may be reduced for early payment.
- **Redundancy and efficiency retirement**  
If a member is made redundant or retired in the interests of business efficiency at or after age 55 they will (provided they have met the two years vesting period) receive immediate payment of the main benefits built up, with adjustments.

## Scheme Management

Although the Local Government Pension Scheme (LGPS) is a national statutory Scheme, it is managed by 89 Administering Authorities in England and Wales. The Administering Authority is responsible for managing and administering the LGPS in relation to for its local area. West Sussex County Council (WSCC) is the Administering Authority for the West Sussex LGPS. To fulfil its role WSCC has set up the following governance arrangements:

- **Scheme Manager**

The Scheme Manager has responsibility for managing and administering the Scheme. For the purpose of West Sussex LGPS the Scheme Manager is WSCC. Its functions are discharged in accordance with the [Scheme of Delegation](#) by Governance Committee and the Director of Finance and Support Services (formerly known as Director of Finance, Performance & Procurement) and the Director of Law and Assurance.

- **Pensions Panel**

The Pension Panel is a sub-committee of WSCC's Governance Committee which has delegated responsibility for the Pension Fund's investment policy and its performance, appointment of advisers and managers, key scheme governance, funding and administration matters and communication with stakeholders.

The Pensions Panel comprises seven County Councillors, one representative from the district councils, one representative from the other major employers (currently vacant) and a representative for members. The Panel is supported by the Director of Finance and Support Services and an Investment Adviser.

- **Pension Advisory Board**

The Board is responsible for assisting the Scheme Manager in matters of governance and administration including compliance with Regulations, guidance and other legislation and securing effective and efficient governance and administration.










The Board comprises seven members (including an independent chair) with equal representation of employers and scheme members. The Board is supported by the Director of Finance and Support Services.

The current Pension Panel and Pension Advisory Board membership, their attendance and training is shown on the following pages.

Those responsible for the management of the Fund have a fiduciary responsibility to act in the best interest of employers, taxpayers and scheme beneficiaries at all times, rather than to represent their own local, political or private interest. Members and officers working in relation to the Scheme are invited to make any declaration of personal or prejudicial interests that they may and are reminded to make a declarations at any stage during meetings if it becomes apparent that this may be required when a particular item or issue is considered. A Register of Interest can be found [here](#).








For further information about the Pension Fund's Governance arrangements, please see the Fund's [Governance Policy Statement and Governance Compliance Statement](#).

**Pension Panel  
2018/19**

	Meeting Attend.	Fundamental			Internal			External					
		Day # 1	Day # 2	Day # 3	Financial Statement	Infra and private debt	Club Vita Longevity	Baillie Gifford Conf	SPS Invest Strategies	CIPFA Pensions Conf	LGA Governance Conf	LAPF Strategic Investment	Baillie Gifford: Global Alpha
Jeremy Hunt Chairman County Councillor 	4/4		2017			✓	✓	✓					✓
David Bradford County Councillor 	4/4					✓	✓			✓			✓
Joy Dennis County Councillor 	3/4	2017	2017	2017	✓		✓		✓			✓	
Brian Donnelly District Councillor 	4/4		2015	2015	✓	✓	✓						
Roger Elkins County Councillor 	3/4				✓	✓							
Nigel Jupp County Councillor 	4/4	2017	2017	2017	✓	✓	✓					✓	
Judith Taylor Member Rep 	4/4	2016	2016	2016	✓	✓	✓			✓	✓		
Deborah Urquhart County Councillor 	4/4		2013			✓	✓						
James Walsh County Councillor 	3/4	2012	2012	2012	✓	✓	✓					✓	



## Pension Advisory Board 2018/19

		Meeting	Online	Internal				External		
		Attend.	Pension Regulator toolkit	Financial Statement	Risk Framework	Actuarial Matters	Induction	CIPFA Local Pension Board Conf	CIPFA Local Pension Board Sem	CIPFA Local Pension Board Sem
Peter Scales <i>Chairman Independent</i>		4/4	All	✓	✓	✓	✓		✓	✓
Becky Caney <i>Member Rep</i>		2/2	All			✓	✓			
Richard Cohen <i>Employer Rep</i>		4/4	All	✓	✓	✓	✓			
Miranda Kadwell <i>Employer Rep</i>		2/2	All			✓	✓			✓
Kim Martin <i>Employer Rep</i>		2/4	All	✓		✓	✓			
Christopher Scanes <i>Member Rep</i>		4/4	All	✓	✓	✓	✓	✓		✓
Tim Stretton <i>Member Rep</i>		3/4	All			✓	✓	✓		

## Scheme Advisors

As Administering Authority West Sussex County Council (WSCC) is required to undertake a number of functions, including administration of the Local Government Pension Scheme (LGPS) benefits on behalf of its members, invest contributions received from members and employers and undertake assessments To fulfil these requirements, WSCC has appointed a number of external service providers, who are listed below:

### Pension Administration

Responsibility for administration of the Scheme was transferred to Hampshire County Council with effect from 4 March 2019. Prior to this the administrative function was undertaken by Capita. The benefits available to members are unchanged and will continue to build up in the same way.



### Investment Managers

The Pension Fund invests money not required immediately to pay benefits into a portfolio of equities, bonds, property and private equity via external managers.

Cash is also managed by WSCC's Treasury Management Team in accordance with the Treasury Management Strategy, which can be found on the [website](#).



### LGPS Asset Pool

As part of the summer Budget in 2015, the Chancellor announced that administering authorities were required to pool LGPS investments, to deliver significantly reduced costs while maintaining overall investment performance. In response WSCC joined with ten other authorities to create the ACCESS LGPS Asset Pool.

Link Fund Solutions have been appointed as Operator to the ACCESS Pool - providing the sub-funds available for authorities to invest.



### Fund Actuary

Employee contributions are fixed by Central Government. However the Actuary is required to set employer contribution rates to ensure benefits under the Scheme are properly funded. The County Council has appointed Hyman Robertson as Fund Actuary.



### Independent Adviser

Caroline Burton has been appointed to support the Pensions Panel through reviewing investment activity, giving advice on general investment matters, assisting in the selection of new managers and



offering a practical approach to address and control risk. Caroline was an executive director at Investment Guardian Royal Exchange for a number of years and is currently a non-executive director at three invest related companies.

### **Internal Auditor**

Southern Internal Audit Partnership (SIAP) provides our internal audit service to assist WSCC in ensuring it has appropriate risk management processes, control systems, accounting records and governance arrangements in place.



### **External Auditor**

Ernst & Young have been appointed as external auditors for WSCC to give a view of the financial transactions of the Pension Fund and the amounts and dispositions of the fund's assets and liabilities.



### **Custodian**

A global custodian arranges for the safekeeping of the Fund's assets (excluding property, private equity, pooled investments and some cash), settlement of transactions effected by fund managers, timely collection of income and other administrative actions. BNP Paribas were appointed by the County Council to provide global custody services, stock lending facilities and performance measurement service from May 2017.



### **Legal Adviser**

Orbis Legal Services Partnership (WSCC's legal services team working in partnership with Brighton and Hove City Council, East Sussex County Council and Surrey County Council) for advice covering conveyancing, investment and employer issues.



### **AVC Provider**

All LGPS's have an Additional Voluntary Contribution (AVC) arrangement in which employees can invest money deducted directly from pay. This is arranged through an AVC provider, often an insurance company or building society. These schemes provide members with a flexible and tax-efficient way of topping up their retirement benefits. The current provider is Standard Life, although some members retain paid up plans with Equitable Life, the previous provider.



### **Subscriber**

The Pension Fund was a member of Pensions & Lifetime Savings Association and Pensions Research Accountants Group (PRAG) in 2018/19.

## Risk Management

### Key Risks

The Pension Fund maintains a risk register to identify key risks, consider and assess the significance, likelihood of occurrence and potential impact of the risk. The 2018/19 key risks and actions taken to mitigate these have been set out below:

Risk	Mitigation
Insufficient funds to meet pension obligations.	<ul style="list-style-type: none"> <li>An Actuary has been appointed who adopts prudent assumptions.</li> <li>Investment performance and strategic asset allocation is reviewed alongside changes in liabilities.</li> </ul>
Fund Managers adopt inappropriate strategic asset allocation or has inadequate processes in place.	<ul style="list-style-type: none"> <li>A customised benchmark based on the Fund's assets, liabilities and awareness of risk, return and liquidity requirements has been set based on appropriate advice.</li> <li>Agreements with fund managers are clear in respect of contractual requirements and any discretions.</li> </ul>
Failure to comply with expectations on asset pooling or arrangements does not meet the needs of the Fund.	<ul style="list-style-type: none"> <li>Active engagement in the work of the ACCESS pool (Joint Committee and officer).</li> <li>Clear investment strategy requirements set.</li> </ul>
Employer contribution rates fluctuate between actuarial valuations due to membership experience	<ul style="list-style-type: none"> <li>Stability of contribution rates is an objective within the Funding Strategy and implemented through pooling certain employers to help manage fluctuations in contribution rates, phasing or stabilisation of some contribution rates and requiring that employers pay the strain cost associated with certain decisions, such as early retirements.</li> </ul>
Employer have a declining membership or are no longer in the Scheme but liabilities remain e.g. if employer goes bust, or employer unable to meet liabilities.	<ul style="list-style-type: none"> <li>Certain employers are required to have a bond or guarantee in place.</li> <li>Membership numbers are monitored regularly and employers with low membership numbers are actively managed via a cessation flightpath.</li> </ul>
Pension Fund accounts not accurately maintained	<ul style="list-style-type: none"> <li>Regular reconciliation work between accounting and administration systems.</li> <li>Appropriate knowledge, understanding and training.</li> </ul>
Failure to comply with changes to LGPS Regulations and/or Inland Revenue Rules	<ul style="list-style-type: none"> <li>All consultation papers issued by the relevant Government departments are responded to where appropriate.</li> <li>Appropriate advice sought from experts and advisers.</li> </ul>
The quality of the information provided to members in terms of accuracy, timeliness and clarity falling short of expectations and requirements.	<ul style="list-style-type: none"> <li>Data quality work undertaken and training/guidance is provided to employers.</li> <li>The Fund's Communication Strategy seeks to ensure membership well informed of benefits.</li> <li>Appropriate advice sought from experts and advisers.</li> </ul>
Inaccurate and/or incomplete data retained.	<ul style="list-style-type: none"> <li>New employers participating in the Scheme are provided with clear guidance.</li> <li>Where employers fail to supply the correct data or do not follow the correct process, this is escalated.</li> </ul>
Knowledge and understanding of the Board and Panel members may not comply with the requirements.	<ul style="list-style-type: none"> <li>Develop a training strategy.</li> <li>Monitor training register.</li> </ul>
Board and Panel members may have a conflict of interest.	<ul style="list-style-type: none"> <li>Declarations of interest are required at the start of and during each meeting as appropriate.</li> <li>A clear conflict of interest and disclosure policy is maintained in line with WSCC overriding policies.</li> </ul>
Compliance with Data Protection to ensure no breaches	<ul style="list-style-type: none"> <li>Data is managed securely.</li> <li>All staff, including temporary or contract staff, complete information management training.</li> </ul>

## Internal Audit

The internal audit team are responsible for evaluating the effectiveness of the risk management, control and governance processes to support the risk framework and undertook the following audits during 2018/19 audit plan.

Title	Comments
<ul style="list-style-type: none"> <li>National Fraud Initiative <i>January 2019</i></li> </ul>	<p>The biennial Cabinet Office's National Fraud Initiative provides information on potential inappropriate payment as a result of a member being deceased. Data is provided by the internal audit team and compared against national databases.</p> <p>The results from the 2018/19 report identified 139 potentially deceased members. This has been run by audit and the results are being investigated by Hampshire Pension Service.</p>
<ul style="list-style-type: none"> <li>Pension Fund – Externally Managed Investments <i>January 2019</i></li> </ul>	<p>This audit gave an opinion on the extent to which assurance can be placed upon the effectiveness of the Controls in place, focusing on those designed to mitigate risk in achieving the following key objectives:</p> <ul style="list-style-type: none"> <li>• All holdings are held securely to the ownership / exclusive entitlement of the Pension Fund.</li> <li>• There are adequate mechanisms for ensuring that all investment income due is identified and collected.</li> <li>• The performance of the Investment Fund is subjected to review.</li> </ul> <p>The auditors concluded that Adequate Assurance can be placed on the effectiveness of the overall control environment. There is a sound framework of internal control with some opportunities for improvement. No significant risks to the achievement of system objectives have been identified.</p>
<ul style="list-style-type: none"> <li>Pensions Administration – Processes and Systems <i>March 2019</i></li> </ul>	<p>This audit gave an opinion on the extent to which assurance can be placed upon the effectiveness of internal controls in place, focusing on those designed to mitigate risk in the following areas:</p> <ul style="list-style-type: none"> <li>• Authorisation regarding the addition of a new Pensioner to the payroll</li> <li>• Lump sum payments</li> <li>• Transfers In and Out</li> <li>• The Hartlink system</li> <li>• Reconciliations between administration and accounting IT systems</li> </ul> <p>It was recognised that administration of the LGPS transferred to Hampshire County Council on 4 March 2019.</p> <p>The auditor concluded that Adequate Assurance can be places on the effectiveness of controls. There is a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of systems objectives have been identified.</p>
<ul style="list-style-type: none"> <li>Pension Fund - Governance and Strategy <i>March 2019</i></li> </ul>	<p>This Audit has been undertaken however the results are not yet available.</p>

This internal audit work is in addition to the external audit which takes place annually and focuses on the Pension Funds Financial Statements and ensuring that they are prepared in line with CIPFA's code of practice.

## Financial Performance

### Cashflow

The Fund needs continued cashflows from contributing members and employers to allow it to invest over the long term and pay benefits from income received, rather than by selling its investment assets.

The table below compares actual income and expenditure during the year to the assumptions made by the Actuary during his most recent valuation.<sup>2</sup> Estimates by their nature contain a degree of uncertainty. Restructuring activity by employers, changes to the working patterns of members, members taking the option to transfer to the 50/50 Scheme and changes to Regulations can all have an impact.

The Pension Fund maintains an account for each employer participating in the Scheme showing its contributions received, the benefits paid to its members and its share of investment income, administration and investment costs and investment assets.

	2017/18	2018/19		2019/20
	Actual	Estimate	Actual	Estimate
	£m	£m	£m	£m
Contributions (members and employer)	124.3*	127.9	127.5**	133.7
Income on pension fund investments	51.6	53.1	61.4	62.0
Pensions paid	(107.2)	(109.5)	(113.8)	(116.2)
Net Transfers in /(out)	29.4	8.6	(4.3)	7.3
Administration and Governance Costs	(1.6)	(1.7)	(2.3)	(2.1)
Investment Management Costs	(15.7)	(12.2)	(15.5)	(15.8)

\* This figure includes £0.4m refunds in contributions paid back to members in 2017/18

\*\* This figure includes a £2.4m payment relating to the exit credit due to an exiting employer and £0.4m refunds in contributions paid back to members in 2018/19

### Contribution Receipts

Employers deduct member contributions as part of their payroll and are required to pay this, along with their own contribution, by the 19th of the month following the deduction – for example 19 May for April's payroll.

In total, the Pension Fund received 2,271 contribution payments during the year. Of these, 99.7% were received on time.

Whilst the Pension Fund reserves the right to charge interest on persistent late payments, no charges were made for the year.

<sup>2</sup> Pensions based on 2016 Actuarial Valuation pensions paid figure (£101.2m) increased by 2.1% per annum. Contributions based on 2016 Actuarial Valuation pensionable pay figure (£379.9m) increased by 2.9% per annum and the employer certified rates as set out for the relevant year in the Actuary's Rates and Adjustment Certificate. Transfers based on average from previous three years. Investment Management costs estimate for 2019/20 based on 2018/19 actual plus 2%.

## Recovery of Overpayments

Overpayments mainly occur when pension payments have continued after a pensioner has died. This is analysed over a five year period below: <sup>3</sup>

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
<b>Brought Forward</b>	<b>(15)</b>	<b>(22)</b>	<b>(32)</b>	<b>(51)</b>	<b>(88)</b>
Overpayment	(47)	(60)	(67)	(111)	(73)
Recovered	36	50	48	67	49
Credit	3	0	0	5	0
Written Off	1	0	0	2	15
<b>Carry Forward</b>	<b>(22)</b>	<b>(32)</b>	<b>(51)</b>	<b>(88)</b>	<b>(97)</b>

## Administration and Management Costs

Each of the 89 LGPS Administering Authorities vary significantly in respect of size, use of in-house and external services and structure.

Notwithstanding this, each Administering Authority is required to provide the Ministry of Housing, Communities and Local Government (MHCLG) with information about its administration and fund management for inclusion in the National Accounts (the SF3 Return) and this information can be used as a benchmark.

This SF3 benchmark comparator is available a year in arrears. Therefore the table below compares the Pension Fund's costs for 2017/18 against other Local Authorities SF3 Return alongside comparative information for WSCC only for 2018/19.<sup>4</sup>

	2017/18		2018/19
	Total SF3	WSCC	WSCC
	£	£	£
Administrative, oversight, governance and investment management	205.24	231.78	237.20
Administrative, oversight and governance costs only (ex investment management)	29.8	22.29	31.13

During 2018/19 the unit cost excluding investment management costs have increased compared to the previous year as a result of the one-off costs associated with the pension administration transfer and the ongoing additional investment to improve the Pension Administration Service to benefit its stakeholders.

<sup>3</sup> A revised report has been used to calculate the overpayments and as a consequence the figures have been restated for all the 5 years.

<sup>4</sup> The 2017/18 information can be found on the [Gov.uk website](https://www.gov.uk).



## Administration

### Employers and Members

Membership of the LGPS is automatic to all Council employees and employees of certain specified employers (such as colleges, academies, and those who are providing a service transferred from a local authority). Employers are grouped into two categories:

**Scheduled:** This includes the town, parish, district, borough and county councils, as well as academies, the Police and Crime Commissioner and Office of the Chief Constable where membership is automatic to all employees who have contracts of employment for more than three months or (in the case of town and parish councils) where a resolution has been passed to specify who should be admitted.

**Admitted:** This includes employers who have contracts for services with a Scheduled employer (above) or who have joined the Scheme due to a community of interest with a Scheduled employer such as quasi-governmental organisations. Membership is normally limited to those employees who originally transferred from the local authority. However some admission arrangements are 'open' so new members are able to join the Scheme.

The table below sets out the number of employers at 31 March 2019 who either have members participating in the Scheme and actively contributing to the Pension Fund or those who still have members who are in receipt of benefits (or eligible for receipt of benefits in the future) but who are not contributing (ceased).

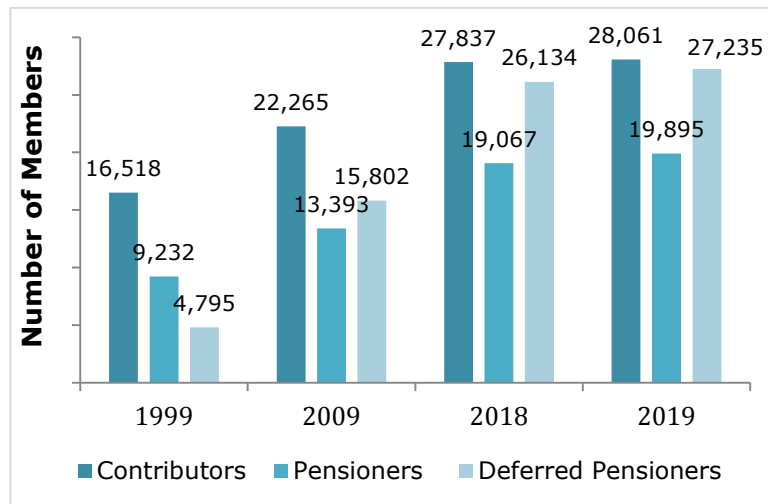
During the year, 13 new employers joined the Fund and five became ceased employers.

Further details of the participating employers can be found in Appendix 2.

	Active	Ceased	Total
<b>Scheduled</b>	150	49	199
<b>Admitted</b>	51	27	78
<b>Total</b>	201	76	277

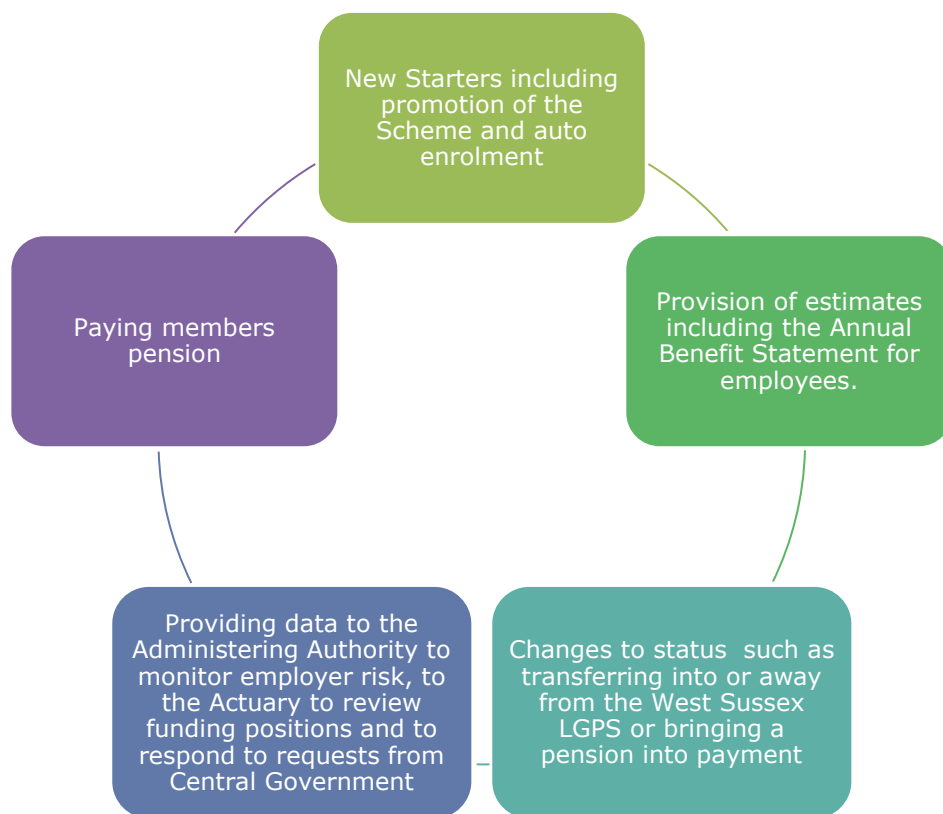
Membership of the Scheme is split between active members (contributors), deferred members (former employees who have a deferred pension right to be paid at a point in the future) and pensioners (those receiving pension benefits). Total membership has increased by 146% over the last 20 years and the mix of membership between contributors and pensioners (deferred and active) has flipped from being 54:46 in favour of contributors in 1999, to being dominated by pensioners in 2019 (37:63). This is illustrated below:





## Administration Performance

The Pension Administration broadly covers the following events:



The administration of members benefits in the Scheme moved to the Fund's new administration partners, Hampshire County Council during the year. This followed the Cabinet Member for Finance's decision in May 2018 intended to improve the customer service experience and strengthen resilience. From 4 March the Hampshire team were able to progress new cases on behalf of members and complete any in progress cases and focused on delivering a high-quality, customer-focused service to members.

As part of the new service, members are able to register to a user-friendly Member Portal which allows current active members to view the personal details, membership information and the

nominations held by the pension administration team. Member can also update certain information directly which helps ensure that their records are up to date. This is the link to the [member portal](#).

The transfer was solely in relation to pension administration.

As a result of the change to administration, only part year performance figure are available. New performance indicators will be reported against for 2019/20.

The top ten most requested administration cases for the year to 31 January 2019 have been listed on the following page alongside a measure of timeliness. The target for all case types is ten working days from receipt of all required paperwork, with the exception of Deferred Benefits which has a 20 working day target.

	Description	No. Requests	Met Target
<b>1</b>	<b>Maintenance requests from members / employers</b> Updates to pension records including change of address/hours/details, nomination form and new starter creation which should be input onto the admin system	9,293	94.62%
<b>2</b>	<b>Deferred processing</b> Change to membership status from active to deferred for members with more than three months membership following notification of leaving.	7,016	73.54%
<b>3</b>	<b>Retirement (all types)</b> Retirement estimates and actual retirements (early, normal, late)	2,998	86.24%
<b>4</b>	<b>Transfers</b> Actuals for members who want to transfer in/out service to or from the West Sussex LGPS.	2,788	53.47%
<b>5</b>	<b>Refunds</b> Repayments of contributions for members with less than 3 months membership.	2,133	52.84%
<b>6</b>	<b>Death cases (all variants)</b> Relating to death grants and spouse/child pensions set-ups	1,813	94.28%
<b>7</b>	<b>General member enquiries</b> Via the website, phone, email and post	1,788	87.21%
<b>8</b>	<b>Guaranteed Minimum Pension &amp; Abatement</b> Adjustments were made to member records relating to Guaranteed Minimum Pension for Deferred and Pensioner members.	1,235	55.87%
<b>9</b>	<b>Divorce</b> Estimates/actuals and pension sharing orders were provided during the year.	241	48.69%
<b>10</b>	<b>AVCs</b> Starter information, processing application forms and notification to relevant employer and AVC provider.	144	37.44%

### **Compliments and Complaints**

Members and employers of the Fund can let us know about their experiences of dealing with the Fund, to enable any errors to be corrected and help with improving the service.

The Pension Fund has a Compliments and Complaints process, which is available from its [website](#). During the period to 31 December 2018, 76 formal complaints were received. These mainly related to delays in responding to queries. 35 formal compliments were received.

## **Data Quality**

Good quality member data is essential to the successful working of the Fund including the following key aspects:

- Keeping track of each employer's share of assets
- Collecting contributions
- Investing those contributions
- Paying benefits to members as and when they fall due

The Pension Regulator requires that the Fund carries out checks against the presence of "common data" which is necessary for basic pension administration (e.g. surname, National Insurance number, date of birth). The Fund is required to analyse data based on the date it is created. The target varies in recognition that historic data is harder to rectify. The results are shown below:

	<b>Target</b>	<b>Actual 31/01/2019</b>
<b>Legacy</b> Data created before June 2010	95%	88.3%
<b>Current</b> Data created after June 2010	100%	97.8%

The Pension Regulator requires that the Fund carries out checks against the presence of "conditional data" which is specific for the administration of the LGPS (e.g. employment records and history).

The Fund has received a report for our data quality for conditional data and is considering the recommendations raised.

The County Council is developing its Data Improvement Plan.

The Pensions Regulators website can be found [here](#).

## Investment Assets, Policy & Performance

### Investment Assets

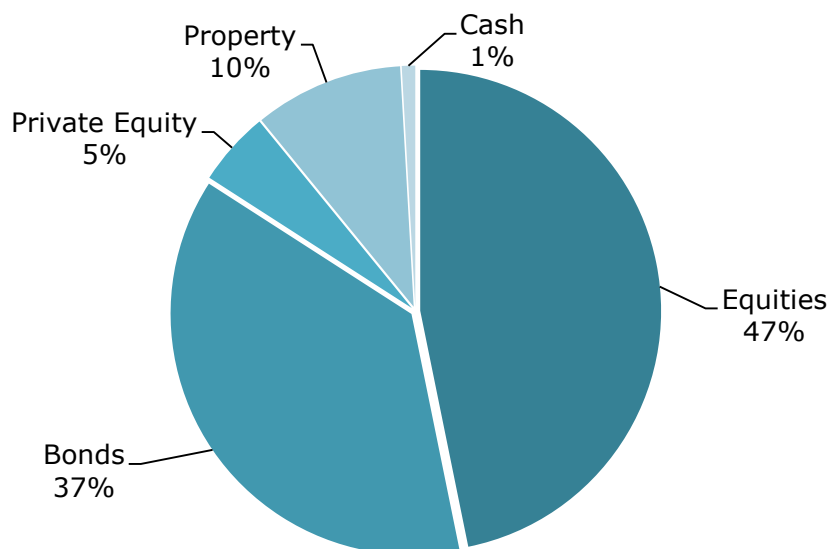
The Fund's primary investment objective is to ensure that over the long term it will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overriding objective the Panel maintains an investment policy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a future funding level of 100%;
- Enable employer contribution rates to be kept as stable as possible.

These objectives have been used to develop the Pension Fund's customised benchmark.

An investment strategy of lowest risk, but not necessarily the most cost effective in the long term, would be 100% investment in index linked government bonds.

Although it has reduced over recent years as part of the Fund's de-risking as a result of its strong funding position, the Fund's benchmark includes a significant holding in 'growth' assets, specifically equities, reflecting the relatively immature liabilities of the Fund and the secure nature of most employer covenants. This allows the Fund to benefit from higher returns than from government bonds in the long term to help reduce the cash contribution from employers, whilst providing some stability to employer contribution rates.



Overall transactions are summarised below.

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	71.7	(25.3)	-	46.4
Bonds	(11.6)	-	-	(11.6)
Property (direct)	27.6	-	-	27.6
Private Equity	-	-	(28.2)	(28.2)
Cash or equiv.	-	-	-	-
Total	87.7	(25.3)	(28.2)	34.2

*Note: The sales for private equity include return of capital, income and realised gain*

The table below shows the Pension Fund's assets as at 31 March 2018 and 31 March 2019. Movements between the two years will be a result of transactions and investment returns.

	31 March 2018				31 March 2019			
	UK	Non-UK	Global	Total	UK	Non-UK	Global	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equities	381.9	1,594.7	-	1,976.6	441.5	1,723.1	-	2,164.6
Bonds ^	988.0	-	503.5	1,491.5	895.1	-	661.8	1,556.9
Property (direct)	344.6	-	-	344.6	377.0	-	-	377.0
Private Equity	-	-	121.1	121.1	-	-	108.0	108.0
Cash or equiv. *	65.9	3.1	55.5	124.5	66.3	3.1	29.9	99.3
Total	1,780.4	1,597.8	680.1	4,058.3	1,779.9	1,726.2	799.7	4,305.8

*The above figures do not include investment income, property rent receipts and contributions due to the Fund, amounts receivable from sales or payable for purchases, debtors or tax. These net investment assets amount to £4.9m for 2018/19 (£2.3m for 2017/18).*

*Within the balanced portfolios, £1,469bn is held in the managers' internal pooled funds (£923m by Baillie Gifford and £546m by UBS) which have been included against the appropriate asset class. Pooled funds aggregate investors' money and invest in a portfolio of assets such as equities and bonds.*

*\* Cash includes the UBS Currency Absolute Return Strategy (CARS) investment.*

*^ These figures have been re-categorised in the Financial accounts and so have been restated here.*

None of the investments shown below have been transferred to the ACCESS pool.

## **Investment Performance**

To maximise the return from investments, the Fund has appointed active managers to generate excess performance relative to the broad market from the stocks that they hold through the choice of investments they hold. Performance can be generated from:

- Stock Selection for example the shares in a particular sector or market the fund managers hold or sell in comparison to others which can be driven by a managers philosophy, style or research,<sup>5</sup> or which property is held by the Fund.

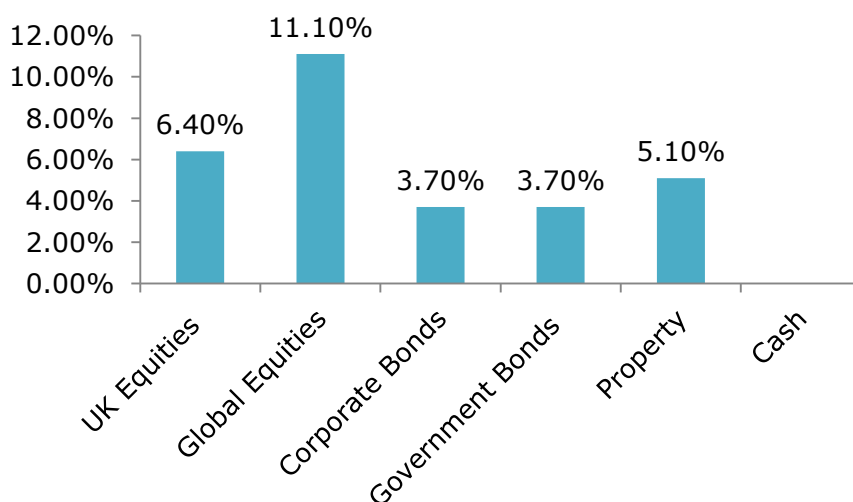
<sup>5</sup> The two main investment managers have complementary styles which should reduce volatility for the pension fund. Baillie Gifford is classified as a 'growth' manager (which means they buy stocks that typically sell at relatively high price-to-earnings ratios due to high earnings growth, with the expectation of continued high or higher earnings growth) whilst UBS have a value bias (select stocks that they believe to have potential not reflected in the current share price and have a relatively low price-to-earnings ratio). The investment 'style' is the philosophy behind the way in which a manager manages the fund and picks long term stocks.

- Asset Allocation which can be driven by explicit decisions by the fund managers as to whether to hold equities or bonds within the Fund's two large balanced mandates or unintentional asset allocation due to the long term nature of the investment portfolios and illiquidity of an asset class such as the relative holdings in property and private equity portfolios versus the strategic benchmark.

Equity market participants have had a turbulent ride in global stock markets over the 12-month period. Whilst the more positive mood across markets for risky assets was seen early in the New Year and continued throughout the last three months of the period, this was not sufficient to make up for the sharp sell-off in the final quarter of 2018 resulting from tightened financial conditions, uncertainties of Brexit and trade tensions.

Within bond markets, UK government bond yields fall during the period, generating a positive return. The Bank of England raised interest rates in August 2018, but expectations of future rate rises have been curtailed more recently and signals from central banks are that monetary policy will be more supportive than previously expected. Corporate profitability remains high and default rates on riskier companies have been below average. This should be supportive for corporate bonds, but they have been volatile along with equity markets more generally. Despite performing well in the first quarter of 2019, they have performed in line with government bonds over the full 12-month period.

The graph below shows benchmark returns across markets for the 12 months to 31 March 2019:



Short term performance has been behind benchmark.

UBS have underperformed relative to the benchmark during the year as a result of their choice of stocks within the UK and Global Equity portfolio. The portfolios allocation to UK equities has negatively impacted relative returns, whilst Health Care and IT stock selection added value in the last quarter of the year, following underperformance in the prior quarters.

The outperformance from corporate bond selection within the fixed interest portfolio was modest.

Within the Baillie Gifford portfolio, the portfolio has an active share of 89% (it only holds 11% in common with the market benchmarks). Several UK and European equity holdings detracted from performance during the year as a result of uncertainties surrounding Brexit and US-China trade conflict.

The bond portfolio has remained underweight in UK government bonds, where yields are low against international comparisons – but recently this has detracted from returns, relative to the benchmark, with yields falling along with other global markets. Individual bond selection within corporate bonds has been a positive contributor to returns.

Performance over the year has been slightly behind the market due to void levels within the portfolio and costs associated with purchases. As a result of active management, the funds void (3.8%) is now well below benchmark (7.4%) which in a low capital return environment should help the funds return as income becomes a larger part of total return.

The Fund's private equity portfolio is now maturing which means that the managers are returning capital and realised gains on the underlying companies. However too much emphasis should not be placed on short term performance of private equity - the investment horizon is much longer than quoted equities and therefore it makes more sense to analyse over at least a five to seven year period.

The Pension Fund is a long term investor. This means the managers seek to identify and holding a diversified portfolio of businesses which are likely to support above average performance over the next five years or longer.

The investment performance over the short, medium and long term is shown below. Performance has been reported net of fees since April 2005.

	12 months	3 years pa	10 years pa	15 years pa
Fund	7.06%	13.12%	12.83%	9.35%
Benchmark	7.68%	11.19%	11.67%	8.69%
<i>Difference</i>	-0.62%	1.93%	1.16%	0.66%
By fund manager				
<i>UBS</i>	5.84%	12.16%	12.23%	8.33%
<i>UBS Benchmark</i>	7.36%	11.07%	11.50%	8.61%
<i>Difference</i>	-1.52%	1.09%	0.73%	-0.28%
<i>Baillie Gifford</i>	6.84%	14.79%	14.73%	10.72%
<i>Baillie Gifford Benchmark</i>	8.06%	11.92%	11.91%	8.86%
<i>Difference</i>	-1.22%	2.87%	2.83%	1.86%
<i>Aberdeen Standard</i>	4.95%	7.57%		
<i>Aberdeen Standard Benchmark</i>	5.12%	6.42%		
<i>Difference</i>	-0.18%	1.15%		
<i>Private Equity</i>	35.71%	18.63%	13.39%	19.94%
<i>Private Equity Benchmark</i>	11.09%	14.83%	13.78%	10.69%
<i>Difference</i>	24.62%	3.80%	-0.39%	9.25%

## **Investment Risk**

Whilst looking at return it is important to be aware of the risks being taken to achieve this. Risk-adjusted measures (such as relative risk and information ratios) are therefore useful metrics of achieved performance and as covered above the Fund must consider the risk in each of the portfolios and at total Fund level as part of setting its asset allocation.

The relative risk, relative return and information ratio for each of the Fund's largest (balanced) portfolios is set out in the following table for the three years ending 31 March 2019.

The IR achieved over a period gives an indication of how the Fund has implemented its actively managed assets to deliver outperformance of its strategic benchmark through showing that it converted each unit of risk taken into 0.80 units of excess return. Market convention is to consider an IR above 0.50 as "good," above 0.75 as "very good," and above 1.0 as "exceptional".

It is not appropriate to show relative risk or information ratios for the alternative asset classes (private equity and property) as these are relatively illiquid and not valued on a monthly basis.

	<b>UBS</b>	<b>Baillie Gifford</b>	<b>Total Fund <sup>6</sup></b>
<b>Relative Risk:</b> 'Relative Risk' is 'tracking error' or the volatility in the Fund's returns versus its benchmark over several consecutive time periods. The measure most commonly used to represent volatility is the standard deviation of monthly returns. (3 Years Annualised)	2.17	3.52	2.41
<b>Relative Return:</b> The return achieved by the Fund relative to the benchmark return. (3 Years Annualised)	1.09	2.87	1.93
<b>Information Ratio (IR):</b> Funds expect that benchmark relative risk will be rewarded with benchmark relative excess return. The 'Information Ratio' brings together the benchmark relative risk and return results and measures a fund's success in converting active investment risk into excess return. The observed risk and return are a function of a number of underlying factors including the investment strategy, flexibility around the strategy, choice of manager, their degree of discretion and, by no means least, the condition of the investment markets. Given the number of variables the IR (3 Yrs Annualised) needs careful interpretation.	0.50	0.82	0.80

<sup>6</sup> It should be noted that returns are additive i.e. the two returns can be added and averaged. Volatility is not additive because of correlation. A correlation of 1 would mean that Baillie Gifford and UBS outperformed and underperformed in tandem. Risk would add under these circumstances.



## Environmental, Social and Governance

### **Responsible Investment Policy**

Corporate Governance considers issues relating to the way in which a company ensures that it is attaching maximum importance to the interest of its shareholders and how shareholders can influence management.

The Pensions Panel is mindful of its legal duty to obtain the best possible financial return on Pension Fund investments, within an appropriate risk profile. However, good practice in terms of social, environmental and ethical issues is likely to have a favourable effect on companies' financial performance.

The Fund's portfolio managers, whilst acting in the best financial interests of the West Sussex Scheme, will consider factors including the effects of social, environmental and ethical issues on the performance of a company when selecting an asset to purchase, retain or sell. The Pension Fund does not have an exclusion policy for any company or sector.

The investment managers take their governance responsibilities seriously. As long term investors they are committed to performing their stewardship role actively to support the investment process that is looking to identify and generate long term sustainable corporate growth.

This is achieved through dialogue with companies throughout the year on a variety of environmental, social and governance (ESG) issues such as strategy, performance, business ethics, corporate governance, climate change, human capital and supply chain management. and by building long relationship with management and board members in order to understand and influence less tangible aspects of a company, such as corporate culture.

By way of an example, as part of its engagement with a building construction suppliers company's CEO, Baillie Gifford has focused on governance and sustainability issues including firm-wide environmental data and carbon emissions disclosure. As a result, the CEO has agreed to take steps to begin reporting in 2019 and the firm has hired an executive who will oversee environmental issues.

The Fund's Investment Managers have adopted the Institutional Shareholder Committee's (ISC's) Code of Responsibilities of Institutional Investors, which aims to enhance the quality of the dialogue of institutional investors with companies to help improve long-term returns to shareholders, reduce the risk of catastrophic outcomes due to bad strategic decisions, and help with the efficient exercise of governance responsibilities, and have signed up to the United Nations Environment Programme Finance Initiatives (UNEP FI) Principles of Responsible Investment (UNPRI). Details of the Investment Managers governance principles can be found on their websites:

- [Baillie Gifford](#)
- [UBS](#) and [UBS climate change strategy](#)
- [Aberdeen Standard](#)
- [Pantheon](#)
- [Partners Group](#)

The Pensions Panel wishes to remain an active shareholder and exercise its voting rights to promote and support good corporate governance and the investment managers will exercise voting rights on behalf of the Fund.

All voting decisions are made by the investment managers with the long term prospects of companies and the best interest of clients in mind.

In exceptional circumstances the managers will attend meetings, where they have large holdings, where there is a contentious issue or where attendance in person rather than voting by proxy is in the best interest of clients.

During the year, the Fund managers on behalf of the Fund had votes placed at 99% of domestic meetings at which they were entitled to vote and 95% of foreign meetings. The Funds record over the recent five years is shown below:

	2015	2016	2017	2018	2019
Number of domestic meetings voted at as % of total meetings	99%	100%	100%	100%	99%
Number of foreign meetings voted at as % of total meetings	92%	94%	95%	94%	95%

It is normal for there to be a lower number of votes cast in foreign markets. Voting practices and the mechanisms of voting vary significantly globally. Issues faced by investors wishing to vote abroad include share blocking, powers of attorney, re-registration of shares into the name of the ultimate beneficial owner, a requirement for wet signatures, the need for physical attendance at the meeting, different format of voting cards, local agent costs, stock lending, voting deadlines and lack of confirmation that the vote has been received and cast.

Where the Fund did not vote during the year, this was due to local documentation requirements not being in place.

In line with the UK Stewardship Code both managers recognise the benefits of working alongside other like-minded investors on policy and company specific matters to increase influence.

For example, UBS has worked with Climate Action 100+ to secure a commitment from Shell to anchor its Net Carbon Footprint (NCF) ambitions to short-term targets and executive pay and in March 2019. The company announced its first three year target - a reduction in its NCF of 2-3% from 2016 - and has immediately linked the pay of the top 150 executives to delivery of the target with the intention to integrate the same target into the remuneration packages of the top 16,000 staff.

## Stock Lending and Compliance

### Stock Lending

To maximise the returns it can achieve on its investments, the Pension Fund has implemented a stock lending programme.

Stock lending is a market practice where securities are temporarily transferred by one party (in this case the Pension Fund) to another (the borrower).<sup>7</sup>

During the period of the loan the Pension Fund retains rights to corporate actions that would have arisen had the stock not been lent, and the borrower is obliged to pay the Pension Fund all cash benefits, such as dividends, arising during the period of the loan and is obliged to return the securities to the lender either on demand or at the end of the agreed term. The Pension Fund does not retain voting rights when lending a stock.

In return, a rate of commission is agreed between the lender and the borrower to run for the full length of the loan.

The amount of stock on loan and the rate of commission will vary depend on market requirements, the length of the loan, the security required by the Fund and the maturity of the programme.

The table below analyses the Fund's stock lending programme against a benchmark comparator (where available).

	2017/18	2018/19	Benchmark
<b>Stock available to market at year end</b>	£1,640m	£3,668m	
<b>Stock on loan</b>			
Average amount on loan	£57m	£258m	
Amount on loan as at 31 March	£144m	£303m	
Percentage on loan as at 31 March	8.8%	8.5%	
Utilisation	3.9%	9.2%	10.3%
<b>Income</b>			
Gross	£0.200m	£0.736m	
Net	£0.142m	£0.589m	
Net Return in Basis Points	19.2	20.5	24.1

For the period of the loan the Pension Fund retains security (collateral) against the borrower defaulting. The Pension Fund will accept the following non cash collateral:

	Collateral	
	£m	%
Obligations issued or guaranteed by the United States and United Kingdom	0.0	0.0
Obligations issued by other OECD member states or their local government agencies, instrumentalities or authorities provided they have a long term rating of AA- or higher	24.6	7.5
Obligations issued by supranational entities provided they have a long term rating of AA- or higher	-	-
Corporate debt securities including commercial paper and convertible securities issued by US and non US corporations provided they have a short term rating in the highest rating category	-	-
Equity from major indices	303.9	92.5
Total	328.5	100

<sup>7</sup> Borrowers for the Pension Fund are limited to UK authorised persons and EEA regulated entities.

## **Custodian Performance**

Amaces, an independent custodian monitoring firm, review the service provided by the Fund's custodian. The benchmark figures shown represent the average experience of other Pension Funds using a range of different custodians.

- **Trade Activity**

In 2018/19, the average monthly activity was 216 trades with a value of £103m (2017/18: 199 trades £169m). On a monthly basis the number and value of trades that settle after the Contractual Settlement Date are monitored. Particular focus is placed on the value of any late settling transactions as this represents the biggest operational risk to the Fund. The main reason for trades failing to settle was the counterparty having insufficient securities but other reasons include counterparty not matching our instruction, broker's instruction was late in the market, broker had insufficient stock and broker sent the wrong instruction. However, the custodian offer contractual settlement in 51 markets, meaning that when trades settle late, BNP would claim for late settlement from brokers and reflect this in the Fund's accounting record. Should a trade be reversed, any market exposure risk is borne by the Fund.

Whilst the percentage of late settlements has improved compared to 2017/18 the average figure of late trades as shown below is still above the benchmark figure.

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of late settlement as % of monthly trades	14.03%	10.18%	4.76%
Value of outstanding settlement as % of average monthly trades	0.00%	0.00%	0.23%

- **Income**

Income relates to dividend and interest payments on securities held in the Baillie Gifford and UBS portfolio. Income from direct and indirect property and private equity investments are treated separately. Over the year, the fund received 594 income receipts with a total value of £42.2 million. West Sussex benefits from the custodian's contractual income policy whereby all income due and maturity proceeds are credited on payment date. However, this information is custody-based rather than from an accounting perspective.

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of late income as % of monthly income	15.55%	12.89%	6.52%
Value of outstanding income as % of average monthly income	2.85%	0.00%	1.28%

- **Tax**

The number of tax reclaims as a percentage of total average monthly tax reflects the restrictions with regard to when tax claims can be filed and the time period that it takes to file and receive tax refunds

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of tax outstanding as % of average monthly tax	2700%	3,788%	4,607%
Number of tax reclaims outstanding as % of average monthly tax	2,476%	3,349%	4,848%

- **Foreign Exchange (FX)**

The three main sources of revenue for custodians over and above fees charged are FX, interest and stock lending. Amaces measures small FX deals such as dividend payments which are less than \$200,000 on the basis that the larger trade related deals are normally transacted on a negotiated basis, where rates are agreed before the trade is placed, in an attempt to ensure preferable rates of conversion.

Indicator	2018	2019	
	Fund	Fund	B'mark
FX cost in basis points <sup>8</sup>	0	8	16

- **Credit interest rate for GBP, Euro and US Dollar**

Over the year under review, cash balances on the UBS and Baillie Gifford part of the fund were swept on a daily basis to BNP's Liquidity Fund. Both managers monitor the rates received on a regular basis. The average credit balance during the year was £46.1m. The custodian also holds fractional balances in foreign currency on behalf of the Fund for short periods. The interest rates received for these balances together with the sterling rate are shown below.

Indicator	2018	2019	
	Fund	Fund	B'mark
Credit interest rate % for GDP	0.13%	0.42%	0.38%
Credit interest rate % for EUR	-0.39%	-0.61%	-0.47%
Credit interest rate % for USD	0.73%	0.76%	1.22%

<sup>8</sup> Basis points are used to measure movement of less than 1%. One hundred basis points equal 1%, or put another way, one basis point equals one hundredth of a percent.

## Transaction Costs

It is considered good practice that the Panel should have a full understanding of the transaction related costs they incur and since 2003 the Fund has commissioned a trading cost analysis which shows commissions, fees and market impact costs incurred by the Fund over the year against an institutional average.<sup>9</sup> This has been summarised in the table below.

Variances are affected by volatility and liquidity in the various markets traded in, and so costs vary year on year.

In sterling terms, the Fund has made a cost 'saving' of £16.8m against the institutional average over the fifteen years that the Elkins/McSherry report has been produced in full through efficient trading

	<b>Fund £</b>	<b>Fund BP</b>	<b>Universe BP</b>
<b>Commission</b> Paid by managers to brokers at the time of the stock trade. Managers are required to report commissions between trade execution and research, rather than reporting a single commission charge.	339,312	3.4	7.7
<b>Fees</b> Mandatory costs such as stamp duty and local taxes.	804,159	8.0	6.3
<b>Market Impact</b> The difference between the trade execution price and the Volume Weighted Average Price (VWAP) of the stock on trade date.	303,784	3.0	3.4
<b>Trading Cost</b> Commission plus market impact and fees.	1,447,255	14.4	17.4
2017/18	1,034,991	7.7	23.4
2016/17	2,380,483	14.7	28.3
2015/16	1,658,689	18.4	30.9
2014/15	931,226	9.7	32.1

<sup>9</sup> The Elkins/McSherry Universe is a compilation of actual trade data from hundreds of institutions. They provide trading efficiency analyses that determine the relative cost to trade on various stock exchanges globally and the effectiveness of trades and brokers. This trading data is used to create an institutional average universe of commissions, fees and market impact costs. During the year to 31 March 2018, Elkins McSherry monitored £999.83m in global equities transactions across 2159 trades (2017/18: £1.34bn / 2097 trades).

## Asset Pooling – ACCESS Summary

### Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight County Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS.

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.

Collectively as at 31 March 2019, the pool has assets of £46 billion serving 3,000 employers with over 1 million members including 290,000 pensioners.

### Governance

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

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Officer Working Group and the ACCESS Support Unit (ASU).

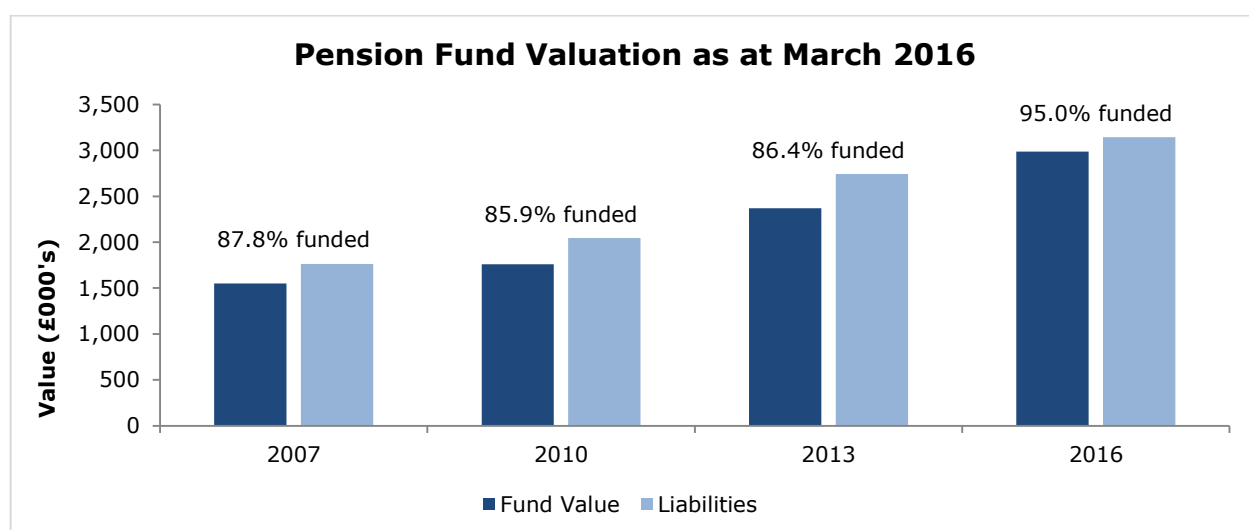
Appendix 3 provides further details on the ACCESS pool.

## Actuarial Report on Fund

### Fund valuation

A valuation of the Fund is carried out by the Fund's actuary every three years to test future funding or current solvency of the value of the Pension Fund's assets against its liabilities and to set the employer contribution rates for the next three year period to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. Interim valuations are undertaken from time to time to take account of significant factors affecting assumptions made at the time of the last triennial valuation.

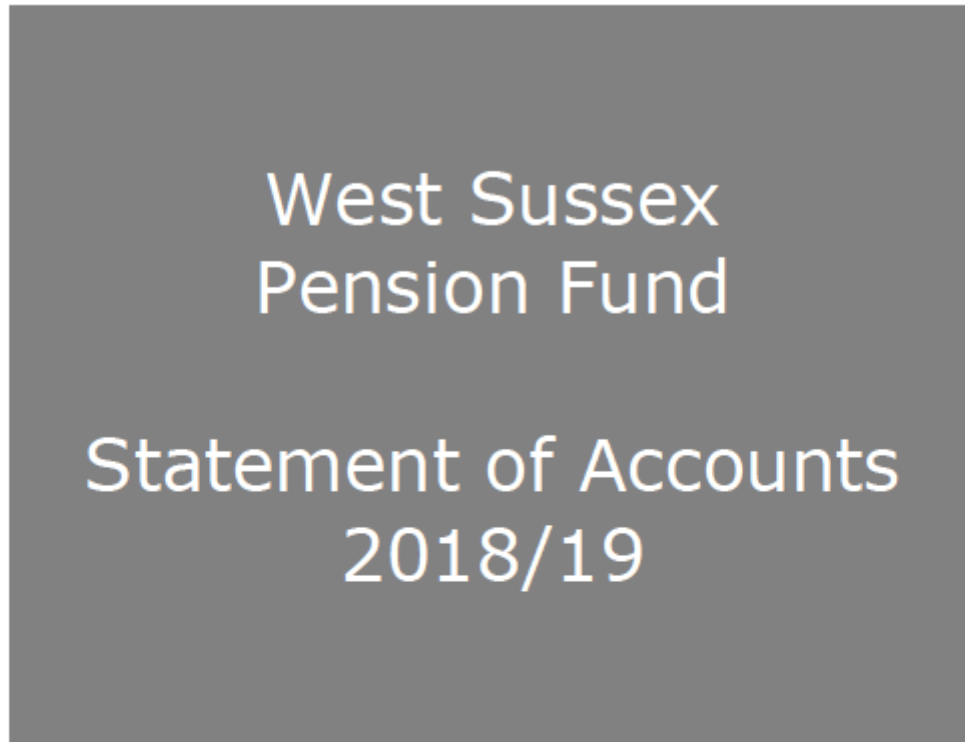
The Fund is currently undertaking a valuation based on assets and liabilities as at 31<sup>st</sup> March 2019; however the results will not be available until 31<sup>st</sup> March 2020. This will set the employer contribution rates from 1 April 2020 to 31 March 2023. The results of previous valuations are illustrated below as a comparator.



Further information is included in the Fund's Funding Strategy Statement and its Actuarial Valuation report.



## Appendix 1 – West Sussex Pension Fund Statement of Accounts 2018/19



### Declaration

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2019.

Katharine Eberhart  
The Director of Finance and Support Services

Notes: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2019 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website [www.westsussex.gov.uk/pensions](http://www.westsussex.gov.uk/pensions)

## Financial Report and Accounts 2018/19

### The Local Government Pension Fund Scheme Pension Fund Account

2017/2018 £000		Notes	2018/2019 £000
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
124,719	Contributions received	<b>7</b>	130,312
36,921	Transfers in from other Pension Funds	<b>8</b>	4,317
<b>161,640</b>			<b>134,629</b>
(107,235)	Benefits paid	<b>9</b>	(113,811)
(8,288)	Payments to and on account of leavers	<b>10</b>	(11,375)
<b>(115,523)</b>			<b>(125,186)</b>
<b>46,117</b>	<b>Net additions/(withdrawals) from dealings with members</b>		<b>9,443</b>
(17,334)	Management Expenses	<b>11</b>	(17,835)
<b>28,783</b>	<b>Net additions/(withdrawals) including Fund management expenses</b>		<b>(8,392)</b>
	<b>Returns on investments</b>		
51,571	Investment income	<b>12</b>	61,375
(1,158)	Taxes on income	<b>13A</b>	(1,211)
169	Other income		5
226,622	Profit and (losses) on disposal of investments and changes in the market value of investments	<b>14A</b>	218,068
<b>277,204</b>	<b>Net return on investments</b>		<b>278,237</b>
<b>305,987</b>	<b>Net increase in net assets available for benefits during the year</b>		<b>269,845</b>
<b>3,798,289</b>	<b>Add opening net assets of the scheme</b>		<b>4,104,276</b>
<b>4,104,276</b>	<b>Closing net assets of the scheme</b>		<b>4,374,121</b>

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### Net Asset Statement

At 31 March 2018 £000		Notes	At 31 March 2019 £000
4,066,693	Investment assets	14	4,322,996
(6,154)	Investment liabilities	14	(9,660)
<b>4,060,539</b>	<b>Net investment assets / (liabilities)</b>		<b>4,313,336</b>
51,379	Current assets	21	72,266
(7,642)	Current liabilities	22	(11,481)
<b>4,104,276</b>	<b>Net assets of the scheme available to fund benefits at the end of the reporting period</b>		<b>4,374,121</b>

Note: the Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2019. The actuarial present value of promised retirement benefits is disclosed at Note 20.

## Financial Report and Accounts 2018/19

### Notes to the Accounts

#### NOTE 1: DESCRIPTION OF THE FUND

The West Sussex Pension Fund ('the Fund') is part of the LGPS and is administered by West Sussex County Council

##### a. General

The LGPS is a national defined benefit funded pension scheme governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

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

The West Sussex Pension Fund is administered locally by West Sussex County Council to provide pensions and other benefits for pensionable employees of West Sussex County Council, the District and Borough Councils in West Sussex and a range of other scheduled and admitted bodies.

##### b. Membership

Membership of the LGPS is open to all local government employees who have contracts of employment for more than three months. Employees of certain specified employers (such as Colleges, Academies and those who are providing a service transferred from a local authority) can also join the Scheme. Organisations participating in the Fund include:

- **Scheduled Bodies, Resolution Bodies and Academies:** Regulations allow employees of certain specified bodies to join the Scheme (including the County Council, District and Borough Councils, non-uniformed personnel employed by the Police and Crime Commissioner for Sussex or the Office of the Chief Constable, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).
- **Admitted Bodies:** Other organisations that participate in the Scheme under an admission agreement between the administering authority, Fundorganisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Police officers, teachers and fire-fighters have their own unfunded statutory arrangements.

## Financial Report and Accounts 2018/19

Membership details are set out below:

	31 March 2019	31 March 2018
Number of employers with active members	201	193
<b>Number of active members</b>		
County Council	14,578	14,755
Other employers	13,483	13,082
<b>Total</b>	<b>28,061</b>	<b>27,837</b>
<b>Number of pensioners</b>		
County Council	10,547	10,111
Other employers	9,348	8,956
<b>Total</b>	<b>19,895</b>	<b>19,067</b>
<b>Number of deferred pensioners</b>		
County Council	16,181	15,734
Other employers	11,054	10,400
<b>Total</b>	<b>27,235</b>	<b>26,134</b>
<b>Total number of members in scheme</b>	<b>75,191</b>	<b>73,038</b>

c. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by:

- Active members 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 2019.
- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The employer contribution rates range from 0% to 42.7% of pensionable pay for the financial year ending 31 March 2019.

d. Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a Career Average Revalued Earnings scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index (CPI).

A range of other benefits are also provided including early retirement, disability pensions and death benefits as explained on the LGPS website.

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### **NOTE 2: BASIS OF PREPARATION**

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based upon International Financial Reporting Standards (IFRS), as amended for UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after 31 March 2019 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

The accounts have been prepared on a going concern basis.

## Financial Report and Accounts 2018/19

### NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Fund Account – Revenue recognition

a. Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis. Member contributions are accrued at the percentage rate in accordance with the LGPS Regulations 2013. Employer contributions are accrued at the percentage rate set by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in line with the payment schedule. Any amount due in year but unpaid will be classed as a current financial asset.

b. Transfers to and from other Schemes

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

Individual transfers in or out are accounted for when received or paid, i.e when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are also accounted for on a receipts basis and are included in transfers in.

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

c. Investment income

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

ii. Stock lending income is recognised as it accrues.

iii. Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

iv. Private equity income is recognised on the date paid. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

v. Property income consists primarily of rental income and is accounted for on an accruals basis.

vi. Changes in the value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit or loss during the year.

## Financial Report and Accounts 2018/19

### Fund Account - Expense items

- d. Benefits payable  
Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Asset Statement as current liabilities, providing that payment has been approved.
- e. Taxation  
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffer withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- f. Management expenses  
The Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)* as set out below:
  - i. Administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions and payroll administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
  - ii. Oversight and governance expenses are accounted for on an accruals basis representing the Fund's external advisors, audit and actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
  - iii. Investment management expenses (including transaction costs) are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.
  - iv. The Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were £5.7m in 2018/19 (£5.4m in 2017/18).
  - v. The cost of the County Council's in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. Associated management, accommodation and other overheads are also apportioned to this activity.



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### Net Asset Statement

g. Financial assets

Financial assets are shown at market value at the reporting date and are recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised. The values of investments have been determined at fair value in accordance with the requirements of the Code and IFRS13. 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). See Note 16.

h. Freehold and leasehold properties

Freehold and leasehold properties have been valued at the reporting date by independent external valuers, on the basis of fair value as required by the International Financial Reporting Standards (IFRS). See Note 16.

i. Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.

End of year spot market exchange rates are used to value cash balances in foreign currency, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j. Cash and cash equivalents

Cash comprises cash in hand and demand deposits. 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 change in value.

k. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liabilities are recognised by the Fund.

l. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. The Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement. See Note 20.

m. Additional voluntary contributions

Some members of the Scheme have made additional voluntary contributions (AVC) to increase the value of their pensions. These have been invested separately with Standard Life and Equitable Life and are therefore disclosed as a note and not included in the Fund accounts. See Note 23.

## Financial Report and Accounts 2018/19

n. Contingent assets and contingent liabilities

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.

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.

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes. See Note 25 & Note 26.

### NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the Fund actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary. See Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with rental periods between one and thirty-five years. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 17 and the Code, therefore the properties are retained on the Net Asset Statement at fair value. Rental income is recognised in the Fund account on an accruals basis.

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### NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The table below describes items for which there is a significant risk of material adjustment the following year.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions over time. For example:</p> <p>A 0.5% decrease in discount rate at year ended 31 March 2019 would result in an approximate 11% increase to employer liability (£519m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2019 would result in an approximate increase in employer liability of between 3 and 5%.</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2019 would result in an approximate increase in employer liability of 2% (£75m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2019 would result in an approximate 8% increase in employer liability (£413m).</p>
Private equity	<p>Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager report as at the end of the reporting period or the latest fund manager report adjusted for net cash flows.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investment in the financial statements is £110.7m. There is a risk that this investment may be under or overstated in the accounts.</p>

### Financial Report and Accounts 2018/19

Freehold and leasehold property	<p>Independent valuation for freehold and leasehold investment property has been provided at 31 March 2019 by Savills (UK) Ltd in accordance with Royal Institution of Chartered Surveyors Red Book.</p> <p>This takes into account observable and unobservable pricing inputs including existing lease terms, independent market research, the nature of tenancies and tenant covenant strength, void levels and estimated rental growth.</p>	<p>Investment properties have been valued on the basis of fair value. "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".</p> <p>Changes in rental growth, void levels and general changes in property market prices could affect the valuation. There is a risk that this investment may be under or overstated in the accounts.</p>
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## Financial Report and Accounts 2018/19

### NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE

In December 2018, the Court of Appeal upheld a ruling ("McCloud/Sargeant") that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the Local Government Pension Scheme (and other public service schemes) as well.

The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019.

The Fund recognises this denial of leave to appeal as a post balance sheet event and has adjusted Note 20 as a result showing a revised estimate of the net pension liability to provide for the potential obligations arising from this ruling.

The additional potential obligations relate to the potential need for LGPS benefits accrued from 2014 needing to be enhanced so that all eligible members, regardless of age, will benefit from the transitional protections. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

### NOTE 7: CONTRIBUTIONS RECEIVED

By Category

2017/18		2018/19
£000		£000
98,279	Employers	102,858
26,440	Members	27,454
<u>124,719</u>		<u>130,312</u>

By Authority

2017/18		2018/19
£000		£000
54,873	Administering authority	57,497
61,891	Scheduled bodies	65,473
7,955	Admitted bodies	7,342
<u>124,719</u>		<u>130,312</u>

### NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

By Category

2017/18		2018/19
£000		£000
8,454	Individual transfers	4,317
28,467	Bulk transfers	-
<u>36,921</u>		<u>4,317</u>

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### NOTE 9: BENEFITS PAID

#### By Category

2017/18		2018/19
£000		£000
88,389	Pensions	94,127
16,032	Commutation and lump sum retirement benefit	16,938
2,814	Lump sum death benefit	2,746
<u>107,235</u>		<u>113,811</u>

#### By Authority

2017/18		2018/19
£000		£000
48,871	Administering authority	51,697
49,885	Scheduled bodies	52,995
8,479	Admitted bodies	9,119
<u>107,235</u>		<u>113,811</u>

### NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18		2018/19
£000		£000
407	Refunds of contributions	2,769
7,556	Individual transfers	6,866
325	Bulk transfers	1,740
<u>8,288</u>		<u>11,375</u>

Refund of contributions includes a £2.4m payment relating to the exit credit due to an exiting employer made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008 and regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018. At the year-end there are further potential liabilities of £0.3m relating to possible transfers out of the pension scheme where the Fund is awaiting final decisions from members. See Note 25.

### NOTE 11: MANAGEMENT EXPENSES

2017/18		2018/19
£000		£000
668	Administrative costs	1,224
999	Oversight and governance costs	1,117
15,667	Investment management expenses	15,494
<u>17,334</u>		<u>17,835</u>

### NOTE 11a: INVESTMENT MANAGEMENT EXPENSES

2017/18		2018/19
£000		£000
9,120	Management fees	8,346
5,360	Performance related fees	5,723
140	Custody fees	185
1,045	Transaction costs	1,238
2	Treasury management expenses	2
<u>15,667</u>		<u>15,494</u>

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### NOTE 12: INVESTMENT INCOME

2017/18		2018/19
£000		£000
34,613	Income from equities	40,321
3,461	Income from bonds	3,652
1,320	Private equity income	2,088
11,698	Property income	14,019
279	Interest on cash deposits	686
200	Income from stock lending	609
<u>51,571</u>		<u>61,375</u>

### NOTE 12a: PROPERTY INCOME

2017/18		2018/19
£000		£000
13,193	Rental income	16,479
(1,495)	Direct operating expenses	(2,460)
<u>11,698</u>		<u>14,019</u>

No contingent rents have been recognised as income during the period.

### NOTE 13: OTHER FUND ACCOUNT DISCLOSURES

2017/18		2018/19
£000		£000
23	Pension Advisory Board	24
102	ACCESS pool	117
<u>125</u>		<u>141</u>

ACCESS is a collaboration of eleven Central, Eastern and Southern Shires, who are working together to collectively invest assets to reduce investment costs whilst maintaining investment performance. The costs incurred for 2018/19 reflect the Fund's contribution towards the pool's establishment and business as usual activities. These costs are included within oversight and governance costs in Note 11.

### NOTE 13a: TAXES ON INCOME

2017/18		2018/19
£000		£000
1,717	Tax paid on dividend payments	1,844
(559)	Tax recoverable	(633)
<u>1,158</u>		<u>1,211</u>

### NOTE 13b: EXTERNAL AUDIT COSTS

2017/18		2018/19
£000		£000
26	Payable in respect of external audit	37
<u>26</u>		<u>37</u>

2018/19 costs include £17,000 relating to prior year charges (of which £11,000 has been recharged to employers in respect of IAS19 protocol work). These costs are included within oversight and governance costs in Note 11.



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### NOTE 14: INVESTMENTS

<b>Market value 2017/18 £000</b>		<b>Market value 2018/19 £000</b>
	<b>Investment assets</b>	
1,976,634	Equities	2,164,653
155,462	Bonds	118,002
1,391,573	Pooled investments	1,468,720
121,051	Private equity	110,727
344,585	Property	376,950
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
<b>4,066,693</b>	<b>Total investment assets</b>	<b>4,322,996</b>
	<b>Investment liabilities</b>	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
<b>(6,154)</b>	<b>Total investment liabilities</b>	<b>(9,660)</b>
<b>4,060,539</b>	<b>Net investment assets</b>	<b>4,313,336</b>



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### NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Current Year				
	Market Value at 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2019
	£000	£000	£000	£000	£000
Bonds	155,462	39,661	(77,915)	794	118,002
Equities	1,976,634	573,201	(526,802)	141,620	2,164,653
Pooled investments	1,391,573	26,700	-	50,447	1,468,720
Private equity	121,051	3,859	(32,063)	17,880	110,727
Property	344,585	27,599	-	4,766	376,950
	<b>3,989,305</b>	<b>671,020</b>	<b>(636,780)</b>	<b>215,507</b>	<b>4,239,052</b>
Derivatives	-	-	-	-	-
<b>Sub total</b>	<b>3,989,305</b>	<b>671,020</b>	<b>(636,780)</b>	<b>215,507</b>	<b>4,239,052</b>
Other investment balances					
Cash deposits	68,936			2,561	69,405
Amount receivable for sales	3,522				7,806
Investment income due	4,930				6,733
Amount payable for purchases	(6,149)				(9,296)
Property income received in advance	(5)				(364)
<b>Total assets</b>	<b>4,060,539</b>			<b>218,068</b>	<b>4,313,336</b>

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	Previous Year				
	Market Value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2018
	£000	£000	£000	£000	£000
Bonds	113,765	61,039	(17,860)	(1,482)	155,462
Equities	2,176,840	549,372	(922,499)	172,921	1,976,634
Pooled investments	917,746	456,000	(4,000)	21,827	1,391,573
Private equity	157,870	4,148	(52,114)	11,147	121,051
Property	285,820	38,674	(100)	20,191	344,585
	<b>3,652,041</b>	<b>1,109,233</b>	<b>(996,573)</b>	<b>224,604</b>	<b>3,989,305</b>
Derivatives	-	235,290	(234,790)	(500)	-
<b>Sub total</b>	<b>3,652,041</b>	<b>1,344,523</b>	<b>(1,231,363)</b>	<b>224,104</b>	<b>3,989,305</b>
Other investment balances					
Cash deposits	105,999			2,518	68,936
Amount receivable for sales	1,436				3,522
Investment income due	7,070				4,930
Amount payable for purchases	(786)				(6,149)
Rental receipts in advance	(6)				(5)
<b>Total assets</b>	<b>3,765,754</b>			<b>226,622</b>	<b>4,060,539</b>

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### NOTE 14b: ANALYSIS OF INVESTMENTS

31 March 2018 £000		31 March 2019 £000
	<b>Bonds</b>	
	UK	
155,462	Government	118,002
<u>155,462</u>		<u>118,002</u>
	<b>Equities (quoted)</b>	
381,898	UK	441,531
1,594,736	Overseas	1,723,122
<u>1,976,634</u>		<u>2,164,653</u>
	<b>Pooled funds</b>	
	UK	
459,403	Government bonds	401,956
373,164	Corporate bonds	375,092
	Overseas	
123,051	Government bonds	132,766
380,439	Corporate bonds	529,035
55,516	Cash	29,871
<u>1,391,573</u>		<u>1,468,720</u>
121,051	Private equity	110,727
344,585	Property	376,950
<u>465,636</u>		<u>487,677</u>
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
<u>77,388</u>		<u>83,944</u>
<u>4,066,693</u>	<b>Total investment assets</b>	<u>4,322,996</u>
	<b>Investment liabilities</b>	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
<u>(6,154)</u>	<b>Total investment liabilities</b>	<u>(9,660)</u>
<u>4,060,539</u>	<b>Net investment assets</b>	<u>4,313,336</u>

Pooled fund analysis has been restated for 2017/18 due to increased accuracy in the reporting of underlying investments in these funds. The pooled fund totals have not been restated.

## Financial Report and Accounts 2018/19

### NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER

31 March 2018			31 March 2019	
%	£000		£000	%
<b>Share of market value held by fund managers</b>				
37.7	1,532,607	UBS Global Asset Management	1,622,145	37.6
50.8	2,061,385	Baillie Gifford & Co	2,202,350	51.1
1.7	67,469	Pantheon Ventures	60,924	1.4
1.3	53,582	Partners Group	49,803	1.2
8.5	344,585	Aberdeen Asset Management	376,950	8.7
0.0	911	Other investments	1,164	0.0
<b>100.0</b>	<b>4,060,539</b>		<b>4,313,336</b>	<b>100.0</b>

Table above amended and 2017/18 restated to include all investment balances.

No individual investment exceeded 5% of the total value of the Fund's net assets. The Fund does hold investments in bond and currency funds, each of these funds is made up of multiple underlying assets. The values of each fund, shown as a percentage of the total Fund value, have been set out in the following table.

31 March 2018			31 March 2019	
%	£000		£000	%
<b>Baillie Gifford managed funds</b>				
21.9	890,923	Sterling Aggregate Bond Fund	922,631	21.1
<b>UBS managed funds</b>				
0.8	32,789	Currency Allocation Return Fund	32,468	0.7
11.5	467,861	UK Corporate Bond UK Plus Fund	513,621	11.7
<b>34.2</b>	<b>1,391,573</b>		<b>1,468,720</b>	<b>33.5</b>

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### NOTE 14d: STOCK LENDING

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. As at 31 March 2019, the value of quoted equities on loan was £302.6m (31 March 2018: £144.0m).

Counter-party risk is managed through holding collateral at the Fund's custodian bank. At year end the Fund held collateral (via the custodian) at fair value of £328.5m (31 March 2018: £159.4m).

Stock-lending commissions are remitted to the Fund via its custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

### NOTE 14e: DIRECT PROPERTY HOLDINGS

The Fund's investment property portfolio comprises a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

31 March 2018		31 March 2019
£000		£000
285,820	Opening balance	344,585
	Additions	
29,063	Purchase of existing property	25,541
6,757	New construction	1,512
2,854	Subsequent expenditure	546
(100)	Disposals	-
20,191	Net increase in market value	4,766
<u>344,585</u>	Closing balance	<u>376,950</u>

The future minimum lease payments receivable by the Fund under existing contracts are as follows:

31 March 2018		31 March 2019
£000		£000
13,999	Within one year	16,434
52,042	Between one and five years	58,882
100,959	Later than five years	104,501
<u>167,000</u>	Total future lease payments due under existing contracts	<u>179,817</u>

The above disclosures have been reduced by a credit loss allowance of 0.2% per annum reflecting the fund's assessment on the credit risk of tenants, applied on an individual basis. This has been based on the fund's own historic experience. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

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### NOTE 15: ANALYSIS OF DERIVATIVES

The Fund does not invest directly in derivatives.

### NOTE 16: FAIR VALUE - BASIS OF VALUATION

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.

- a. Market quoted investments (Level 1)  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- b. Quoted bonds (Level 1)  
Bonds are recorded at net market value based on their current yield.
- c. Pooled investment vehicles (Level 2)  
Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- d. Freehold and leasehold properties (Level 3)  
Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards (January 2014) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

The observable inputs include the existing lease terms and rentals; the nature of the tenancies; assumed vacancy levels and estimated rental growth.

Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

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### e. Private equity (Level 3)

Private equity investments are recorded as detailed below. Because of the uncertainty associated with the valuation of such investments and the absence of a liquid market, the fair values of these assets may differ from their authorised values.

- The valuation of Partners Group portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). This process was implemented in 2003 and has been refined based on feedback received from PricewaterhouseCoopers (PwC), the auditor of most of the firm's programmes and mandates. On an annual basis, the monitoring and valuation process based on fair valuation principles (sample selection, valuation methodologies, etc.) is discussed and approved by the auditors of the programs managed by Partners Group.

Partners Group complies with the defined process and applies it as the basis for the year-end valuation and subsequent quarterly Net Asset Value determinations of the programs they manage. Partners Group gather the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Partners Group have been given an unqualified opinion.

- The valuation of Pantheon's portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Pantheon's quarterly valuation is produced in accordance with US GAAP and UK GAAP. Fund investments are carried at "fair value". Pantheon ensures that the valuation methodologies employed by underlying fund managers fulfil the measurement criteria of the International Private Equity and Venture Capital Valuation Guidelines (IPEV).

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Pantheon Ventures have been given an unqualified opinion.



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### Sensitivity of assets valued at Level 3

Having consulted with independent investment advisors and fund managers on historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	<b>Assessed valuation range (+/-)</b>	<b>Value at 31 March 2019 £000</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Freehold and leasehold property (a)	10%	376,950	414,645	339,255
Private equity (b)	15%	110,727	127,336	94,118
		<b>487,677</b>	<b>541,981</b>	<b>433,373</b>

a) Actual realised returns will depend on factors including independent market research, the nature of tenancies, tenant covenant strength, void levels and estimated rental growth.

b) Actual realised returns will depend on factors including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale.



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### **NOTE 16a: FAIR VALUE HIERARCHY**

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

#### Level 1

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

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

#### Level 2

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

#### Level 3

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

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require professional judgement in determining appropriate assumptions.

The valuation of both private equity portfolios have been prepared in accordance with industry guidelines.

The table on the following page provides an analysis of the financial assets and liabilities of the Fund grouped by and based on the level at which the fair value is observable.

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	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,282,655	1,468,720	110,727	3,862,102
Non-financial assets at fair value through profit and loss			376,950	376,950
<b>Net investment assets</b>	<b>2,282,655</b>	<b>1,468,720</b>	<b>487,677</b>	<b>4,239,052</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,132,096	1,391,573	121,051	3,644,720
Non-financial assets at fair value through profit and loss			344,585	344,585
<b>Net investment assets</b>	<b>2,132,096</b>	<b>1,391,573</b>	<b>465,636</b>	<b>3,989,305</b>

### NOTE 16B: TRANSFER BETWEEN LEVELS 1 AND 2

There were no transfers between levels 1 and 2 during the year.

### NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2018	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000
Private equity	121,051	-	(28,203)	(4,131)	22,010	110,727
Property	344,585	-	27,599		4,766	376,950
	<b>465,636</b>	<b>-</b>	<b>(604)</b>	<b>(4,131)</b>	<b>26,776</b>	<b>487,677</b>

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### NOTE 17: FINANCIAL INSTRUMENTS

#### NOTE 17a: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement headings. No financial assets were reclassified during the accounting period.

31 March 2018			31 March 2019		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>			<b>Financial assets</b>		
155,462	-	-	118,002	-	-
1,976,634	-	-	2,164,653	-	-
1,391,573	-	-	1,468,720	-	-
121,051	-	-	110,727	-	-
-	104,268	-	-	123,009	-
-	8,452	-	-	14,539	-
-	16,047	-	-	18,662	-
<b>3,644,720</b>	<b>128,767</b>	<b>-</b>	<b>3,862,102</b>	<b>156,210</b>	<b>-</b>
<b>Financial liabilities</b>			<b>Financial liabilities</b>		
-	-	(6,154)	-	-	(9,660)
-	-	(7,642)	-	-	(11,481)
<b>3,644,720</b>	<b>128,767</b>	<b>(13,796)</b>	<b>3,862,102</b>	<b>156,210</b>	<b>(21,141)</b>
<b>Total</b>			<b>Total</b>		

#### NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£000		£000
<b>Financial assets</b>		
204,412	Fair value through profit and loss	210,740
2,518	Amortised cost - unrealised gains	2,561
<b>Financial liabilities</b>		
-	Fair value through profit and loss	-
<b>206,930</b>	<b>Total</b>	<b>213,301</b>

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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### **NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND OTHER ASSETS**

#### Risk and risk management

The primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund, and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary and investment adviser, based on the Fund's funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored by the Pensions Panel.

The Fund's Investment Strategy Statement (ISS) identifies the risks managed by its investment managers, sets appropriate risk limits and monitors adherence to those limits. The ISS is reviewed regularly to reflect changes in approaches to the Fund's activities.

Responsibility for the Fund's risk management strategy rests with the Pensions Panel. The Panel receives regular reports from each of the managers on the nature of the investments made on the Fund's behalf and the associated risks. Divergence from benchmark asset allocations and the composition of each portfolio is monitored by the Panel. Consideration of the Fund's investment strategy is on-going.

#### **a. Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the value of its assets.

The object of market risk management is to identify, manage and control market risk exposures within acceptable parameters while optimising returns.

Market risk is inherent in the investments that the Fund makes, particularly through its equity holdings, and is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. A customised benchmark has been adopted which includes maximum exposures to individual investments, and risk associated with the strategy and investment return are regularly monitored and reviewed by the Pensions Panel.

Each manager has to adhere to investment guidelines that specify the managers' investment powers and restrictions.

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### Other price risks

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 arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk and derivative price risk during periods of transition. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate price risk through diversification and the selection of securities. Exposure is monitored to ensure it is within limits specified in the Fund's investment strategy.

### Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period. This data has been provided by the Fund's actuary, Hymans Robertson, and is based on historical data.

Had the market price of the Fund investments increased/decreased as per the table below, the change in the net assets available to pay benefits in the market price would have been as follows. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. (The prior year comparator is also shown).

	Current year			
	Value at	Change	Value on	Value on
	31 March		Increase	Decrease
	2019	%		
Asset type	£000		£000	£000
UK equities	441,531	16.60%	514,825	368,237
Overseas equities	1,723,122	16.90%	2,014,330	1,431,915
Bonds	118,002	9.10%	128,740	107,264
Bond funds	1,436,253	10.53%	1,587,490	1,285,015
Cash	69,405	0.50%	69,752	69,058
Property	376,950	14.30%	430,854	323,046
Private equity	110,727	28.30%	142,063	79,391
Currency fund	32,468	10.00%	35,715	29,221
<b>Total</b>	<b>4,308,458</b>		<b>4,923,769</b>	<b>3,693,147</b>

	Previous year			
	Value at	Change	Value on	Value on
	31 March		Increase	Decrease
	2018	%		
Asset type	£000		£000	£000
UK equities	381,898	16.80%	446,056	317,739
Overseas equities	1,594,736	17.90%	1,880,194	1,309,278
Bonds	155,462	8.50%	168,676	142,248
Bond funds	1,358,784	8.73%	1,477,406	1,240,162
Cash	68,936	0.50%	69,281	68,591
Property	344,585	14.30%	393,861	295,309
Private equity	121,051	28.30%	155,308	86,793
Currency fund	32,789	10.00%	36,067	29,510
<b>Total</b>	<b>4,058,241</b>		<b>4,626,849</b>	<b>3,489,630</b>

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### b. Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk is related to the potential return of any investment, the most obvious being that the yields on bonds are strongly correlated to the perceived credit risk. Therefore, the risk of loss is implicit in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk. However, this risk is minimised by selecting high quality counterparties, brokers and financial institutions.

Deposits are made only with banks and financial institutions that are rated independently and meet the Fund's credit criteria. The Fund has also set out in its Treasury Management Policy the limits of exposure to any one financial institution.

The Fund has not had any experience of default or uncollectable deposits. The fund managers held £69.4m in cash (31 March 2018: £68.9m) and cash internally managed by WSCC at 31 March 2019 was £53.6m (31 March 2018: £35.3m). This was held by institutions with the following credit ratings :

	Nominal amount 31 March 2018 £000	Nominal amount 31 March 2019 £000
AAA rated counterparties	15,000	42,200
AA- rated counterparties	-	-
A rated counterparties	89,268	80,809
<b>TOTAL</b>	<b>104,268</b>	<b>123,009</b>

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2019, there was no evidence that such risks were likely to materialise.

### c. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, without incurring unacceptable losses or risking damage to the Fund's reputation. Cash is required to pay benefits, fund acquisitions and settle various other commitments. The Fund maintains a working cash balance held in instant access money market and bank accounts. A cash flow forecast is maintained to ensure sufficient funds are available. The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- keeping a significant proportion of the Fund's assets in highly liquid investments such as actively traded equities, bonds and unit trusts.

The Fund is currently cash flow positive.

The Fund's strategic allocation to property and private equity, which are relatively illiquid, is limited to 15% of the total portfolio. As the Fund is not mature, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

Under the regulations, the Fund is authorised to borrow in its own right to fund cash flow deficits on a short term basis.



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d. Refinancing risk

The key risk is that the Fund is bound to replenish its investments at a time of unfavourable interest rates. The Fund does not hold any financial instruments that have a refinancing risk as part of its treasury management or investment strategies.

e. Counterparty risk

The Fund's global custodian, BNP Paribas has responsibility for safeguarding the assets of the Fund. Its duties include maintaining a repository of underlying information on the Fund's assets and arranging settlement of transactions, income collection and cash management. The Fund monitors BNP Paribas's performance and is in regular contact with the custodian. Monthly reconciliations are performed between the custodian's and the investment managers' records.

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

### NOTE 19: FUNDING ARRANGEMENTS - ACTUARIAL STATEMENT

Description of funding policy

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purposes of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key funding principles are as follows:

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

The Funding Strategy Statement (FSS) sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

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### Funding position as at the last formal funding valuation

At the 2016 actuarial valuation, the Fund was assessed as 95% funded (86.4% at the March 2013 valuation). This corresponded to a deficit of £158m (2013 valuation: £371m) at that time.

Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal actuarial assumptions and method used to value the liabilities

#### Method:

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

#### Assumptions:

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

The key financial assumptions adopted for the 2016 valuation were as follows:

	31 March 2016 %
Discount rate	3.8
Salary increase assumption	2.9
Benefit increase assumption (CPI)	2.1

### Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's bespoke longevity analysis (VitaCurves) with improvements in line with the CMI 2013 model, assuming the current rate of improvements have not peaked and will converge to long term rate of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	23.6 years	25.0 years
Future Pensioners	26.0 years	27.8 years

Copies of the 2016 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

### Experience over the period since April 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. However, strong asset returns have more than offset the increase in liabilities. Therefore the overall impact has been an improvement in the funding level since the previous valuation.

The next actuarial valuation will be carried out as at 31 March 2019. The FSS will also be reviewed at that time.



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### NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also valued ill health and death benefits in line with IAS 19. This includes an estimate for the McCloud impact (based on the Government Actuary Department's Guidance dated 10 June 2019) and the Actuary's estimate of the potential impact of GMP equalisation.

The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Actuary has adjusted GAD's estimate to reflect the Fund's local assumptions around salary increases and withdrawal rates.

31 March 2018		31 March 2019	
£m		£m	
(1,973)	Active members	(2,442)	
(902)	Deferred pensioners	(1,012)	
(1,530)	Pensioners	(1,507)	
<u>(4,405)</u>	Present value of promised retirement benefits	<u>(4,961)</u>	
4,104	Fair value of scheme assets (bid value)	4,374	
<u>(301)</u>	Net liability	<u>(587)</u>	

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2016 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the aggregate liability appears to be a reasonable estimate of the actuarial present value of benefit promises.

No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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

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### IAS 19 Assumptions used

The assumptions used are those adopted for the administering authority's IAS 19 report and are different as at 31 March 2019 and 31 March 2018.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £375m. There is no impact from any change in demographic and longevity assumptions because they are identical to the previous period.

	31 March 2018	31 March 2019
	% p.a.	% p.a.
Inflation / pensions increase rate	2.4	2.5
Salary increase rate	3.1	3.2
Discount rate	2.7	2.4

### Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming long term improvements of 1.5% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	23.6 years	25.0 years
Future pensioners *	26.0 years	27.8 years

\* Future pensioners are assumed to be currently aged 45 at the latest formal valuation

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

### Commutation assumption

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

### GMP equalisation

The Fund's actuary has estimated the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.

## Financial Report and Accounts 2018/19

### NOTE 21: CURRENT ASSETS

31 March 2018		31 March 2019
£000		£000
	Debtors:	
2,220	Contributions due - members	2,473
7,794	Contributions due - employers	8,730
1	Prepayments	1,290
1,460	Other debtors	1,238
4,572	Taxation	4,931
<u>16,047</u>		<u>18,662</u>
35,332	Cash balances	53,604
<u>51,379</u>		<u>72,266</u>

#### Analysis of debtors

31 March 2018		31 March 2019
£000		£000
5,982	Central government bodies	6,443
6,663	Other local authorities	6,954
1,792	Educational establishments	2,512
1,609	Other entities and individuals	2,753
<u>16,046</u>		<u>18,662</u>

### NOTE 22: CURRENT LIABILITIES

31 March 2018		31 March 2019
£000		£000
3	Contributions	-
327	Benefits payable	1,215
7,312	Other current liabilities	10,266
<u>7,642</u>		<u>11,481</u>

#### Analysis of creditors

31 March 2018		31 March 2019
£000		£000
1,124	Central government bodies	1,021
131	Other local authorities	184
228	Educational establishments	1,239
6,159	Other entities and individuals	9,037
<u>7,642</u>		<u>11,481</u>

The Pension Fund has made a provision for £2.4m relating to the exit credit due to an exiting employer which is payable under the LGPS (Amendment) Regulations 2018.

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### NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market Value 31 March 2018		Market Value 31 March 2019
£000		£000
2,102	Standard Life	2,139
435	Equitable Life	403
<u>2,537</u>		<u>2,542</u>

AVC Contributions of £349,873 were paid directly to Standard Life during the year (2017/18: £305,339). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) regulations 2016.

### NOTE 24: RELATED PARTY TRANSACTIONS

#### West Sussex County Council

The West Sussex Pension Fund is administered by West Sussex County Council. Therefore, there is a strong relationship between the Council and the Pension Fund.

During the reporting period, the Council incurred costs of £1.1m (2017/18: £1.1m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £57.5m to the Fund in 2018/19 (2017/18: £54.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2019, the Fund had a daily average investment balance of £50.0m held in Sterling (31 March 2018: £49.7m) earning interest of £0.31m (2017/18: £0.13m) in these funds at a rate of return of 0.62% (2017/18: 0.27%). Additionally, the Fund has earned interest of £0.13m on investments held in foreign currency (2017/18: £0.03m).

#### Governance

No members of the Pensions Panel are in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

## Financial Report and Accounts 2018/19

### NOTE 24a: KEY MANAGEMENT PERSONNEL

The Director of Finance and Support Services (formerly Director of Finance, Performance and Procurement) and S151 officer has responsibility for the proper financial administration of the Fund under the Local Government Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. These costs comprise an element of the recharge from the Fund to the County Council in 2018/19 of £1.1m. The total Pension Fund contribution relating to Key Management Personnel is set out below:

31 March 2018		31 March 2019
£000		£000
16	Total apportioned remuneration	16

### NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

A contingent liability arises where an event has taken place that gives the Fund a possible obligation, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made but the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

Estimates provided to members indicate that at year-end there are potential liabilities of £0.3m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

Outstanding commitments in private equity at 31 March 2019 totalled £27.6m (31 March 2018 £30.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

### NOTE 26: CONTINGENT ASSETS

There were no contingent assets at the period end.

## Appendix 2 – Contributing employers during the year

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Adur/Worthing Joint Committee	3378.82	1097.19	4476.01
Angmering Parish Council	27.45	7.89	35.34
Ansty and Staplefield Parish Council	3.93	1.05	4.98
Ardingly Parish Council	0.80	0.20	1.00
Arun District Council	3319.22	685.64	4004.87
Ashington Parish Council	3.34	0.85	4.19
Ashurstwood Village Council	5.97	1.58	7.55
Aspire Sussex Ltd	115.75	28.28	144.03
Balcombe Parish Council	2.64	0.67	3.31
Baldwins Hill Primary School	43.72	10.64	54.36
Balfour Beatty	137.74	35.25	172.99
BAM	3.48	3.97	7.45
Barnham Primary School	66.42	16.29	82.70
Bersted Parish Council	10.66	3.07	13.73
Bewbush Academy	142.94	35.50	178.45
Billingshurst Parish Council	33.18	9.32	42.51
Bishop Luffa School	211.88	56.49	268.37
Blackthorns Primary School	47.74	10.80	58.54
Bognor Regis Town Council	57.83	18.39	76.22
Bohunt Worthing Academy	70.03	19.82	89.85
Bolney Parish Council	1.86	0.47	2.33
Broadbridge Heath Parish Council	3.65	0.98	4.62
Broadfield Primary Academy	136.26	32.52	168.78
Burgess Hill Academy	168.26	39.79	208.06
Burgess Hill Town Council	93.57	32.88	126.45
Capita (SSO)	795.53	241.18	1036.71
Capita IT	438.15	143.27	581.42
Care Quality Commission	0.00	2.87	2.87
Carers Support	12.83	3.62	16.45
Caterlink (Shoreham Academy)	7.34	1.75	9.09
Central CofE Junior School	46.36	12.63	58.99
Change, Grow, Live	19.56	4.32	23.89
Chichester City Council	40.57	16.00	56.57

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Chichester College	2555.91	835.84	3391.75
Chichester District Council	2717.37	873.11	3590.48
Chichester Free School	129.82	39.43	169.25
Chichester Harbour Conservancy	139.26	43.26	182.52
Chichester High School	207.27	55.12	262.39
Churchill - Balcombe Primary School	0.18	0.04	0.23
Churchill - Bersted Green Primary School	4.36	0.97	5.33
Churchill - Bognor Regis Nursery School	0.34	0.07	0.41
Churchill - Coastal Enterprises	0.87	0.22	1.09
Churchill - Northolmes Junior School	0.22	0.05	0.27
Churchill - Nyewood Jnr Sch	2.36	0.57	2.93
Churchill - West Chiltington	1.36	0.35	1.71
Churchill -The Forest	29.56	8.94	38.50
Colgate Parish Council	1.59	0.40	1.99
Collyers College	305.18	85.13	390.32
Crawley Borough Council	3233.10	1012.61	4245.71
Cuckfield Parish Council	18.80	5.17	23.97
Desmond Anderson Primary Academy	135.85	31.11	166.96
Donnington Parish Council	1.33	0.34	1.67
Downsbrook Primary School	52.58	12.77	65.36
Downview Primary School	80.31	19.75	100.06
Durrington High School	299.44	73.01	372.45
Earnley Parish Council	1.42	0.39	1.81
Easebourne Parish Council	2.29	0.58	2.88
East Grinstead Town Council	94.68	31.68	126.36
East Preston Junior School	41.97	10.34	52.30
East Preston Parish Council	9.61	2.76	12.37
East Wittering & Bracklesham Parish Council	4.94	1.48	6.43
Eastbrook Primary	97.48	23.90	121.38
Eastergate Parish Council	3.25	1.24	4.49
Edward Bryant Primary	102.98	25.13	128.11
Essex Cares Ltd	135.00	19.65	154.65
Fernhurst Primary School	40.81	9.58	50.39
Fire Service Charity	20.91	1.69	22.61



Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Fittleworth Parish Council	2.07	0.52	2.59
Forge Wood Academy	15.85	4.98	20.83
Freedom Leisure (Ex 6 Villages)	1.45	0.43	1.88
Freedom Leisure Arun Leisure	122.48	28.26	150.74
Gossops Green Primary School	86.91	24.67	111.58
Grace Eyre Northern	18.11	4.48	22.59
Grace Eyre Western	25.16	7.12	32.29
Greater Brighton Metropolitan College	2094.36	504.33	2598.69
Greenway Academy	41.02	11.85	52.87
Groundworks South Trust	1.13	0.32	1.45
Halsford Park Primary School	84.15	20.85	105.00
Harlands Educational Trust	53.44	12.02	65.46
Hassocks Parish Council	21.83	6.35	28.18
Haywards Heath Town Council	46.35	13.21	59.56
Hazelwick Academy	253.21	72.57	325.78
Hilltop Academy	108.00	29.27	137.27
Holmbush Primary School	57.16	13.16	70.33
Homes & Communities Agency	241.61	41.23	282.83
Horsham District Council	2330.32	789.43	3119.76
Hunston Parish Council	2.98	0.80	3.78
Hurstpierpoint Parish Council	18.96	5.41	24.38
Impact Initiatives	1.34	0.35	1.69
Impulse Leisure	46.54	17.98	64.52
ISS Facilities Services	1.99	0.64	2.64
Kingsham Primary School	70.16	15.39	85.55
Lancing Parish Council	28.35	8.92	37.27
Lindfield Parish Council	9.74	2.76	12.51
Lindfield Primary School	84.31	19.00	103.30
Lindfield Rural Parish Council	5.79	1.47	7.27
Littlegreen School	16.80	3.97	20.77
Littlehampton Academy	257.30	77.62	334.92
Littlehampton Harbour Board	30.16	11.17	41.33
Littlehampton Town Council	84.58	25.67	110.25
Martlet Homes	442.13	134.67	576.81
Mears Ltd	26.21	7.50	33.71
Medisort	3.42	0.96	4.38



Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Midhurst Rother College	168.32	48.00	216.32
Midhurst Town Council	10.04	2.65	12.68
Mid-Sussex District Council	2646.88	570.92	3217.80
Mitie Ltd	45.95	13.13	59.09
Muntham House School	285.20	88.90	374.09
New Horizons Multi Academy Trust	4.94	1.27	6.21
North Horsham Parish Council	44.09	13.59	57.67
North Mundham Parish Council	2.21	0.60	2.81
Northlands Wood Primary Academy	66.10	16.11	82.21
NSL LTD	8.57	3.13	11.70
Office of the Chief Constable	13324.56	3913.20	17237.76
Orchards Junior School	84.42	21.92	106.34
Ormiston Six Village Academy	99.08	29.01	128.09
Pagham Parish Council	2.88	0.73	3.61
Peabody South East Limited	1.15	0.23	1.38
Petworth Town Council	6.49	21.95	28.44
Places for People	176.54	41.79	218.33
Plaistow & Ifold Parish Council	2.03	0.51	2.54
Police & Crime Commission	211.93	76.60	288.53
Portfield Academy	78.36	18.26	96.62
Pound Hill Infant School	65.07	14.86	79.93
Pulborough Parish Council	15.93	4.52	20.45
Pyecombe Parish Council	0.75	0.19	0.94
Ridge Crest Cleaning Ltd Littlehampton Academy	16.38	2.59	18.97
Ridge Crest Cleaning Ltd Sir Robert Woodard	26.12	4.06	30.17
River Beach Primary	155.13	38.43	193.57
Rose Green Junior School	60.31	14.87	75.18
Royal Society for the Protection of Birds	6.95	1.81	8.76
Royal Town Planning Institute	27.68	8.66	36.34
Rudgwick Parish Council	5.41	1.43	6.85
Rustington Community Primary School	77.50	18.60	96.10
Rustington Parish Council	39.09	12.93	52.02
Saxon Weald Homes	951.39	323.37	1274.76
Schoolsplus	1.95	0.44	2.40
Schoolsworks Multi Academy Trust	62.75	22.51	85.26

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Seal Primary Academy	82.45	18.75	101.19
Seaside Primary School	101.48	23.20	124.68
Selsey Academy	70.94	16.36	87.30
Selsey Town Council	34.14	9.55	43.68
Seymour Academy	85.88	21.80	107.68
Shaw Homes	154.22	35.24	189.46
Shermanbury Parish Council	1.65	0.42	2.06
Shipley Parish Council	2.25	0.57	2.83
Shoreham Academy	262.36	75.03	337.39
Shoreham Port Authority	684.27	166.63	850.90
Singleton Parish Council	1.54	0.39	1.93
Sir Robert Woodard Academy	193.72	60.72	254.44
Slaugham Parish Council	5.52	1.65	7.17
Slinfold Parish Council	3.49	1.05	4.53
SLM Community	143.87	34.97	178.84
SLM Food & Beverage	15.83	3.76	19.60
SLM Health & Fitness	37.21	8.32	45.54
Sodexo Chichester High School	18.21	3.05	21.26
South Downs Leisure	444.64	100.97	545.61
South Downs National Parks Authority	813.21	295.50	1108.71
Southgate Primary School	87.35	20.49	107.85
Southwater Infants	56.15	14.41	70.56
Southwater Juniors	60.96	18.27	79.24
Southwater Parish Council	59.55	17.42	76.97
Southway Academy	123.17	32.07	155.24
St Lawrence Primary	91.63	23.82	115.45
St Mary's Catholic Primary School	59.24	13.84	73.08
St Philip Howard Catholic High School	194.89	47.58	242.47
Steyning Parish Council	16.40	5.04	21.45
Storrington & Sullington Parish Council	11.31	3.39	14.70
Tangmere Parish Council	3.04	0.79	3.83
Tangmere Primary	45.45	10.83	56.29
Tascor Services Ltd	0.00	1.96	1.96
The Gatwick School	99.97	28.46	128.43
The Globe Primary Academy	117.31	27.23	144.54
The Laurels Primary School	49.60	11.15	60.75

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
The March C of E Primary School	12.34	2.77	15.11
The Mill Primary School	80.29	22.83	103.11
The Music Trust	45.05	16.95	62.01
The Oaks Academy	95.50	20.71	116.21
The Regis Academy	423.30	118.24	541.54
Thomas Bennett Community College	162.20	40.46	202.65
Turners Hill Parish Council	7.09	1.86	8.95
Twineham Parish Council	0.81	0.21	1.02
University College Chichester	1945.22	641.00	2586.22
Upper Beeding Parish Council	8.69	2.50	11.19
Viridor Waste Management	0.00	1.66	1.66
Warden Park Academy	303.66	81.31	384.96
Warden Park Primary Academy	84.61	28.29	112.91
Waterfield Primary School	88.16	20.39	108.55
West Chiltington Parish Council	5.26	1.58	6.84
West Grinstead Parish Council	4.39	1.16	5.55
West Hoathly Parish Council	3.60	0.91	4.52
West Itchenor Parish Council	1.77	0.45	2.21
West Sussex County Council	45655.85	11840.80	57496.65
Westbourne Parish Council	3.35	0.85	4.20
White Meadows Primary Academy	140.45	38.52	178.97
Worthing 6th Form College	379.69	89.51	469.20
Worthing Borough Council	2110.61	87.40	2198.00
Worthing High School	180.07	51.92	231.99
<b>Total</b>	<b>102,858.24</b>	<b>27,454.09</b>	<b>130,312.34</b>

## Appendix 3 – ACCESS POOL

### Governance

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

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

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

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.

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 Operator

Link Fund Solutions Ltd are appointed to provide a pooled operator service. Link are 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.

### Progress

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

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

## Pooled Assets

As at 31 March 2019 ACCESS has pooled the following assets:

	£ billion
Index tracking investments	11.431
UK Equity Funds	2.323
Global Equity Funds	5.853
<b>Total Pooled Investments</b>	<b>19.607</b>

The passive investments 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 2018/19

- Establishment of the ACCESS Support Unit and recruitment of a contract manager and support officer to provide day to day support for the Pool. The unit was further strengthened by the appointment of technical leads from existing officers to lead and progress specific areas of work.
- Development of a Governance Manual to reflect decision making principles, communications strategy, policies and procedures.
- Approval and launch of the first two tranches of sub-funds.
- Establishment and implementation of the Stock Lending programme.
- Providing updates of progress to Government and responding to consultations.

## Objectives for 2019/20

Following the launch of a number of sub-funds, progress will continue apace with significant rationalisation of the existing range of mandates. The Operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the Funds and facilitate a significant move of the assets to be pooled.

Whilst establishing and developing the ACCESS Pool, the initial focus has been on pooling the most liquid assets, mainly equities and fixed income bonds. The next step is to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

## **Financial Management**

### **Pool Set-Up Costs**

The set-up costs incurred by the pool include professional and legal advice received in relation to establishing the pool and procuring the operator, and advice and support in the development of good governance. A breakdown of the total costs from inception is as below. The costs are split equally amongst the 11 Funds.

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Strategic & Technical Advice	38	295	281
Legal	1	95	313
Project Management	20	379	189
ACCESS Support Unit			3
Other	1	108	101
<b>Total Set Up Costs</b>	<b>60</b>	<b>877</b>	<b>877</b>

### **Fee Savings**

The ACCESS pool has sought out fee savings based on economies of scale with investment mandates in common and by consolidating its index tracking investments with one investment manager. The management fee savings received by the pool are as below:

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Set Up Costs	60	877	887	-	1,824
Ongoing Operational Costs	-	-	149	1,248	1,397
Transition Costs	-	-	-	674	674
<b>Total Costs</b>	<b>60</b>	<b>877</b>	<b>1,036</b>	<b>1,922</b>	<b>3,895</b>
Fee Savings	-	-	681	6,378	7,059
<b>Net Savings Realised/(Costs)</b>	<b>(60)</b>	<b>(877)</b>	<b>(355)</b>	<b>4,456</b>	<b>3,164</b>

## Expected v Actual Costs and Savings

The table below compares actual costs and savings for 2017-18 and 2018-19 compared to the Business case submission to MHCLG.

	<b>2017/2018</b>		<b>2017/18</b>	
	<b>Actual</b>	<b>Budget</b>	<b>Actual</b>	<b>Budget</b>
	<b>In Year</b>	<b>In Year</b>	<b>Cumulative to date</b>	<b>Cumulative to date</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Set Up Costs	887	800	1,824	1,400
Ongoing Operational Costs	149	-	149	-
Transition Costs	-	-	-	-
<b>Total Costs</b>	<b>1,036</b>	<b>800</b>	<b>1,973</b>	<b>1,400</b>
Pool Fee Savings	(681)	(950)	(681)	(950)
<b>Net Savings Realised/(Costs)</b>	<b>(355)</b>	<b>(150)</b>	<b>(1,292)</b>	<b>(450)</b>

	<b>2018 – 2019</b>		<b>2018 – 2019</b>	
	<b>Actual</b>	<b>Budget</b>	<b>Actual</b>	<b>Budget</b>
	<b>In Year</b>	<b>In Year</b>	<b>Cumulative to date</b>	<b>Cumulative to date</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Set Up Costs	-	-	1,824	1,400
Ongoing Operational Costs	1,248	1,266	1,397	1,266
Transition Costs	674	2,499	674	2,499
<b>Total Costs</b>	<b>1,922</b>	<b>3,765</b>	<b>3,895</b>	<b>5,165</b>
Pool Fee Savings	6,378	3,800	7,059	4,750
<b>Net Savings Realised/(Costs)</b>	<b>4,456</b>	<b>35</b>	<b>3,164</b>	<b>(415)</b>

The original budget for setting up the ACCESS Pool was £1 million which was 0.3 bps based on the value of the Funds of £33.5 billion as at 31 March 2015. The Fund value has risen in the intervening years and 0.3 bps on the current value is £1.4 million. The additional expense has been incurred in securing technical and legal advice in setting up the Pool and procuring the Operator.

Ongoing operational costs were included in the submission at 1.5bps of pooled assets excluding the passive investments. These are the costs for running the ACCESS Pool and procuring the Operator.

Significant additional savings have also been achieved through negotiating a reduction in investment management fees in pooled aligned investments. These savings have not been included in the table above.

The ACCESS Pool has worked hard to minimise the costs of transition for pooled holdings wherever possible. Transition costs for the passive investment mandate were met by the appointed investment manager.

## **Environmental, Social and Governance**

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

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

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.



<b>Pension Panel</b>	
<b>24 July 2019</b>	<b>Part I</b>
<b>Funding Strategy Statement</b>	
<b>Report by Director of Finance and Support Services</b>	
<p><b>Summary</b></p> <p>The Pension Fund has commenced its triennial valuation. However there are a number of factors which may impact the outcome or the period that rates need to be set (eg. the McCloud case, HM Treasury's cost control mechanism and the Scheme Advisory Board's (SAB) cost control mechanism and the outcome of several consultations or Government decisions, including a consultation on the frequency of the Local Government Pension Scheme valuation cycles).</p> <p>Since the Pension Panel last met, the Government's request for an appeal against the December 2018 the Court of Appeal judgement relating to transitional protections has been denied by the Supreme Court. This means that the Court of Appeal's decision will be upheld and the case will be returned to an employment tribunal for a detailed decision. The court will require steps to be taken to compensate employees who were transferred to the new Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions – with the benefit structure becoming more generous.</p> <p>Notwithstanding the above uncertainty the Pension Fund has drafted its Funding Strategy Statement. The Statement summarise the Administering Authority's approach to funding its liabilities and how employer liabilities are measured and follows the Pension Panel's training on funding strategies. The full Statement and feedback is included within this report.</p> <p>Recommendation</p> <ol style="list-style-type: none"> <li>1. The Panel notes the update on the McCloud judgment</li> <li>2. The Panel consider the feedback from Employers relating to the draft Funding Strategy Statement.</li> <li>3. The Panel agree the current version of the Funding Strategy Statement as the approach assumed by the Actuary when calculating employer liabilities and determining the pace at which these liabilities are funded.</li> <li>4. The Panel agree that further minor changes to the document can be made by the Director of Finance and Support Services in consultation with the Chairman. Any material changes will be brought back to the Pension Panel.</li> <li>5. The Panel provide comments on the draft response on the changes to the local valuation cycle and management of employer risk and agree that the final response is sent by the Director of Finance and Support Services in consultation with the Chairman.</li> </ol>	

## Background

1. The Fund has commenced its triennial valuation. It is anticipated that this will set employer contributions from 1 April 2020 until 31 March 2023. However there are a number of developments which provides significant uncertainty:
  - **The McCloud case:** Where the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the recent pension reforms amounts to unlawful discrimination – directly on grounds of age and indirectly on other grounds. The Government's request for an appeal has been denied but uncertainty of the resulting benefit changes remains.
  - **The HM Treasury cost control mechanism and the Scheme Advisory Board (SAB) cost control mechanism:** Introduced as part of the recent pension reforms to periodically assess the costs of benefits to ensure that the reforms are affordable and sustainable. The cost control mechanism may trigger changes to LGPS benefits and member contributions, but is currently paused in light of the McCloud case.
  - **The outcome of several consultations or Government decisions:** The implementation of these may affect the Scheme (eg. Fair Deal II, Exit Credits, Guaranteed Minimum Pension Indexation and Equalisation and changes to the local valuation cycle and management of employer risk).

## McCloud judgment – leave to appeal denied

2. The Pension Panel have received information previously relating to the Court of Appeal's judgement that transitional protections in place following Scheme changes in 2014.
3. On 27 June 2019 the Supreme Court denied the Government's request for appeal. A summary of the issues is included in Addendum 1.

## Local government pension scheme: changes to the local valuation cycle and management of employer risk

4. The Ministry for Housing, Communities and Local Government (MHCLG) launched a consultation on 8 May 2019 covering the following areas:
  - Amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle and measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
  - Proposals for flexibility on exit payments, further policy changes to exit credits and changes to the employers required to offer local government pension scheme membership
5. It is proposed that the response from the County Council:

- Raises concerns about moving to a four yearly valuation cycle due to the potential impact on management of employer risks and maintaining the objective of stable employer contribution rates.
  - Supports the ability for Administering Authorities to have the discretion to do an interim valuation at either whole fund or specific employer level (on an approximate basis or otherwise), with the decision depending on the reasons for undertaking the valuation.
  - Requests that safeguards are put in place and clear, considered Guidance is provided to ensure there is a clear framework for requests for interim valuations to avoid short-termism.
6. A full draft response has been attached (Addendum 2) and comments are sought from the Pension Panel. Responses must be provided by 31 July 2019.

### **Funding Strategy Statement**

7. Following the training about funding strategies at the April Pension Panel, and as part of its preparatory work for the 2019 Actuarial Valuation Fund, officers have reviewed and drafting a Funding Strategy Statement for the West Sussex Scheme.
8. The FSS is reviewed in detail at each valuation or between valuations for any minor amendments required reflecting regulatory changes or alterations to the way the Scheme operates. This is in line with CIPFA guidance. The last review was completed as part of the 2016 valuation, and the Statement was agreed by the Pension Panel at their meeting on 30 January 2017.
9. The purpose of the Funding Strategy Statement is to summarise the Administering Authority's approach to funding its liabilities and how employer liabilities are measured (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities in order to achieve the Administering Authority's funding aims of:
- Affordability and stability of employer contributions
  - Prudence in the funding basis
  - Transparency of processes
10. The draft Funding Strategy Statement has been reviewed by the Pension Advisory Board in their role of supporting the Scheme Manager by ensuring compliance with Regulations. The comments from the Board are included in their draft minutes (Agenda Item 5).
11. The draft Funding Strategy Statement has been attached for the Panel's review and approval (Addendum 3).

12. The draft Funding Strategy Statement was shared with employers as part of a consultation exercise (Start date: 19/06/2019 // Deadline: 10/07/2019). Responses received are summarised on the following page:

Employer Type	Comments / Feedback
<b>Academy</b>	<ul style="list-style-type: none"> <li>Appears to be good and solid, much as one might expect.</li> <li>With a fully funded scheme, to do all that we can to minimise costs / reduce employer monthly contribution rates.</li> <li>With regard to potential pressures (not least of which the McCloud case), there is a preference to await the outcome and deal with it once it becomes a reality, rather than anticipating "bad news" and keeping contributions high "just in case".</li> <li>Consideration should be made of the impact of providing additional security to the Fund to move an employer through risk categories (eg. medium to lowest).</li> </ul>
<b>Parish Council</b>	<ul style="list-style-type: none"> <li>Happy with consolation document.</li> </ul>
<b>Academy</b>	<ul style="list-style-type: none"> <li>Happy to follow the proposed schedule, etc, detailed in the Funding Strategy Statement.</li> <li>At this point, with the on-going government appeal, it does not seem appropriate to make any recommendation for change even if we thought there was a need.</li> </ul>
<b>Admission Body</b>	<ul style="list-style-type: none"> <li>Happy to go with the recommendations/majority of feedback.</li> </ul>
<b>Scheduled Body</b>	<ul style="list-style-type: none"> <li>No comments to add on the draft statement or proposed approach.</li> </ul>
<b>Scheduled Body</b>	<ul style="list-style-type: none"> <li>Nothing comments</li> </ul>
<b>Admission Body</b>	<ul style="list-style-type: none"> <li>Correction of typographical errors</li> </ul>
<b>Admission Body</b>	<ul style="list-style-type: none"> <li>TBC (extension agreed)</li> </ul>

13. The Statement may need to be reviewed as and when the outcomes of the above consultations (and resulting legislative changes), decisions and guidance are known. Wider consultation will be undertaken on any material changes in approach as a result of these changes.

**Katharine Eberhart**

**Director of Finance and Support Services**

Contact: Rachel Wood, Pension Fund Strategist (0330 222 3387)

### Addendum

- Addendum 2 – Draft response to changes to the local valuation cycle and management of employer risk consultation

### Background

- Court of Appeal decision (McCloud) - <https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf>
- Guidance for the 2019 Valuation in respect of cost cap process and the McCloud and Sargeant age discrimination case (McCloud) [https://www.lgpsboard.org/images/Other/Advice\\_from\\_the\\_SAB\\_on\\_McCloud\\_May\\_2019.pdf](https://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf)
- Letter on the Pause to the Cost Management Process - <https://www.lgpsboard.org/images/CM/LetterPause.pdf>
- MHCLG Consultation on Changes to the Valuation Cycle: <https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk>

## Addendum 2

### Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation

#### Quadrennial Cycle

##### Question 1:

**As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?**

The Government brought the LGPS scheme valuation onto the same quadrennial cycle as other public service schemes with an effective date of 31 March 2024.

However we believe that three years remains an appropriate period and do not consider that the case has been made to move the local valuations to quadrennial, nor that it will deliver great stability in employer contribution rates and reduce costs.

It should be noted that:

- Regulation 62 of the LGPS Regulations 2013, CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement and the Pension Fund's own Funding Strategy Statement include mechanisms to delivery stability of employer contribution rates.
- The LGPS is funded and holds assets with values and performance that can fluctuate significantly over time. This volatility needs careful and regular management. A longer cycle may lead to the funding position drifting over a longer period and therefore a sharper correction to contribution rate being required at the end of the period (particularly for shorter term employers such as closed charities).
- Accounting standards and guidance require that employers determine the net defined benefit liability with sufficient regularity so that the amounts recognised in the financial statements do not materially differ from the amounts that would be determined at the end of the reporting period. As IAS19/IAS26 reports are calculated on a roll-forward basis, it is not clear what the views of private sector and public sector auditors are if an inter-valuation period is extended and whether interim valuations are required for accounting purposes, increasing costs.
- Employer circumstances and their financial covenant can change quickly, and lengthening the valuation cycle may expose LGPS funds to greater covenant risk. In this context, interim valuations as considered within the Consultation (whether at a whole of fund level or for individual employers) will also increase costs.

- Moving to a four year cycle, with the use of interim valuations, will also add to the burden of already stretched administration teams. When considering any changes to the current arrangements it is equally important to ensure that administering authorities have the capacity to comply with those changes, at no detriment to their current obligations to scheme members and their dependents.

In the context of the above it is difficult to be certain that moving to a four yearly cycle will save costs given the cost of carrying out interim valuations and any other additional employer work required as a result and not necessarily present value given the more substantive possible costs arising from the funding impacts of a delayed valuation.

**Question 2:**

**Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?**

In addition to points raised above, a formal valuation is not just about number crunching. It provides a governance opportunity to undertake a 'health check' on the Fund's data and risk management policies, and the metrics provided (cash flows, benefit projections, funding positions etc.) are often used for strategic investment reviews. Increasing the cycle may encourage less governance.

There is a risk of a repeat of the current situation where the 2019 valuations are to be carried out without knowing what the benefit structure of the LGPS as at the valuation date will be as a result of the mis-alignment of timing of benefit/member contribution changes following the cost management process and the local valuation calculations.

**Question 3:**

**Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?**

We consider that the 'as at' date of the scheme valuation should be ahead of the local fund valuations. This would allow time for:

- The Government Actuary's Department (GAD) to gather the necessary data and do the calculations;
- Discussion to take place on the results with the various national oversight bodies;
- Agreement to be reached over any changes to the benefit structure or employee contribution rates to get the cost of the scheme within the +/- 2% of pay corridor; and
- Software providers to make the necessary changes to systems and for those changes to be fully tested ahead of the effective date.

This should avoid changes to benefits or employee contributions being implemented retrospectively and allow time for administration and valuation systems to be updated to reflect the correct structure for the local valuations.

**Question 4:**

**Do you agree with our preferred approach to transition to a new LGPS valuation cycle?**

Notwithstanding the comments above, we agree that approach b) (completion of the 2019 valuation with a three year Rates and Adjustments Certificate followed by another valuation as at 31 March 2022 and a two year Certificate) is preferred to a five year gap between the 2019 valuation and the next.

**Dealing with changes in circumstances between valuations**

**Question 5:**

**Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?**

We are supportive of the introduction of a broader power (outside of Regulation 64) to carry out an interim valuation and believe that this is important to support administering authorities' risk management generally given the diverse range of sponsoring employers - and specifically should local valuations be moved to a quadrennial cycle.

We consider it would be sensible for funds to have the discretion to do an interim valuation at either whole fund or specific employer level (on an approximate basis or otherwise), with the decision depending on the reasons for undertaking the valuation

**Question 6:**

**Do you agree with the safeguards proposed?**

We agree with the proposal that the circumstances in which an interim valuation would be carried out should be properly documented and defined within the Funding Strategy Statement. Regulations and statutory Guidance on protections is also welcome to ensure that there is some consistency across funds. It is important that the scope for requesting and agreeing to interim valuations does not become an unwelcome distraction and divert attention from the delivery of administration services to scheme members and their dependants.

We would consider that the Local Pension Board would have an important role in ensuring that the Scheme Manager is then complying with the above guidance.

It would be of benefit to understand the factors that the Secretary of State would take into account before requiring an interim valuation on representation from a scheme employer. We are particularly keen to avoid 'moral hazard' situations where employers lobby for a valuation to take advantage of favourable market conditions, for example.

It will also be important to:

- Define the necessary outcomes if an interim valuation is carried out eg. the adoption of the required rate, or otherwise.
- Consider the administrative burden of providing data for interim valuations, particularly where requested by scheme employers.

**Question 7:**

**Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?**

We consider the following circumstances as being appropriate for an Administering Authority to change employer contributions (across all employer types):

- If an employer closes the fund to new entrant
- If there is a material transfer of staff to or from an employer, for example caused by a Machinery of Government change or outsourcing a large numbers of staff to another body.
- If there is a change in covenant

We consider that safeguards should be put in place to remove the ability avoid a scheme employers requesting a reassessment driven by short termism which would negate MHCLG's objective of stability of contributions.

**Question 8:**

**Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these tools?**

We consider that there is merit in considered and consulted statutory Guidance being provided. It would make sense that this was an extension of CIPFA's existing Funding Strategy Statement Guidance, or wherever the responsibility for statutory guidance referred to in Regulation 58 resides.

We would caution against the guidance being too prescriptive. It is important to ensure local decision-making and the diversity of funding levels and employers within funds is recognised but as referred above it would be helpful if such guidance were to cover the tests that would need to be met in order for a scheme employer to request an interim valuation itself from the Secretary of State.

**Question 9:**

**Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?**

The fact that a valuation is interim rather than full does not take away the need for professional advice. Our assumption therefore is that an interim valuation should not be undertaken without having been signed off by the Fund Actuary and this constitutes "*proportionate level of actuarial advice*". However it would be beneficial if this was clarified.

Whilst employers may request interim valuations for accounting purposes it will be important to be clear that it is the administering authorities and not employers who have the final say on reviewing employer contributions. Guidance on this would be helpful to ensure consistency between Administering Authorities.

Our response to # 8 provides some thoughts on who is best placed to offer guidance.



### **Question 10**

**Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?**

It is important to clarify that "exit payments" from the LGPS are not calculated on a full buy-out basis and the Regulations as they currently stand do not subscribe any one basis for valuing exit debts. In practice, these can differentiate materially between different types of employer and between funds.

We believe that additional flexibilities would be helpful in constructively managing the exit of any employer, independent of the basis of the exit valuation.

Whilst there are circumstances when the timing of an exit event and the magnitude of any exit debt may not be known until well after the exit event, Administering Authorities also manage an employer flight path to reduce the likelihood of liabilities on exit being "significantly higher than their ongoing contributions".

We would consider spreading exit payments a risk, even with a legal side agreement being in place. But in appropriate circumstances this additional risks could be managed through:

- The payment arrangement being at the discretion of the Administering Authority (and the guarantor where appropriate), allowing them to make a judgement on the covenant of the underlying employer;
- Locally, there is a maximum period for repayment
- Interest be charged at an appropriate rate
- The Administering Authority should have the ability to request additional security be put in place during the repayment period.

### **Question 11:**

**Do you agree with the introduction of deferred employer status into LGPS?**

We agree with the introduction of a deferred employer status, subject to further detailed consultation.

However consideration needs to be given as to how we would manage and be aware of the 'relevant events'.

### **Question 12:**

**Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?**

We agree with the introduction of deferred employer debt arrangements, subject to further detailed consultation.

We would consider the following safeguards as being necessary:

- Termination could be triggered on significant deterioration of covenant without an associated insolvency event.
- Either the employer or the fund can trigger termination without agreement of the other party providing that this then leads to an exit valuation being carried out
- A "flight plan" approach whereby the funding and investment strategy are regularly reviewed in light of the longer-term target of being fully funded on a gilts basis may be appropriate, particularly for larger employers.

**Question 13:**

**Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?**

The Regulations should be limited to key obligations and entitlements of parties, supplemented by supporting Guidance formed with significant input from LGPS practitioners throughout the drafting and consultation stages.

**Question 14:**

**Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?**

We agree options 2 and 3 should be available as alternatives to the current rules on exit payments.

**Question 15:**

**Do you consider that statutory guidance or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of the proposals?**

We believe that guidance is needed. A balance will need to be struck between compulsion to ensure a consistent interpretation of the Regulations and the ability of funds to manage their own funding and employer risks. We would strongly encourage any guidance to go out for full public consultation.

<b>Exit credits</b>
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**Question 16:**

**Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?**

We believe that exit credits should not be applied retrospectively to any contracts that were in force prior to 14 May 2018, whether on a risk-sharing basis or otherwise. In other words, the exit credit regime should only apply to new contracts that were set up from 14 May 2018 onwards.

However, it is worth noting that there is a very wide range of risk sharing arrangements in place and it is important to avoid circumstances where the onus is on the Administering Authority adjudicating on what is, in many cases, a contractual arrangement between two employers, outside of the admission agreement and exit calculations can vary materially between different types of employer and between funds, based on their own local funding strategy.

**Question 17:**

**Are there other factors that should be taken into account in considering a solution?**

It is important to consider the breadth of arrangements in which an employer may bear less pension risk (including "pass through" or cap and collar arrangements, allocation of specific risks (e.g. excessive pay increases), a fixed contribution rate) and the commitment that is often in place for the awarding authority to absorb any assets and liabilities after the contractor exits the fund.

As the contract price and other terms and conditions will have been determined on whatever basis was agreed at the outset, we believe it is important for the Regulations to be amended so that no exit credits are payable for transferee admissions entered into before the date of the Regulatory changes.

Even if a change is agreed to state that the administering authority can determine (as part of its funding strategy) that an exit credit is only due for existing admissions if the contractor is in surplus on a low risk/gilts basis on exit, this would result in a move away from the arrangements intended at the time of the contract being let.

Consideration should also be given of suspension notice cases where there is a potential credit with the grounds for the suspension being consistent with those where a deficit is determined.

<b>Employers required to offer LGPS membership</b>
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**Question 18:**

**Do you agree with our proposed approach?**

It is a policy decision for MHCLG on which employers must and which can participate in the LGPS but given the changes in this sector it does now appear arguable that HE/FE is not "public sector" and hence should not be required to admit new members.

It is important however to recognise that choosing this approach may not immediately reduce a HE/FE's pension costs, and contributions may increase in the short term, as administering authorities are likely to want to recalculate the employer contribution rate, allowing for the fact the employer is now closed to new entrants and potentially altering the funding basis to reflect the shorter term nature of the participation of the employer.

We would note that closing the scheme to new members via an Admission Agreement is preferable to an employer becoming a designating employer. The Admission Agreement would form a contractual agreement between the fund and the employer which governs the employer's participation.

We would also note that employers that use this proposal would create a two-tier work force in terms of pensions provision. There will be a need to monitor and ensure that promises are kept to those members currently in the LGPS i.e. that they are not induced out of the LGPS. The accompanying legislation should make it clear where that responsibility lies and the possible penalties for non-compliance.

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