

Essex Pension Fund Board

Annual Report 2011/12

July 2012

1. Introduction

- 1.1 This is the third Annual Report of the Essex Pension Fund Board, covering the period from 1 April 2011 until 31 March 2012.

2. Roles and Functions

- 2.1 The Essex Pension Fund Board was established by the County Council in May 2008 to ensure that the Pension Scheme complied with the best practice principles for governance as required by the amended Local Government Pension Scheme Regulations 1997.

- 2.2 The Board's terms of reference, as approved by the County Council, are as follows:

1. To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund except where they have been specifically delegated by the Council to another Committee or to an officer; this will include the following specific functions:
 2. To monitor and oversee the work of the Investment Steering Committee through its quarterly reports.
 3. To monitor the administration of the Pension Scheme, including the benefit regulations and payment of pensions and their day to day administration including the Internal Disputes Resolution Procedures, and ensure that it delivers the best value and complies with best practice guidance where considered appropriate.
 4. To exercise Pension Fund discretions on behalf of the Administering Authority.
 5. To determine Pension Fund policy in regard to employer admission arrangements.
 6. To determine the Pension Fund's Funding Strategy and approve its Funding Strategy Statement.
 7. To receive periodic actuarial valuation reports from the Actuary.
 8. To co-ordinate Administering Authority responses to consultations by Central Government, professional and other bodies.
 9. To consider any views expressed by employing organisations and staff representatives.

2.3 The Board met four times during the period covered by this report; on 29 June, 28 September and 14 December 2011 and 7 March 2012. The Annual Strategy Day was held on 21 November 2011.

3. Membership

3.1 Further to the implementation of changes agreed last year arising from a review of the Board's effectiveness (and approved by the Council on 10 May 2011), the Board has 14 members. These represent Essex County Council, District, Borough and Unitary Councils in Essex, Essex Police Authority, Essex Fire Authority, Scheme members and Smaller Employing Bodies (ie those which are not already specifically represented on the Board).

3.2 The representative of Smaller Employing Bodies was elected at a ballot of eligible employers attending the Employer Forum on 20 January 2012. Two nominations were received, and the successful candidate was Jenny Moore, School Business Manager at The Billericay School. The Board was pleased to welcome Mrs Moore to her first meeting on 7 March.

3.3 The membership of the Board as at 31 March 2012 was as follows:

Essex County Council (6)

County Councillor Rodney Bass	Chairman
County Councillor John Aldridge	
County Councillor David Finch	Deputy Chairman
County Councillor Norman Hume	
County Councillor Michael Lager	
County Councillor Tom Smith-Hughes	

District/Borough Councils in Essex (2)

District Councillor John Archer	Maldon DC
Borough Councillor Mrs Pamela Challis	Castle Point BC

Unitary Councils in Essex (2)

Borough Councillor Martin Healy	Thurrock Council
Borough Councillor Brian Kelly	Southend-on-Sea BC

Essex Police Authority (1)

County Councillor S M Walsh

Essex Fire Authority (1)

County Councillor E C Johnson

Scheme Members (nominated by UNISON) (1)

Mr Keith Blackburn

Smaller Employing Bodies (1)

Mrs Jenny Moore

3.4 The Board was very sad to learn of the death of Councillor Tom Smith-Hughes in April 2012. He was a longstanding member of the Board and of the Investment Steering Committee who made an extremely valuable contribution to the work of both bodies. He will be greatly missed.

4. Dimensions of the Fund

4.1 Based on the draft accounts, as at 31 March 2012 the value of the Fund's assets was £3.520 billion.

4.2 The total value of pensions paid during 2011/12 was £141m, together with other benefits totalling £39m. The average value of pensions in payment was £4,355.

4.3 The total number of beneficiaries are as follows:

	2011	2012*
Contributors	43,351	42,315
Pensioners/dependents	30,612	32,269
Deferred Members	34,723	38,101
Total	108,686	112,685

*Provisional numbers

Deferred Members are former employees who had chosen not to transfer their pension rights

4.4 The Board exercises on behalf of the Council the management of the Pension Fund whose membership comes from over 400 separate Employing Authorities, including:

- Essex County Council, Unitary, Borough and District Employers
- Incorporated Colleges
- Schools and Academies
- Town and Parish Councils
- Other Scheduled Bodies
- Small Admitted Bodies
- Admitted Bodies
- Admission Bodies

5. Work of the Board

5.1 The following major issues were considered by the Board between 1 April 2011 and 31 March 2012:

Reform of the Local Government Pension Scheme

The Board and the small sub-group established to consider reforms of the Local Government Pension Scheme received a number of reports and updates during the year concerning the proposals and their implications for the Essex Pension Fund.

In responding to consultation, the Board expressed its concern at the administrative costs and complexity associated with certain of the proposals, including the implementation of differential accrual rates. There is also an awareness that implementation of the final reform proposals will represent a considerable ongoing commitment with extensive implications in terms of staffing resources and costs.

A number of risks associated with the possible changes, including a reduction in employee participation (and the consequent impact on the maturity of the Fund), were identified and added to the Fund's Risk Register.

The proposals are still subject to final consultation and the Board will continue to prioritise this issue throughout the coming year.

Independent Review of Pensions Administration

The Board was advised of the outcome of a review of Pensions Administration undertaken by the Independent Governance and Administration Adviser. Members were pleased to note that the findings were largely positive, and that the Review Team had been so impressed by the expertise they had encountered that they would rank the Fund among the top ten across the UK.

A number of improvement areas had been identified and already progressed, and the Board agreed that an action plan should be developed to address these, identifying any associated resource implications.

Interim Review of the Fund as at 31 March 2011

All Local Government Pension Scheme Funds are required to have a full Actuarial Valuation every three years; the next Valuation for Essex is due as at 31 March 2013. In the intervening years between Actuarial Valuations, Funds have the discretion to commission Interim Funding Reviews.

Alongside Actuarial Valuations, Funds are required to produce, consult on and publish a Funding Strategy Statement, the objectives of which include 'to determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible'.

The results of the Interim Review as at 31 March 2011 were reported to the Board and Members were pleased to note that the funding plan was on track, although recent volatility in equity markets had reduced the funding level. Ignoring income from invested assets, the Fund was likely to remain in cashflow for the next 12-13 years (ie until 2023/24), extending until 2038 if cash generated from investment income is included. In the light of this, the Board agreed that no changes should be made to the Funding Strategy Statement

Review of Fund Communications Policy

The Board approved a revised communications policy for the Fund which took account of the key improvements necessary to meet the Fund's communications-related objectives and to implement the findings of the Review of Pensions Administration (referred to above). These included

improved online interactive facilities for Employers and Scheme Members and the development of a clear identity for the Fund.

Administration Strategy

Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008 makes provision for Administering Authorities to publish a written statement setting out their policy concerning administration matters. Although not compulsory, this is considered best practice and the Administering Authority and employing Authorities must then have regard to that strategy when carrying out their duties. The Board approved for consultation with employers and other stakeholders a draft strategy which had been developed to take account of matters previously agreed and current practices.

Review of Additional Voluntary Contributions (AVCs) arrangements

The Board considered the outcome of a review of the Fund's existing AVC provision, carried out by the Fund Actuary. It was noted that the selection of a new AVC provider (in addition to the existing provider) was considered desirable and that further work would now be undertaken to select a suitable company. It was agreed that one criterion for selection should be that the new provider offer data on their performance compared with that of the previous provider to assist Fund Members in reaching a decision whether to transfer. In addition, the Board sought assurance that the commentary in the Fund documentation would make it clear that the Fund would not give advice on, or recommend, any particular AVC provider.

Other Issues

Amongst the other issues considered by the Board have been:

- Reports to each meeting providing an update on Pension Fund activity with regard to the 2011/12 Business Plan, risk management and measurement of progress against objectives (Scorecard). Where necessary as a result of emerging issues, the Board has approved the addition of risks to the Pension Fund's Risk Register. The Board has also recommended changes to performance measures where this will make them more meaningful and transparent.
- Approval of the Treasury Management Strategy for 2011/12 (unchanged from the previous year).
- A report from Internal Audit (Essex County Council) reviewing their previous year's work with regard to the Pension Fund and Pensions Administration and outlining their planned work for the coming year. The Board was pleased to note the positive outcome from all three of the audits undertaken during 2010/11 with the award of Full Assurance in respect of Pensions Investments and Pension Fund Bank Account and Substantial Assurance in respect of Pensions Administration.
- Reports from External Audit regarding the Annual Governance Report for the Essex Pension Fund Accounts and the 2010/11 Programme of

Work and Fees. The Board was pleased that the Audit had been a smooth process resulting in the issue of an unqualified audit opinion and with no important weaknesses identified in the internal control environment.

- Approval of a draft policy for dealing with requests for early payment of deferred pensions, with the proviso that any cases in which discretion has been exercised should be reported to the following meeting of the Board.
- Approval to procure and implement a web-based information storage system for Board members to replace the hard-copy Pension Fund Handbook
- Reports on emerging employer issues with regard to Academies and requests for continuing participation with no active membership.
- Quarterly reports on the work of the Investment Steering Committee.

Member Training

The Board has continued to demonstrate its commitment to training and development, with a view to ensuring that Members are able to fulfil their roles effectively. New members of the Board have received induction training and all members have been strongly encouraged to participate in a range of training courses and events, both internal and external. In addition, for the first time this year (and in order to aid maximum Member availability) the calendar of meetings has included three sessions throughout the year dedicated to training and one day in November for holding the Annual Strategy Day.

Last year the Board agreed to aim for compliance with the CIPFA Knowledge and Skills Framework. Following the development of what had been voluntary frameworks into formal codes of practice the Fund will now be required to state its compliance with the Framework in its 2011/12 Annual Report and Accounts. To assist progress towards compliance, Board members have undertaken individual training needs assessments, the outcomes of which will be used to develop the training plan for 2012/13.

Details of Members' attendance at Essex Pension Fund Board and Investment Steering Committee meetings and training events (internal and external) are recorded throughout the year and presented to the Board at its March meeting. They are also reported on an ongoing basis as part of the Board's assessment of its performance against objectives identified in the Business Plan.

During 2011/12, internal training sessions have covered the following issues:

- Staff Transfers and Employer Issues
- Accounts and Audit Regulations

6. Future Work Programme

- 6.1 The Board maintains a forward plan of its forthcoming work (the Forward Look) which identifies items to be brought before Members over time and programmes tasks for future years. The document is reported to each Board meeting.
- 6.2 In addition to a number of regular standing items, issues to be considered in 2012/13 include:
- Reform of the Local Government Pension Scheme
 - Final approval of the Administration Strategy