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East Sussex
County Council

East Sussex
Pension Fund

Report and Accounts
2013/2014

Contents

East Sussex Pension Fund

PSR Number 10079157

ANNUAL REPORT

MEMBERS, EXTERNAL ADVISERS AND OFFICERS

Pension Fund Investment Panel (for 2013/14)

Members:		
County Councillors:	Richard Stogdon (Chairman)	
	David Tutt	
	Frank Carstairs	
Brighton & Hove Councillors:	Andrew Wealls	
	Leo Littman	
District Councillor:	Brian Redman	
Staff Rep (Observer):	Tony Watson	
FUND MANAGERS:		
Adams Street Partners	Harbourvest	Lazard
Legal and General	Longview Partners	Newton
Prudential M&G	Ruffer	Schroders
State Street Global Advisers	UBS Infrastructure	Custodian – Northern Trust
INVESTMENT ADVISER:	Hymans Robertson	
INDEPENDENT ADVISER:	William Bourne	
AUDITOR:	KPMG	
TREASURER:	Marion Kelly Chief Finance Officer East Sussex County Council	
ACTUARY:	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB	

Contact Addresses:

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

Introduction

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. The rules of the scheme are mainly provided between two separate sets of regulation; the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008, both of which came into force on 1 April 2008 and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, set up for the benefit of local government employees the LGPS is in fact administered locally. The LGPS is open to all employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 99 participating employers. A full list of participating employers is given at note 27.

Administering Authority Responsibilities

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents.

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as other benefits. As part of its responsibilities as the administering authority the County Council is responsible, through the Pension Fund Investment Panel, to set the investment policy and review the performance of the Fund’s external investment managers. Non investment issues concerning the Fund (such as administering authority discretions or the admission of new employers via admission agreements) are considered by the County Council’s Governance Committee, with responsibilities delegated to the Chief Finance Officer Business Services Department.

The County Council has entered in to a partnership arrangement with Surrey County Council known as South East Shared Services (SESS) to undertake the day to day functions associated with the administration of the LGPS. The main services provided by SESS include maintenance of scheme members’ records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund’s Actuary.

Although the day to day work associated with administering the LGPS has been passed to SESS, the County Council takes its statutory responsibility very seriously. It has therefore, set up procedures to ensure that SESS undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participant employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2013 (see note 18 to the accounts). In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS17 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with the County Council. In 2002 the County Council established an annual employers’ pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

Changes affecting the LGPS, and future developments

There have been no major changes to the rules governing the current benefit structure of the LGPS in the previous financial year.

In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011. Among its recommendations, the report made clear that the benefits of co-operative working between local government pension scheme funds and achieving administration efficiencies more generally should investigated further. It is clear that, in considering these objectives and conscious of the Hutton Review, the measure of successful delivery of affordability and sustainability has to be met in the aggregate.

The reform of governance arrangements within the LGPS focussed on the delivery of governance, and the generally expressed view is that the overall objective is to ensure benefits can be met as they fall due. The new Scheme regulations will require the establishment of a board with responsibility for assisting the scheme manager in:-

- securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected with it;
- securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator, and
- such other matters as the scheme regulations may specify.

There is an impetus for change, and this opportunity to secure a sustainable and affordable future for the LGPS should be grasped and driven forward. Collaborative activities between similar size funds and neighboring authorities have increased since the publication of the outcome of the Hutton review, which is welcome.

Negotiations between the local government employers and unions took place resulting in agreement on changes to the future shape of the LGPS. The revised arrangements took affect from 1 April 2014. A number of consultations took place on the rules of the new LGPS, with the new Regulations being laid before Parliament on 19th September 2013 came into force from 1st April 2014.

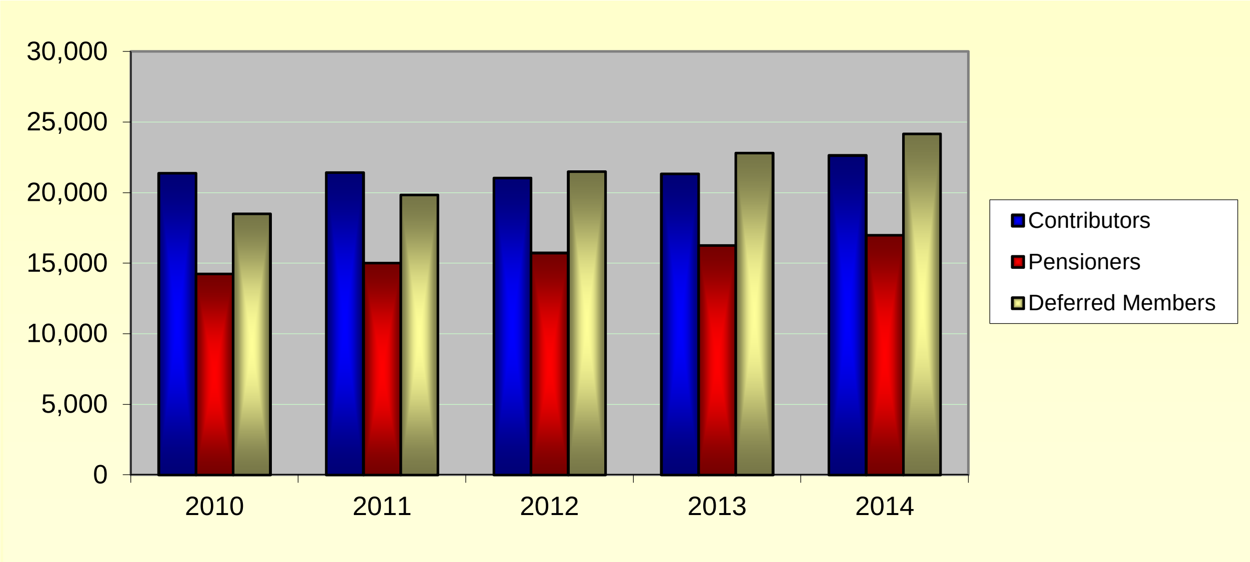
The structure of the new scheme includes:

- Career Average Revalued Earnings (CARE), revalued by CPI;
- Accrual rate of 1/49th (currently 1/60th);
- Normal Pension Age in line with the member's State Pension Age;
- Employee contribution rates based on actual pay (currently based on whole-time equivalent salary for part time members);
- Minimum period of membership to qualify for a deferred pension to increase to 2 years (currently 3 months);
- Average employee contribution rates 6.5% (same as current scheme) but contribution banding rates designed to take account of differing tax bands – contributions range from:
    - 5.5% gross to
    - 12.5% gross (on contributions actual pay over £150,000;
- Members can opt to pay half contributions for half the pension, while retaining full value of other benefits (the 50/50 option) – not currently provided;
- Accrued benefits up to 31 March 2014 are protected, including:
    - Past service benefits based on final salary and current Normal Pension Age;
    - Retention of existing "Rule of 85" protections;

The LGPS in East Sussex

Membership of the East Sussex Pension Fund as at 31 March 2014 is detailed below:

	March 2013	March 2014
Active Members (contributors)	21,347	22,649
Pensioners (inc dependants)	16,276	16,993
Deferred Members	22,822	24,173



Summary of the provisions of the LGPS

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

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

Contributions

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

Employer contribution rates are set every three years following a valuation of the Pension Fund's assets and potential liabilities. The most recent actuarial valuation was as at 31 March 2013 with the new employer rates being effective from 1 April 2014.

Benefits

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

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

Annual Allowance / Lifetime Allowance

As part of the 2011 Budget the Treasury has made changes to the Annual Allowance and Lifetime Allowances from April 2011.

The Annual Allowance for 2013/2014 is £50,000, with the facility to carry forward any unused Annual Allowance in the previous 3 tax years. Annual Benefit Statements for active members will include details of the Annual Allowance used in the relevant tax year. Members are required to advise HMRC if the growth in their accrued pension in the year exceeds the Annual Allowance. Where an Annual Allowance tax charge becomes due, this tax charge would be payable by the member unless the tax charge is in excess of £2,000, in which case there are provisions for the Fund to pay the tax due, with a reduction to the member's accrued benefits to take account of the tax being paid by the scheme.

The Lifetime Allowance for 2013/2014 is £1.5million.

Ill health

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

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

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

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

April 2014 Pensions Increase

The Chancellor of the Exchequer announced that from April 2014 Public Sector pensions would be increased annually by the rise in CPI for the year to the preceding September. The Office for National Statistics has announced that the rise in CPI for the year to September 2013 was 2.7%. This increase was applied on 7 April 2014.

Death Benefits

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

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

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

Added Years/ARCs/AVCs

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

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

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

Prudential have introduced a withdrawal penalty in respect of new AVC contracts where the first contribution is received after 18 August 2012, and the benefits are drawn within 5 years of retirement. There is no penalty where the AVC is held for more than 5 years or where the first contribution was received before 19 August 2012. These withdrawal penalties are:

Year of withdrawal	Withdrawal during Year 1	Withdrawal during Year 2	Withdrawal during Year 3	Withdrawal during Year 4	Withdrawal during Year 5
%	15%	10%	8%	6%	5%

AVCs may also be paid independently to a Free Standing AVC Scheme, to whichever provider the individual chooses. The Free Standing AVC benefits are, however, separate from the member's LGPS benefits. A member would, therefore, only be able to take a maximum 25% lump sum from the Free Standing AVC, and have to purchase an annuity from the AVC provider, or an alternative insurance company.

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

Discretions

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

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

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

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

Resolving Complaints

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

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

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

Communication

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

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

GOVERNANCE COMPLIANCE STATEMENT

Scope of responsibility

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn past and present contributing members, and their dependents. The County Council is responsible for ensuring that pension fund administration is conducted in accordance with the law and proper standards, and that members money is safeguarded and properly accounted for, efficiently and effectively.

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

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

The Pension Fund has also adopted its own Governance Policy Statement, which sets out in more detail its key governance arrangements, and it is included within the Statement of Investment Principles (copies are available from the Fund's website www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/).

INVESTMENT PANEL TRAINING

As the administering authority of the East Sussex Pension Fund, the Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and will provide training for staff and members of the decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

It is not the intention that elected representatives should individually become technical experts, but collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

The following training has been given during the year:

Training for Panel members is primarily provided as an adjunct to Panel meetings by presentation from the Funds professional advisers. During 2013/2014 presentations were given on:

- Fund valuation and funding strategy
- Economic Reviews
- Corporate Governance
- Liability Driven Investment
- Passive Investment – Index Fund Range
- Environmental, Social and Governance issues
- Current Investment Issues
- Fund Manager Reviews

The most recent Annual East Sussex Pension Fund Investment Panel Training Day was organised by Legal and General Investment Management Limited on 8 April 2014.

All new Panel members are given initial training on the operation of the Fund and their responsibilities. This is supplemented by external training provided by the Funds consultants Hymans Robertson LLP and panel training days.

CURRENT INVESTMENT ARRANGEMENTS

The Investment Panel ("the Panel") made slight changes to the Fund's investment manager structure and asset allocation over the course of the financial year to 31 March 2014.

Firstly a new global equity manager Longview was appointed to actively manage the assets formerly managed by Marathon. These assets were transferred from Legal & General to Longview in April 2013. The Fund continues to employ Lazard to actively manage global equities.

Secondly, State Street was appointed to manage the ex-Fidelity assets. The assets were transferred to State Street in July and August 2013 and are currently managed to a specialist passive mandate which aims to replicate the performance of the RAFI 3000 global equity index. This "alternative indexation" is intended to diversify the Fund's exposure to market capitalisation based passive management.

The trustees agreed to rebalance the Fund in conjunction with the transfer of the ex-Fidelity assets. Additional investments were transferred to the Newton Absolute Return mandate and the Schroders property portfolio.

The Fund has continued to build its alternatives portfolio during the year, making new commitments to several private equity funds with the Fund's existing private equity managers. The Fund signed up for an additional commitment to one of the Fund's private equity managers HarbourVest following the financial year end, in accordance with the private equity commitment strategy adopted in 2012.

When considering the investment portfolio, diversification is one of the most important issues that the Panel considers. Rather than relying on a single investment decision, making a larger number of smaller decisions can reduce risk. For example, any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If a particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

The Fund's investments are very well diversified, as a way of controlling risk. This applies in two ways:-

1. Asset Allocation

Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property and infrastructure ("real" assets with a different performance cycle to equities) and a small exposure to bonds (which more closely "match" the Fund's liabilities). The allocation to absolute return mandates provides further diversification. Uniquely, within those mandates, the managers have the flexibility to alter asset allocation between asset classes.

Within equities, diversification is achieved by investing in different markets across the world, which provides exposure to many different stocks and sectors.

The Fund is further diversifying some of the equity exposure by making annual allocations to unquoted equity. This allocation is expected to lead to higher returns over the longer term, without adding significantly to overall risk (which is consistent with the objectives of the Fund).

2. Manager Structure

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

- Legal & General Investment Management remains the Fund's largest single equity manager; all of the assets are managed passively against UK and Global equity market benchmarks. The Fund's two active global equity managers (now Lazard and Longview) employ approaches which both differ in terms of style and the inherent risk. The Fund's remaining equity manager State Street offers additional diversification from Legal & General's market capitalisation based passive management approach, through the fundamental indexation mandate. The Investment Panel maintains the belief that global equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund's other mandates due to their flexible and unconstrained management approach.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.
- Corporate bonds and absolute return bonds are managed by M&G.

- The Fund's allocations to infrastructure and unquoted equities are split into four portfolios, each managed by separate managers.

The objective is to seek to ensure:

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

2 each manager brings something different - specialist skills or a different approach to investment - to the mix.

In this way, the Fund seeks to achieve an appropriate return and added value over the medium term, but in a risk controlled fashion.

Prepared by:-

Scott Donaldson - Partner

Nell McRae – Investment Analyst

May 2014

For and on behalf of Hymans Robertson LLP

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer, Business Services Department.
- To manage its affairs to secure, economic, efficient and effective use of resources and safeguard its assets.

The responsibilities of the Chief Finance Officer, Business Services Department

The Chief Finance Officer, Business Services Department is responsible for the preparation of the Pension Fund's statement of accounts which, in terms of the Chartered Institute of Public Finance and Accountancy / Local Authorities (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accountancy in Great Britain ("the Code") is required to present fairly the position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2014.

In preparing this statement of accounts, the Chief Finance Officer, Business Services Department has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the code.

The Chief Finance Officer, Business Services Department has also:

- Kept proper accounting records which were up-to-date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

NOTES TO THE ACCOUNTS

East Sussex Pension Fund Account

2012/13 £000	2012/13 £000		Notes	2013/14 £000	2013/14 £000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(80,556)		From Employers		(85,915)	
(26,345)		From Members		(27,012)	
	(106,901)				(112,927)
	(7,854)	Transfers in from other pension funds	8		(9,290)
	(114,755)				(122,217)
	106,076	Benefits	9		114,518
	4,816	Payments to and on account of leavers	10		7,475
	1,464	Administration expenses	11		1,598
	112,356				123,591
	(2,399)	**Net (additions) from dealings with members**			**1,374**
		Returns on investments			
	(22,490)	Investment income	12		(24,616)
	735	Taxes on income	13		694
	(256,500)	Profit and losses on disposal of investments and changes in the market value of investments	15a		(120,750)
	7,449	Investment management expenses	14		8,034
	(270,806)	**Net return on investments**			**(136,638)**
	(273,205)	**Net increase in fund during the year**			**(135,264)**
	(2,071,071)	Add opening net assets of the scheme			(2,344,276)
	(2,344,276)	**Closing net assets of the scheme**			**(2,479,540)**

Net Assets Statement for the year ended 31 March 2014

31 March 2013 £000		Notes	31 March 2014 £000
2,281,664	Investment assets	15	2,393,629
80,284	Other Investment balances	20	2,470
58,468	Cash deposits	15	80,934
2,420,416			**2,477,033**
(81,629)	Investment liabilities	21	(2,338)
9,780	Current assets	20	9,800
(4,291)	Current liabilities	21	(4,955)
2,344,276	**Net assets of the fund available to fund benefits at the year end.**		**2,479,540**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2014 and of the movements for the year then ended.

Marion Kelly

Chief Finance Officer

Business Services Department

Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2014

1: Description of fund

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

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended).

- the LGPS (Administration) Regulations 2008 (as amended).

- the LGPS (Management and Investment of Funds) Regulations 2009.

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

b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

There are 99 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2013	31 March 2014
Number of employers participating in the scheme	82	99
Number of employees		
County Council	9,336	9,442
Other employees	12,011	13,207
Total	**21,347**	**22,649**
Number of pensioners		
County Council	7,160	7,428
Other employers	9,116	9,565
Total	**16,276**	**16,993**
Deferred pensioners		
County Council	10,782	11,321
Other employers	12,040	12,852
Total	**22,822**	**24,173**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employer contribution rates are set every three years following a valuation of the Pension Fund's assets and potential liabilities. The most recent actuarial valuation was as at 31 March 2013 with the new employer rates being effective from 1 April 2014.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final Pensionable salary	Each year worked is worth 1/60 x final Pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off -tax Free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid Paid for each £1 of pension given up.

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

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and the Financial Reports of Pension Schemes Statement of Recommended Practice.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

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

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions (see below) to purchase additional scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

c) Investment income

i) Interest income - Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Regulations permit the County Council to charge administration costs to the fund. A proportion of relevant County Council costs have been charged to the fund on the basis of actual time spent on pension scheme administration and investment related business and in safeguarding Fund assets.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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

The cost of obtaining investment advice from external consultants is included in investment management charges.

Net assets statement

h) Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

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.

ii) Fixed interest securities are recorded at net market value based on their current yields.

iii) The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. 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.

i) Foreign currency transactions

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

j) Derivatives

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

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the Custodian using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) 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 changes in value.

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2014 was £128.1 million (£127.4 million at 31 March 2013).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

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

Forward exchange contract adjustments

In line with LGPS accounting guidance foreign exchange forward contracts are disclosed on a net basis. A gross basis was used in the prior year. This disclosure change has no impact on the net assets of the fund and no adjustment has been made to the prior year comparator figures.

5: Future assumptions and other estimated uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2013 Valuation the actuary advised that: • A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £253 million (9%). • A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £78 million (3%). • A 0.5% increase in the assumed prices inflation (increase in pensions) would increase the value of liabilities by approximately £197 million (7%). • A 1 year increase in assumed life expectancy would increase the liability by approximately £87 million (3%).
Debtors	At 31 March 2014, the fund had a balance of sundry debtors of £1.4 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £128.1 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

6: Events after the balance sheet date

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2012/13 £000	2013/14 £000
By category		
Employers	80,556	85,915
Members	26,345	27,012
Total	**106,901**	**112,927**
By authority		
Scheduled bodies	60,949	63,059
Admitted bodies	5,135	7,805
Administrative Authority	40,817	42,063
Total	**106,901**	**112,927**

8: Transfers in from other pension funds

	2012/13 £000	2013/14 £000
Group transfers	1,816	2,952
Individual transfers	6,038	6,338
Total	**7,854**	**9,290**

9: Benefits payable

	2012/13 £000	2013/14 £000
By category		
Pensions	79,776	92,736
Commutation and lump sum retirement benefits	25,096	19,634
Lump sum death benefits	1,204	2,148
Total	**106,076**	**114,518**
By authority		
Scheduled bodies	62,500	65,299
Admitted bodies	2,783	3,861
Administrative Authority	40,793	45,358
Total	**106,076**	**114,518**

10: Payments to and on account of leavers

	2012/13 £000	2013/14 £000
Refunds to members leaving service	5	9
Group transfers	-	1,122
Individual transfers	4,811	6,344
Total	**4,816**	**7,475**

11: Administrative expenses

	2012/13 £000	2013/14 £000
Administration and Processing	1,243	1,374
Legal fees	18	11
External audit fees	24	30
Audit Commission Rebate	-	(4)
Internal audit fees	22	15
Actuarial fees	157	172
Total	**1,464**	**1,598**

The External auditor appointed to audit the fund is KPMG (BDO in 2012/13). Fees include only the statutory audit of the fund and no non-audit services have been provided.

12: Investment income

	2012/13 £000	2013/14 £000
Fixed interest securities	2,030	1,900
Index linked securities	547	600
Equity dividends	9,850	11,539
Pooled property investments	6,380	7,189
Pooled investments - unit trusts and other managed funds	3,419	2,983
Interest on cash deposits	243	374
Class Actions	21	31
Total	**22,490**	**24,616**

13: Taxes on income

	2012/13 £000	2013/14 £000
Withholding tax - equities	(433)	(404)
Withholding tax - pooled	(302)	(290)
Total	**(735)**	**(694)**

14: Investment expenses

	2012/13 £000	2013/14 £000
Management fees	7,097	7,727
Custody fees	119	148
Performance monitoring service	17	19
Investment consultancy	216	140
Total	**7,449**	**8,034**

During the year, the Pension Fund incurred fees of £2.1m (£2.1m in 2012/13) on its private equity investments. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund. As such, any amounts paid as fees will be reflected in a reduction of the distributions received.

15: Investments

	2012/13 £000	2013/14 £000
Investment assets		
Fixed interest securities	156,837	162,880
Index Linked	64,412	58,659
Equities	586,818	724,237
Pooled Investments	1,209,533	1,139,887
Pooled property investments	192,773	244,451
Infrastructure	58,898	53,656
Commodities	11,998	6,631
Multi Asset	1,297	3,228
Derivative contracts:		
Forward Currency Contracts	92	316
Purchased /written options	202	-
	2,282,860	**2,393,945**
Cash deposits with Custodian	58,468	80,934
Other Investment balances (Note 20)	80,284	2,154
Total investment assets	**2,421,612**	**2,477,033**
Investment Liabilities (Note 21)	(81,629)	(2,327)
Derivative Contracts - Forward Currency	(1,196)	(11)
Total Investment Liabilities	**(82,825)**	**(2,338)**
Net investment assets	**2,338,787**	**2,474,695**

15a: Reconciliation of movements in investments and derivatives

	Market Value 1 April 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2014 £000
Fixed interest securities	**156,837**	1,936	-	4,107	**162,880**
Index Linked	**64,412**	16,404	(17,630)	(4,527)	**58,659**
Equities	**586,818**	515,688	(411,048)	32,779	**724,237**
Pooled investments	**1,209,533**	98,567	(238,696)	70,483	**1,139,887**
Pooled property investments	**192,773**	47,660	(16,336)	20,354	**244,451**
Infrastructure	**58,898**	1,243	(2,098)	(4,387)	**53,656**
Commodities	**11,998**	635	(2,832)	(3,170)	**6,631**
Multi Asset	**1,297**	8,408	(5,410)	(1,067)	**3,228**
	2,282,566	**690,541**	**(694,050)**	**114,572**	**2,393,629**
Derivative contracts					
■ Futures	**-**	632	-	(632)	**-**
■ Purchased/written options	**202**	-	(124)	(78)	**-**
■ Forward currency contracts	**(1,104)**	5,296	(11,058)	7,171	**305**
	2,281,664	**696,469**	**(705,232)**	**121,033**	**2,393,934**
Other investment balances:					
■ Cash deposits	**58,468**			(283)	**80,934**
■ Other Investment Balances	**80,284**				**2,154**
■ Investment Liabilities	**(81,629)**				**(2,327)**
Net investment assets	**2,338,787**			**120,750**	**2,474,695**

	Market Value 1 April 2012	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market Value 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	**141,896**	2,059	-	12,882	**156,837**
Index Linked	**52,549**	22,604	(15,333)	4,592	**64,412**
Equities	**484,310**	121,253	(90,593)	71,848	**586,818**
Pooled investments	**1,087,520**	162,372	(202,974)	162,615	**1,209,533**
Pooled property investments	**189,360**	6,354	(2,147)	(794)	**192,773**
Infrastructure	**51,910**	1,154	(4)	5,838	**58,898**
Commodities	**10,984**	10,788	(10,135)	361	**11,998**
Multi Asset	**-**	2,165	-	(868)	**1,297**
	2,018,529	**328,749**	**(321,186)**	**256,474**	**2,282,566**
Derivative contracts					
■ Futures	**-**	-	-	-	**-**
■ Purchased/written options	**315**	3,836	(1,727)	(2,223)	**202**
■ Forward currency contracts	**638**	4,397	(9,232)	3,093	**(1,104)**
	2,019,482	**336,982**	**(332,146)**	**257,344**	**2,281,664**
Other investment balances:					
■ Cash deposits	**45,273**			(844)	**58,468**
■ Other Investment Balances	**35,905**				**80,284**
■ Investment Liabilities	**(35,147)**				**(81,629)**
Net investment assets	**2,065,513**			**256,500**	**2,338,787**

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £819k (£286k in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

15b: Analysis of investments (excluding derivative contracts)

	2012/13 £000	2013/14 £000
Fixed interest securities		
UK		
Corporate quoted	156,837	162,880
	156,837	**162,880**
Index linked Securities		
UK		
Public sector quoted	35,105	35,580
Overseas		
Public sector quoted	29,307	23,079
	64,412	**58,659**
Equities		
UK		
Quoted	57,933	75,434
Unquoted	14,439	12,936
Overseas		
Quoted	387,580	507,746
Unquoted	126,866	128,121
	586,818	**724,237**
Pooled funds - additional analysis		
UK		
Unit trusts	699,428	654,420
Overseas		
Unit trusts	510,105	485,467
	1,209,533	**1,139,887**
Pooled property investments	192,773	244,451
Infrastructure	58,898	53,656
Commodities	11,998	6,631
Multi Asset	1,297	3,228
	264,966	**307,966**
	2,282,566	**2,393,629**

Analysis of derivatives

Objectives and policies for holding derivatives

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

a) Futures

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

b) Forward foreign currency

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

c) Options

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

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Greater than 2 months	GBP	32,003	JPY	(5,486,773)	16	-
Up to 2 months	EUR	1,073	GBP	(883)	4	-
Up to 2 months	GBP	3,724	CHF	(5,497)	-	(10)
Up to 2 months	GBP	6,812	EUR	(8,202)	29	-
Up to 2 months	GBP	14,198	USD	(23,222)	267	-
Up to 2 months	USD	694	GBP	(417)	-	(1)
					316	(11)
Net forward currency contracts at 31 March 2014						**305**
Prior year comparative						
Open forward currency contracts at 31 March 2013					92	(1,196)
Net forward currency contracts at 31 March 2013						**(1,104)**

Purchased/written options

Investment underlying option contract	Expires	Put / call	Notional holding	Market value 31 March 2013	Notional holding	Market value 31 March 2014
			£000	£000	£000	£000
Assets						
Overseas equity purchased	Less than 1 month	Put	-	202		-
Net purchased/written options				**202**		**-**

Investments analysed by fund manager

	Market value 31 March 2013		Market value 31 March 2014	
	£000	%	£000	%
Prudential M&G	94,010	4.0%	96,060	3.9%
East Sussex Pension Fund Cash	12,861	0.5%	22,975	0.9%
UBS Infrastructure Fund	25,487	1.1%	22,035	0.9%
Prudential Infracapital	33,411	1.4%	31,621	1.3%
Legal & General	987,433	42.2%	647,469	26.3%
M&G UK Financing Fund	14,439	0.6%	12,936	0.5%
Schroders Property	199,421	8.5%	247,740	10.0%
Harbourvest Strategies	61,717	2.6%	60,042	2.4%
Adams St Partners	65,669	2.8%	68,433	2.8%
M&G Absolute Return Bonds	62,828	2.7%	66,828	2.7%
Ruffer LLP	228,645	9.9%	229,982	9.3%
Lazard Asset Management	336,334	14.4%	344,862	13.9%
Newton Investment Management	217,877	9.3%	233,496	9.4%
Longview Partners	-	-	136,926	5.5%
State Street Global Advisers	-	-	253,290	10.2%
	2,340,132		**2,474,695**	

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

Security	Market Value 31 March 2013 £000	% of total fund	Market value 31 March 2014 £000	% of total fund
L&G UK Equity Index	452,754	19.3%	398,147	16.1%
State Street Fundamental Index	-	-	253,325	10.2%
Newton Real Return (Pooled Fund)	217,877	9.3%	233,832	9.4%
L&G North America Equity Index	213,329	9.1%	129,967	5.3%
L&G Europe (EX UK) Equity Index	126,872	5.4%	66,828	2.7%

15c: Stock lending

The East Sussex Fund has not operated a Stock Lending programme since 13th October 2008.

16: Financial instruments

16a: Classification of financial instruments

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

31 March 2013				31 March 2014		
Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
156,837	-	-	Fixed interest securities	162,880	-	-
64,412	-	-	Index linked	58,659	-	-
586,818	-	-	Equities	724,237	-	-
1,209,533	-	-	Pooled investments	1,139,887	-	-
192,773	-	-	Pooled property investments	244,451	-	-
58,898	-	-	Infrastructure	53,656	-	-
11,998	-	-	Commodities	6,631	-	-
1,297	-	-	Multi Asset	3,228	-	-
294	-	-	Derivative contracts	316	-	-
-	58,468	-	Cash	-	80,934	-
80,284	-	-	Other investment balances	2,154	-	-
-	9,780	-	Debtors	-	9,800	-
2,363,144	**68,248**	**-**	**Total Financial Assets**	**2,396,099**	**90,734**	**-**
			Financial liabilities			
(1,196)	-	-	Derivative contracts	(11)	-	-
(81,629)	-	-	Other investment balances	(2,327)	-	-
-	-	(4,291)	Creditors	-	-	(4,955)
(82,825)	**-**	**(4,291)**	**Total Financial Liabilities**	**(2,338)**	**-**	**(4,955)**
2,280,319	**68,248**	**(4,291)**	**Total Financial Instruments**	**2,393,761**	**90,734**	**(4,955)**

16b: Net gains and losses on financial instruments

	31 March 2013 £000	31 March 2014 £000
Financial assets		
Fair value through profit and loss	256,473	113,902
Loans and receivables	(843)	(286)
Financial liabilities		
Fair value through profit and loss	870	7,133
Total	**256,500**	**120,750**

16c: Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 2013		31 March 2014	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Fair value through profit and loss	2,363,144	2,363,144	2,396,099	2,396,099
Loans and receivables	68,248	68,248	90,734	90,734
Total financial assets	**2,431,392**	**2,431,392**	**2,486,833**	**2,486,833**
Financial liabilities				
Fair value through profit and loss	(82,825)	(82,825)	(2,338)	(2,338)
Financial liabilities at amortised cost	(4,291)	(4,291)	(4,955)	(4,955)
Total financial liabilities	**(87,116)**	**(87,116)**	**(7,293)**	**(7,293)**

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

16d: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

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

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

Level 2

Financial instruments 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 significantly on observable market data.

Level 3

Financial instruments 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 significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which East Sussex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets				
Financial assets at fair value through profit and loss	1,643,063	241,032	512,004	**2,396,099**
Loans and receivables	90,734	-	-	**90,734**
Total financial assets	**1,733,797**	**241,032**	**512,004**	**2,486,833**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(2,338)	-	-	**(2,338)**
Financial liabilities at amortised cost	(4,955)	-	-	**(4,955)**
Total financial liabilities	**(7,293)**	**-**	**-**	**(7,293)**
Net financial assets	**1,726,504**	**241,032**	**512,004**	**2,479,540**

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets				
Financial assets at fair value through profit and loss	1,916,787	218,996	227,361	**2,363,144**
Loans and receivables	68,248	-	-	**68,248**
Total financial assets	**1,985,035**	**218,996**	**227,361**	**2,431,392**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(82,825)	-	-	**(82,825)**
Financial liabilities at amortised cost	(4,291)	-	-	**(4,291)**
Total financial liabilities	**(87,116)**	**-**	**-**	**(87,116)**
Net financial assets	**1,897,919**	**218,996**	**227,361**	**2,344,276**

17: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset Type	Potential Market Movements (+/-)
Bonds	10%
UK equities	17%
Overseas equities	19%
Overseas equity unit trusts	19%
Pooled property investments	15%
Private Equity	28%
Infrastructure funds	16%
Commodities	14%
Cash	1%

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

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

Asset Type	**Value as at 31 March 2014 £000**	**Percentage change %**	**Value on increase £000**	**Value on decrease £000**
Cash and Cash Equivalents	80,934	1%	81,743	80,125
Investment portfolio assets:				
Total Bonds	221,539	10%	243,693	199,385
UK equities	742,790	17%	869,064	616,516
Overseas equities	507,746	19%	604,218	411,274
Overseas equity unit trusts	485,467	19%	577,706	393,228
Pooled property investments	244,451	15%	281,119	207,783
Private equity	128,121	28%	163,995	92,247
Infrastructure funds	53,656	16%	62,241	45,071
Commodities	6,631	14%	7,559	5,703
Multi Asset	3,228	0%	3,228	3,228
Net derivative assets	305	0%	305	305
Investment income due	1,787	0%	1,787	1,787
Amounts receivable for sales	359	0%	358	358
Amounts payable for purchases	(671)	0%	(671)	(671)
Total assets available to pay benefits	**2,476,343**		**2,891,280**	**2,061,406**

Asset Type	**Value as at 31 March 2013 £000**	**Percentage change %**	**Value on increase £000**	**Value on decrease £000**
Cash and Cash Equivalents	58,468	1%	59,053	57,883
Investment portfolio assets:				
Total Bonds	221,249	11%	245,587	196,912
UK equities	898,666	16%	1,042,452	754,879
Overseas equities	387,580	19%	461,220	313,940
Overseas equity unit trusts	510,105	19%	607,025	413,185
Pooled property investments	192,773	15%	221,689	163,857
Infrastructure funds	58,898	16%	68,321	49,474
Commodities	11,998	14%	13,678	10,318
Multi Asset	1,297	0%	1,297	1,297
Net derivative assets	(903)	0%	(903)	(903)
Investment income due	2,410	0%	2,410	2,410
Amounts receivable for sales	714	0%	714	714
Amounts payable for purchases	(1,769)	0%	(1,769)	(1,769)
Total assets available to pay benefits	**2,341,486**		**2,720,774**	**1,962,197**

Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	**As at 31 March 2013**	**As at 31 March 2014**
	£000	**£000**
Cash with Custodian	58,468	80,934
Cash balances	(176)	(882)
Fixed interest securities:		
UK bonds	156,837	162,880
Total	**215,129**	**242,932**

Interest rate risk sensitivity analysis

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

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

Asset type	**Carrying amount as at 31 March 2014**	**Change in year in the net assets available to pay benefits**	
		+ 100 BPS	**- 100 BPS**
	£000	**£000**	**£000**
Cash and cash equivalents	80,934	809	(809)
Cash balances	(882)	(9)	9
Fixed interest securities			
UK bonds	162,880	1,629	(1,629)
Total change in assets available	**242,932**	**2,429**	**(2,429)**

Asset type	**Carrying amount as at 31 March 2013**	**Change in year in the net assets available to pay benefits**	
		+ 100 BPS	**- 100 BPS**
	£000	**£000**	**£000**
Cash and cash equivalents	58,468	585	(585)
Cash balances	(176)	(2)	2
Fixed interest securities			
UK bonds	156,837	1,568	(1,568)
Total change in assets available	**215,129**	**2,151**	**(2,151)**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the land (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2013 £000	Asset value as at 31 March 2014 £000
Overseas Index Linked	29,307	23,079
Overseas quoted securities	387,580	507,746
Overseas unit trusts	510,105	485,467
Total overseas assets	**926,992**	**1,016,292**

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

This assumes no diversification with other assets, and in particular, interest rates remain constant.

A 13% strengthening/weakening of the UK pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2014	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	23,079	26,079	20,079
Overseas quoted securities	507,746	573,753	441,739
Overseas unit trusts	485,467	548,578	422,356
Total change in assets available	**1,016,292**	**1,148,410**	**884,174**

Currency exposure - asset type	Asset value as at 31 March 2013	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	29,307	33,117	25,497
Overseas quoted securities	387,580	437,965	337,195
Overseas unit trusts	510,105	576,419	443,791
Total change in assets available	**926,992**	**1,047,501**	**806,483**

Summary	Asset value as at 31 March 2013 £000	Asset value as at 31 March 2014 £000
Money market funds		
NTGI Global Cash Fund	57,762	80,209
Bank deposit accounts		
Non NT cash accounts	9	103
Bank current accounts		
NT custody cash accounts	697	622
Total overseas assets	**58,468**	**80,934**

b) Credit risk

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

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

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

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

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

c) Liquidity risk

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

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

All financial liabilities at 31 March 2014 are due within one year.

Refinancing risk

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

18: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2013. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund which together with investment growth will be sufficient to meet the fund's future liabilities. The 2013 valuation shows the fund has a past service deficit, being 81% funded in respect of past liabilities. This compares with 87% funded at the 2010 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2013/14

This statement has been prepared by **Hymans Robertson** in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

The funding policy is set out in the Funding Strategy Statement (FSS), effective from March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the fund's assets, which at 31 March 2013 were valued at £2,344 million, were sufficient to meet 81% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £541 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 28 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	4.3%	1.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Figures assume members aged 45 as at the 2013 valuation.

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, administering authority to the fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been slightly higher than that expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

19: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

• showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;

• as a note to the accounts; or

• by reference to this information in an accompanying actuarial report.

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

I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2013 £m	31 Mar 2014 £m
Present value of Promised Retirement Benefits	3,043	3,385

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £1,414m in respect of employee members, £608m in respect of deferred pensioners and £1,363m in respect of pensioners. 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, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance 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).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £105m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2013 % p.a.	31 Mar 2014 % p.a.
Inflation / Pension Increase Rate	2.8%	2.8%
Salary Increase rate	5.1%*	4.6%
Discount Rate	4.5%	4.3%

*Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund. Please see my previous report dated 7 May 2013 for details.

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 post-April 2008 service.

20: Current assets

	31 March 2013 £000	31 March 2014 £000
Other Investment Balances		
Sales inc Currency	77,874	675
Investment Income Due	1,645	1,443
Recoverable Taxes	765	344
Managers Fee Rebate	-	8
Total	**80,284**	**2,470**

	31 March 2013 £000	31 March 2014 £000
Current Assets		
Contributions receivable from employers and employees	7,879	8,267
Sundry Debtors	1,901	1,533
Cash	-	-
Total	**9,780**	**9,800**

21: Current liabilities

	31 March 2013 £000	31 March 2014 £000
Investment Liabilities		
Purchases including currency	(80,034)	(682)
Managers Fees	(1,595)	(1,656)
Accrued Dividend Income	-	-
Total	**(81,629)**	**(2,338)**

	31 March 2013 £000	31 March 2014 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(1,197)	(1,426)
Cash	(176)	(882)
Professional Fees	(60)	(8)
Admin/CBOSS Recharge	(1,239)	(1,013)
Sundry Creditors	(1,619)	(1,626)
Total	**(4,291)**	**(4,955)**

22: Additional voluntary contributions

	Market value 31 March 2013 £000	Market value 31 March 2014 £000
Prudential	14,948	14,568

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2013/14 some members of the pension scheme paid voluntary contributions and transfers in of £1.496m (£1.528m 2012/13) to Prudential to buy extra pension benefits when they retire. £2.571m was disinvested from the AVC provider in 2012/13 (£2.235m 2012/13). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

23: Related party transactions

East Sussex County Council

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

Each member of the pension fund committee is required to declare their interests at each meeting.

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

The Council incurred costs in administering the fund and charged £1.0m to the fund in 2013/14. The Council`s contribution to the fund was £42.1m in 2013/14 (£40.8m in 2012/13). All amounts due to the fund were paid in the year. At 31 March 2014 the Pension Fund bank account was overdrawn by £0.882m. The average invested throughout the year was £1.4m (£1.2m in 2012/13) and earned interest of £0.005m in 2013/14 (£0.008m in 2012/13).

Key management personnel

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

24: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2014 totalled £122.4m (31 March 2013: £114.2m).

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

At 31 March 2014 the unfunded commitment was £118.0m for private equity, and £4.4m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2014.

Surrey and Sussex Probation Board – The Ministry of Justice (MoJ) is planning to merge 35 probation trust pension funds to a single fund hosted within the Local Government Pension Scheme. The MoJ has appointed the Greater Manchester Pension Fund (GMPF) to manage the assets and liabilities of these 35 trusts. Work is currently under way to transfer assets to the GMPF between the 1 October 2014 and 31 March 2015. Hymans Robertson are also acting as actuary to GMPF and the estimated assets to be transferred from the East Sussex Pension Fund are circa £85m at end of March 2014 values.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. These are not sufficient to meet their deficit of approximately £3.6 million.

The Valuation Tribunal Service – a Scheduled Body in the Fund – ceased on 22 November 2011 on the retirement of their last active member. Discussions are on going between the Administering Authority and the Valuation Tribunal Service regarding the payment of the cessation deficit.

25: Contingent assets

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

- 5 guarantees by local authorities participating in the Fund;
- 2 Parent Company Guarantee;
- 2 deposits, equal to the value of the bond required, held by East Sussex County Council.

At 31 March 2014 the Fund has invested £286.8 million in private equity funds managed by Adams Street and Harbourvest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £56.0 million in the infrastructure funds managed by UBS and M&G.

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

26: Impairment losses

During 2013/14 the fund has not recognised any impairment losses.

27: East Sussex Pension Fund – Active Participating Employers

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	18.0%	-	18.5%	-	19.0%	-
East Sussex County Council	19.1%	-	19.3%	424,000	19.3%	1,179,000
East Sussex Fire & Rescue Service	18.4%	-	18.9%	-	19.4%	-
Eastbourne Borough Council	22.2%	-	19.1%	264,000	19.1%	314,000
Hastings Borough Council	21.8%	-	20.6%	144,000	20.6%	194,300
Lewes District Council	20.5%	-	20.5%	46,500	20.5%	97,000
Rother District Council	23.7%	-	19.7%	307,100	19.7%	355,900
University of Brighton	16.7%	-	19.7%	-	19.7%	-
Wealden District Council	17.5%	473,000	18.0%	409,800	18.5%	427,400
Other Scheduled Bodies						
Aurora Academies Trust	18.7%	17,400	19.9%	10,600	19.9%	16,600
Beacon Academy	20.1%	-	20.6%	-	20.7%	4,400
Bexhill Academy	24.4%	-	20.7%	28,800	20.7%	25,300
BHCC Bilingual Primary School	22.0%	-	12.9%	5,400	12.9%	5,300
Brighton Aldridge Community Academy	17.4%	-	17.9%	-	18.4%	-
Cavendish Academy	20.6%	9,800	18.2%	22,300	18.2%	20,200
Eastbourne Academy	18.9%	-	19.4%	-	19.9%	-
Eastbourne Homes Ltd	17.0%	-	17.5%	-	18.0%	-
Gildredge House Free School	22.0%	-	16.6%	7,200	16.6%	6,700
Glyne Academy	23.7%	-	23.4%	-	23.4%	-
Hailsham Academy	20.9%	-	17.3%	23,800	17.3%	20,800
Helenswood Academy	20.7%	-	19.6%	5,960	19.6%	1,040
King Church of England Free School	22.0%	-	13.7%	980	13.7%	960
Ore Village Primary Academy	20.1%	-	16.6%	7,510	16.6%	6,540
Pebsham Academy	20.1%	-	17.2%	4,300	17.2%	3,500
Portslade Aldridge Community Academy	17.8%	-	18.2%	1,100	18.2%	6,600
Ratton Academy	20.1%	-	20.6%	-	21.1%	-
Ringmer Academy	18.3%	-	18.8%	-	19.3%	-
Rye Academy	24.5%	-	20.0%	22,500	20.0%	20,600
Seaford Academy	23.8%	-	21.6%	12,300	21.6%	9,100
Surrey & Sussex Probation Board	20.1%	-	18.1%	62,000	-	-
The Hastings Academies Trust	18.1%	-	18.4%	4,700	18.4%	17,100

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Whitehawk Academy	22.7%	-	21.6%	1,590	21.6%	280
William Parker Academy	20.6%	-	19.6%	5,120	19.6%	-
Town and Parish Councils (pool)						
Battle Town Council	19.6%	-	20.1%	-	20.6%	-
Camber Parish Council	19.6%	-	-	-	-	-
Chailey Parish Council	19.6%	-	20.1%	-	20.6%	-
Chiddingly Parish Council	19.6%	-	20.1%	-	20.6%	-
Conservators of Ashdown Forest	19.6%	-	20.1%	-	20.6%	-
Crowborough Parish Council	19.6%	-	20.1%	-	20.6%	-
Ewhurst Parish Council	19.6%	-	20.1%	-	20.6%	-
Forest Row Parish Council	19.6%	-	20.1%	-	20.6%	-
Hailsham Town Council	19.6%	-	20.1%	-	20.6%	-
Hartfield Parish Council	19.6%	-	20.1%	-	20.6%	-
Heathfield & Waldron Parish Council	19.6%	-	20.1%	-	20.6%	-
Hurst Green Parish Council	19.6%	-	20.1%	-	20.6%	-
Lewes Town Council	19.6%	-	20.1%	-	20.6%	-
Maresfield Parish Council	19.6%	-	20.1%	-	20.6%	-
Newhaven Town Council	19.6%	-	20.1%	-	20.6%	-
Newick Parish Council	19.6%	-	20.1%	-	20.6%	-
Peacehaven Town Council	19.6%	-	20.1%	-	20.6%	-
Pett Parish Council	19.6%	-	-	-	-	-
Polegate Town Council	19.6%	-	20.1%	-	20.6%	-
Ringmer Parish Council	19.6%	-	20.1%	-	20.6%	-
Rye Town Council	19.6%	-	20.1%	-	20.6%	-
Seaford Town Council	19.6%	-	20.1%	-	20.6%	-
Sussex Inshore Fisheries & Conservation Authority	19.6%	-	20.1%	-	20.6%	-
Telscombe Town Council	19.6%	-	20.1%	-	20.6%	-
Uckfield Town Council	19.6%	-	20.1%	-	20.6%	-
Westham Parish Council	19.6%	-	20.1%	-	20.6%	-
Willingdon & Jevington Parish Council	19.6%	-	20.1%	-	20.6%	-
Colleges						
Bexhill College	16.5%	-	17.0%	-	17.5%	-
Brighton, Hove & Sussex Sixth Form College	16.5%	-	17.0%	-	17.5%	-
City College, Brighton	17.8%	-	17.4%	-	17.4%	68,000
Plumpton College	16.5%	-	17.0%	-	17.5%	-
Sussex Coast College	17.0%	-	17.5%	-	18.0%	-
Sussex Downs College	15.5%	-	16.0%	-	16.5%	-
Varndean Sixth Form College	16.5%	-	17.0%	-	17.5%	-
Community Admission Bodies						
Amicus Horizon	17.5%	228,000	17.5%	388,000	17.5%	472,000
Brighton Dome & Festival	24.1%	3,000	31.0%	-	31.0%	-
Care Quality Commission	20.8%	-	21.3%	-	21.8%	-
De La Warr Pavilion Charitable Trust	20.9%	-	25.1%	-	27.0%	1,900
East Sussex Energy, Infrastructure & Development Ltd (ESEID)	22.9%	-	22.1%	-	21.2%	-
Hastings Business Operations Limited (HBOL)	15.8%	-	17.2%	-	18.6%	-
Hove & Portslade CAB	21.5%	-	21.5%	-	21.5%	-
Sussex Archaelogical Society	21.5%	26,328	24.2%	31,400	24.2%	35,600
Sussex County Sports Partnership	15.8%	-	15.8%	-	15.8%	-
Sussex Housing & Care	20.0%	-	20.0%	59,300	20.0%	123,700
University of Sussex	24.0%	136,000	30.9%	169,000	30.9%	198,000
Transferee Admission Bodies						
Amey	26.8%	-	22.9%	-	19.1%	-

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
BHCC - Peyton and Byrne	21.4%	-	21.1%	-	20.9%	-
Curchill - Cavendish	20.9%	-	26.2%	200	26.2%	1,100
Eastbourne Leisure Trust	13.5%	-	20.9%	-	21.2%	11,700
Eden Foodservices (Initial)	22.4%	-	19.3%	-	16.1%	-
ESCC - Care at Home	25.8%	-	21.5%	-	17.3%	-
ESCC – Churchill	18.0%	-	20.7%	-	23.3%	-
ESCC - John O'Conner Ltd	24.4%	-	19.9%	1,600	16.8%	-
ESCC - NSL Limited	24.7%	-	24.3%	-	23.9%	-
European Electronique LTD	21.4%	-	14.5%	14,700	14.5%	24,700
May Gurney Ltd	20.9%	-	22.8%	-	24.7%	-
Mears Ltd	20.6%	-	24.9%	5,200	24.9%	25,400
MyTime Active Ltd	18.0%	-	20.1%	3,400	20.1%	10,900
Wave Leisure Trust Ltd	15.6%	-	18.8%	-	20.9%	13,100
Wealden and Eastbourne Lifeline (WEL)	18.4%	-	-	-	-	-
WDC - ISS Limited	26.4%	-	26.4%	-	26.4%	-
WDC - Kier	25.2%	-	24.8%	-	24.4%	-
WDC - Richardson	22.6%	-	21.8%	-	21.0%	-
WDC - Wealden Leisure	16.8%	1,200	22.1%	17,600	22.1%	111,200
BHCC - Wealden Leisure	16.6%	-	20.1%	-	22.6%	4,000
White Rock Theatre	20.8%	1,848	22.4%	8,500	22.4%	18,600

28: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by the WM Company which measures the performance of the Fund compared with 85 other local authority pension funds. Pension Fund investment is a long term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	**6.1**	**6.8**	**11.9**	**7.6**
Benchmark	**5.9**	**5.9**	**11.9**	**7.5**
Relative	**0.2**	**0.9**	**-**	**0.1**

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	**6.1**	**6.8**	**11.9**	**7.6**
Local Authority Average	**6.4**	**7.5**	**12.7**	**7.8**
Relative	**(0.3)**	**(0.7)**	**(0.8)**	**(0.2)**

The Fund underperformed the average local authority fund over the year by 0.3% (1.1% underperformance 2012/13), ranking the East Sussex Fund in the 59th percentile (74th percentile 2012/13) in the local authority universe. Over three years the fund underperformed by 0.7% (1.0% underperformance 2012/13) and was placed in the 81st percentile (87th percentile 2012/13). Over five years the fund underperformed by 0.8% (0.3% underperformance 2012/13) and was placed in the 77th percentile (54th percentile 2012/13). Over ten years the fund underperformed by 0.2% (0.0% underperformance 2012/13) and was placed in the 52nd percentile (44th percentile 2012/13).

APPENDIX ONE - PENSION FUND POLICY DOCUMENTS

Introduction

The Fund has a number of key strategy and policy documents and these are summarised on the following pages. The full versions of each document are included in the Statement of Investment Principles and published on the Fund's website www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/

Statement of Investment Principles

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment policy for their Fund they must consult with persons they deem appropriate when drawing up their statements. Any material change in investment policy must be included in a revised Statement of Investment Principles (SIP) within six months of the change. The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments. The East Sussex Pension Fund statement was first published in May 2000 and is reviewed annually (updated copies are available on the website).

Compliance with the updated Myners Principles

The original Myners Review in 2001 established ten principles of investment for defined benefit schemes. In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into six new high level principles, providing guidance on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.

The Panel has set out details of the extent which the Fund complies with these six principles set on a 'comply or explain' basis. This compliance statement is included in the Fund's Statement of Investment Principles.

Communications Policy Statement

Under regulations published by the Office of the Deputy Prime Minister in November 2005, each pension fund administering authority is required to prepare and publish a policy statement setting out its approach to communications with its stakeholders.

In addition to explaining our existing communication activities, it describes our performance standards in relation to communications. This Policy is included in the Fund's Statement of Investment Principles.

Governance Policy and Compliance Statement

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement by 1 April 2006, under the LGPS (Amendment) (No. 2) Regulations 2005 which came into force on 14 December 2005.

The statement reflects the current governance position for the Fund and as such has been prepared by the administering authority in consultation with appropriate interested persons. This policy and compliance statement is included in the Fund's Statement of Investment Principles.

Funding Strategy Statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS Is prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 and in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser. The FSS sets out how the Administering Authority has balanced the conflicting aims of:

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

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

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

This statement is included in the Fund's Statement of Investment Principles

SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

The Panel has considered the issues surrounding socially responsible investment and has adopted an 'Active Shareholder Approach' to encourage companies to adopt best ethical and environmental principles without jeopardizing the investment performance of the Fund. When selecting investments for purchase, retention or sale, Fund Managers are able to invest in all companies, subject to their specific restrictions set out in the Fund's Policy Guidelines in order to achieve their performance targets. However they have been encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in all key areas of business. The key areas are:

- Corporate governance
- Employment standards
- Human rights
- Environmental standards

APPENDIX TWO – EXTERNAL AUDITORS REPORT

Independent auditor's report to the members of East Sussex Pension Fund on the pension fund financial statements published with the pension fund annual report

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 14 to 42.

Respective responsibilities of the Chief Finance Officer, Business Services Department and the auditor

As explained more fully in the Statement of the Chief Finance Officer, Business Services Department is responsible for the preparation of the pension fund financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of East Sussex County Council, and their compliance with applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of East Sussex County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Tamas Wood

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

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30 September 2014

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Further information can also be obtained from our website eastsussex.gov.uk or by writing to the Chief Finance Officer at the address left or by email to finance@eastsussex.gov.uk

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