

# Essex Pension Fund Board

<b>14:00</b>	<b>Wednesday, 05 March 2014</b>	<b>Committee Room 2, County Hall, Chelmsford, Essex</b>
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**Please note that there will be pre-meeting training on Financial Services Procurement and Relationship Management for all Board Members in Committee Room 2 between 1.15pm and 1.45pm.**

**Quorum: 4**

## **Membership**

Councillor R Bass  
Councillor S Barker  
Councillor K Clempner  
Councillor N Hume  
Councillor N Le Gresley  
Councillor J Whitehouse  
Councillor J Archer  
Councillor Mrs P Challis  
Councillor G Rice  
Councillor A Moring  
Councillor M Danvers  
Mr K Blackburn  
Ms J Moore  
Mr C Garbett

## **Representing**

Essex County Council (Chairman)  
Essex County Council  
Essex County Council  
Essex County Council  
Essex County Council  
Essex County Council  
Maldon District Council  
Castle Point Borough Council  
Thurrock Council  
Southend-on-Sea Borough Council  
Essex Fire Authority  
Scheme Members  
Smaller Employing Bodies  
Essex Police and Crime Commissioner

## **For information about the meeting please ask for:**

Graham Hughes, Committee Officer

**Telephone:** 01245 430935

**Email:** [graham.hughes@essex.gov.uk](mailto:graham.hughes@essex.gov.uk)



**Essex County Council**

## **Essex County Council and Committees Information**

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972.

Most meetings are held at County Hall, Chelmsford, CM1 1LX. A map and directions to County Hall can be found at the following address on the Council's website:  
<http://www.essex.gov.uk/Your-Council/Local-Government-Essex/Pages/Visit-County-Hall.aspx>

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If you have a need for documents in the following formats, large print, Braille, on disk or in alternative languages and easy read please contact the Committee Officer before the meeting takes place. If you have specific access requirements such as access to induction loops, a signer, level access or information in Braille please inform the Committee Officer before the meeting takes place. For any further information contact the Committee Officer.

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Please note that an audio recording may be made of the meeting – at the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

## **Part 1**

(During consideration of these items the meeting is likely to be open to the press and public)

		<b>Pages</b>
<b>1</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>Declarations of Interest</b> To note any declarations of interest to be made by Members	
<b>3</b>	<b>Minutes</b> To approve the draft minutes of the Board meeting held on 9 December 2013 (attached)	<b>5 - 10</b>
<b>4</b>	<b>Funding</b> To consider report EPB/01/14.	<b>11 - 42</b>
<b>5</b>	<b>Local Government Pension Scheme Reform</b> To consider report EPB/02/14	<b>43 - 46</b>
<b>6</b>	<b>Update on Pension Fund Activity</b> A(i) 2013/14 Business Plan A(ii) Three Year Business Plan B Risk Management - Risk Register C Measurement against Fund Objectives  To consider report EPB/03/14	<b>47 - 86</b>
<b>7</b>	<b>Investment Steering Committee - Quarterly Report</b> To consider report EPB/04/14 [to follow]	
<b>8</b>	<b>Employer Forum</b> To consider report EPB/05/14	<b>87 - 90</b>
<b>9</b>	<b>Forward Look</b> To consider report EPB/06/14	<b>91 - 94</b>
<b>10</b>	<b>Date of Next Meeting</b> To note that the next meeting will be held at 2pm on Wednesday 9 July 2014 in Committee Room 2 (preceded by training - timing TBA)	

**11 Urgent Business**

To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

**Exempt Items**

(During consideration of these items the meeting is not likely to be open to the press and public)

To consider whether the press and public should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, Members are asked to decide whether, in all the circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

**12 Employer Analysis**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

**13 National Procurement Frameworks**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

**14 Urgent Exempt Business**

To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency.

**Minutes of a meeting of the Essex Pension Fund Board held at 2.30 pm at County Hall, Chelmsford on 9 December 2013**

Present:

**Member**

**Essex County Council**

Cllr R L Bass (Chairman)  
Cllr S Barker  
Cllr K Clempner  
Cllr N J Hume  
Cllr N Le Gresley  
Cllr J Whitehouse

**District/Borough Councils in Essex**

Cllr J Archer Maldon District Council  
Cllr P Challis Castle Point Borough Council

**Scheme Members**

Mr K Blackburn

The following officers were also present in support:

Annemarie	Allen	Senior Pensions Consultant (Barnett Waddington)
Jody	Evans	Head of Essex Pension Fund
Margaret	Lee	Executive Director for Corporate Services
Kevin	McDonald	Director for Essex Pension Fund
Barry	Mack	Independent Governance and Administration Adviser (Hymans Robertson LLP)
Sara	Maxey	Employer Relationship Manager
Matt	Mott	Communications Manager
Graeme	Muir	Fund Actuary (Barnett Waddingham)
David	Tucker	Employer Liaison Manager
Graham	Hughes	Secretary to the Board

**1. Apologies for Absence**

Apologies for absence were received from Councillors G Rice (Thurrock Council), A Moring (Southend on Sea Borough Council), M Danvers (Essex Fire Authority), Ms J Moore (Smaller Employing Bodies), C Garbett (Essex Police and Crime Commissioner) and A Hallam (Assistant County Solicitor).

**2. Declarations of Interest**

It was acknowledged that all Councillors under the age of 75 were entitled to join the Local Government Pension Scheme and some Board members had done so.

In connection with the discussion on Funding (under minute 4 below) and, in particular, contribution rates for the major tax raising bodies, Councillor J Whitehouse declared an interest as he was a member of Epping Forest District

Council and Councillor K Clempner also declared an interest for this item, and also for the discussion on Harlow Welfare Rights and Advice under minute 6 below, as her husband worked for Harlow Council. No other declarations were made.

### **3. Minutes**

#### **Resolved:**

That the minutes of the Essex Pension Fund Board held on 18 September 2013 be approved as a correct record and signed by the Chairman.

#### **4(i) Funding: Actuarial Valuation**

The Board considered a report (EPB/36/13) from the Director of Essex Pension Fund and the Head of Essex Pension Fund updating the Board on the draft Actuarial Triennial valuation results.

Preliminary results for the major tax raising bodies and colleges and universities had already been disseminated. Other preliminary results would be distributed early in 2014. Five different options for employer contributions and deficit repayment periods had been given to each of the 17 major presenting bodies in light of an increase in funding levels. Members speculated on the advantages to employers of paying down their respective deficits more quickly and the effective discount rate in doing so.

**Resolved:** That the update be noted.

#### **4(ii) Funding: Matters Arising**

The Board considered a joint report (EPB/37/13) from the Director of Essex Pension Fund and the Head of Essex Pension Fund comprising Department of Communities and Local Government (DCLG) guidance on schools converting to academies and the Department for Education guarantee with regard to contribution rates for maintained schools converting to Academies.

**Resolved:** That the report be noted.

#### **4(iii) Funding – Pooling Arrangements for Academies within the Local Government Pension Scheme Consultation**

The Board considered a joint report from the Director of Essex Pension Fund and the Head of Essex Pension Fund, comprising the Fund's response to the recent DCLG consultation on pooling arrangements for Academies within the Local Government Pension Scheme (EPB/38/13). In summary, the response explained the approach taken by the Fund to maintain stability of contributions and did not support the various pooling options suggested.

**Resolved:** That the report be noted.

## 5. Local Government Pension Scheme Reform update

The Board considered a report (EPB/39/13) by the Head of Essex Pension Fund updating the Board on developments regarding potential structural reforms of the Local Government Pension Scheme, required scheme Regulations, and governance arrangements. The anticipated timings for a Ministerial Statement and public consultation were outlined with a Ministerial announcement likely in May 2014. It was noted that, whilst structural reform could pose a risk to how the Essex Pension Fund was run, the Pensions Department needed to continue managing the Fund as if this risk did not exist as otherwise it could lead to a hiatus in activities ultimately impacting the Fund's ability to deliver.

It was highlighted that delays in the publication of the transitional Scheme Administration regulations could adversely impact on the timely implementation of updates to the Fund's current software system, placing a higher reliance on manual calculations. It was highlighted that this would require the diversion of resources from other areas with less priority and impact on certain scorecard measures.

**Resolved:** That the report be noted.

## Governance

6.

### Update on Pension Fund Activity

**A(i) 2013/14 Business Plan**

**A(ii) Draft 3 year business plan**

**B Risk Management**

**C Measurement against Fund Objectives (Scorecard)**

The Board received a joint report (EPB/40/13) by the Director for Essex Pension Fund and Head of Essex Pension Fund, which provided an update on the 2013/14 Business Plan, a draft 3 year business plan, risk management and scorecard recording measurement of progress against objectives.

Key developments in the Business Plan and Risk Register were outlined. No new risks had been added since the last Board meeting. To date, auto-enrolment had not caused a significant drain on resources but it was expected to have a more significant impact during 2014.

With regard to Annex C (Measurement against Fund Objectives), the Board gave consideration to the scorecard, seeking clarification on points of interest and explanations for areas of concern. The following points were highlighted and/or noted:

- Harlow Welfare Rights and Advice (HWRA) had been placed into liquidation. The Actuary was in the process of calculating a final termination liability. In discussions arising from the Employer Analysis project earlier in the year, Harlow District Council had confirmed that it had taken on responsibility for the majority of the HWRA deficit although there would be a remaining residual

liability at risk. It was agreed that a further update would be brought to the next meeting of the Board;

- 92% of contributing employers were submitting timely payments. The majority of late payments were usually paid within days after the deadline had passed. Repeat offenders were chased for payment. Charges for late payment were being considered as part of updating administration arrangements.

**Resolved:**

That the update be **noted**.

**7. Governance Policy and Compliance Statement**

The Board considered a joint report (EPB/41/13) by the Secretary to the Board and the Director for Essex Pension Fund comprising an updated Governance Policy and Compliance Statement.

**Resolved:** That the Board approved the Fund's updated Governance Policy and Compliance Statement as presented subject to (i) Section E: to include commentary relating to the Fund not directly providing re-imbursement of expenses for members of the Board although there may be arrangements for re-imbursement available through nominating employer bodies; and (ii) Section F: to include reference to meetings generally being conducted in public and also to refer to the annual Employer Forum.

**8. Knowledge and skills – Training Strategy**

The Board considered a report by the Independent Governance and Administration Adviser (EPB/42/13) proposing an updated training strategy to meet the Fund's objectives relating to knowledge and skills along with an initial training plan. Targeted training would be provided that was timely and directly relevant to the Board's activities as set out in the Fund's three year business plan and would run as part of a continuous rolling two year programme. Attendance at training events would warrant the award of credits which also would be reported through the scorecard.

The LAPF Strategic Investment Forum, to be held in London on 6 February 2014, was highlighted to the Board.

**Resolved:** That the Board approved the updated training strategy.

**9. Investment Steering Committee (ISC) Quarterly Report**

The Board considered a report (EPB/43/13) by the Director for the Essex Pension Fund which provided an update on the ISC activity since the last Board meeting.

**Resolved:**



That the report be noted.

#### **10. Dates of Future Meetings**

The Board considered a report (EPB/44/13) proposing a schedule of meetings for the municipal year 2014/15.

##### **Resolved:**

That the report be noted and approved.

#### **11. Forward Look**

The Board considered a report (EPB/45/13) by the Secretary to the Board which presented a Forward Look detailing the Board's future business.

##### **Resolved:**

That the report be noted and approved.

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

The next Board meeting would be held at 2pm on 5 March 2014 preceded by a Member training session (timing to be confirmed).

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

##### **Resolved:**

That, having reached the view that, in each case, the public interest in maintaining the exemption (and discussing the matter in private) outweighed the public interest in disclosing the information, the public (including the press) be excluded from the meeting during consideration of the following item of business on the grounds that they involved the likely disclosure of exempt information as specified in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

#### **14. National Procurement Frameworks**

(Exempt under paragraph 3 – information relating to the financial or business affairs of any particular person)

The Board considered a report (EPB/46/13) on the recommended procurement for the supply, implementation and development of new Pension Administration software.

##### **Resolved:**

The Board agreed that the resolutions be approved in full, in accordance with the recommendations set out in section 2 of the report:

There being no further business, the meeting closed at 3.50 pm.

Chairman  
5 March 2014

<b>Essex Pension Fund Board</b>	<b>EPB/01/14</b>
<b>date: 5 March 2014</b>	

## **Funding Strategy Statement and March 2013 Actuarial Valuation Progress**

Report by Director of Essex Pension Fund

Enquiries to Kevin McDonald on 01245 431301 and Annemarie Allen on 01245 431306

### **1. Purpose of the Report**

- 1.1 To update Members of the Essex Pension Fund Board on the progress of the 2013 actuarial valuation.
- 1.2 To report on the recent consultation exercise on the draft Funding Strategy Statement (FSS) and to submit the updated FSS for approval.

### **2. Recommendations**

- 2.1 That the report be noted.
- 2.2 That the updated FSS be approved for final publication.

### **3. Background**

- 3.1 At its last meeting on 9 December the Essex Pension Fund Board (the Board) received a report on the progress of the 2013 actuarial valuation of the Fund.
- 3.2 In accordance with the Local Government Pension Scheme (LGPS) Regulations, the valuation must be completed by 31 March 2014 and a valuation report and rates and adjustment certificate issued by that date. The certificate details the revised employer contribution rates for each employer for the period 1 April 2014 to 31 March 2017.
- 3.3 Essex County Council, as administering authority of the Essex Pension Fund (the Fund), is also required under the LGPS Regulations to prepare and publish a FSS and to keep the statement under review. It is appropriate, to do so alongside the valuation of the Fund.
- 3.4 The draft FSS provides detail with regard to the setting of the employer contribution rates emerging from the results of the valuation.
- 3.5 A revised draft FSS was approved by the Board at their meeting of 18 September for consultation with the participating employers and other interested parties.
- 3.6 The draft FSS has, accordingly, been provided to participating employers, with the exception of academies, alongside their draft valuation results and the consultation has now concluded.
- 3.7 A separate consultation will be held with academies in due course.

### **4. Progress of the 31 March 2013 Actuarial Valuation**

- 4.1 As reported at the last Board meeting, as at that date detailed valuation results and options for the payments of contributions in line with the provisions of the draft FSS had been issued to the major tax raising bodies and to colleges & universities.
- 4.2 Since that date, the process has continued and with the exception of the academies, the remaining employers, comprising in the main Community Admission Bodies, Transferee Admission Bodies and Town & Parish Councils, have been issued with their results.
- 4.3 In keeping with that reported to Board in December 2013, funding positions in respect of these employers have generally improved since the 2010 triennial fund valuation and deficit recovery periods have generally reduced. The distribution of the overall deficit follows a broadly similar pattern to that seen in 2010. Some employers, principally Transferee Admission Bodies (TABs) that have joined the fund in recent years have modest surpluses.
- 4.4 Academies are discussed further in section 5 below.

- 4.5 All other employers have received email communication of the results of the valuation. This has been supplemented with:
- specific forums for major tax raising bodies and further & higher education establishments;
  - meetings with individual employers
  - conference calls
  - email correspondence and telephone calls
- 4.6 Employers have been selecting their preferred option for payment of the employer deficit contributions over the forthcoming three year period. The rates concluded with the tax raising bodies will be presented at the Board meeting.
- 4.7 The Fund Actuary will issue the valuation report and rates and adjustment certificate alongside the final version of the FSS by 31 March 2014. This will conclude the 2013 actuarial valuation process in compliance with statutory requirements.

## **5. Funding Strategy Statement consultation response and finalisation**

- 5.1 Alongside the detailed valuation results, each employer has also received a copy of the draft FSS.
- 5.2 Few responses have been received to the consultation and with the exception of one query from an employer as a result of a typographical error, all have been positive and consultees have not identified the need for further changes.
- 5.3 Based on the results issued, the response to the consultation and dialogue with employers, it can be concluded that the draft FSS worked well in practice, with officers identifying a few minor drafting errors and some revisions to wording to enhance clarity.
- 5.4 One key issue has, however, arisen in respect of the academy employers. It has become apparent that the Department of Communities and Local Government (DCLG) consultation on the potential pooling of academies which was reported to Board in December, would not be concluded in time for the finalisation of the valuation results within statutory timescales. This delay was included within the issues raised by Cllr Bass in his letter to Local Government Minister, Brandon Lewis M.P.
- 5.5 Following discussion with civil servants at DCLG, the Fund Actuary, Jenny Moore the Smaller Employer Pension Fund Board representative, and the Pension Fund Board Chairman, Councillor Bass, it has been agreed that pending further clarity on the outcome of the academy pooling consultation that the academies will continue to pay their 2013/2014 employer contribution rate through 2014/2015. A further consultation will take place with academies in due course and appropriate employer contribution rates for 2015/2016 and 2016/2017 set.

- 5.6 Finally, detailed valuation assumption information for inclusion in the FSS has been received from the Fund Actuary.
- 5.7 An updated version of the draft FSS, incorporating the changes and issues detailed above is attached at Annex A for Members' consideration and approval. Changes made since the previous version submitted to the Board on 18 September 2013 have been highlighted in red.
- 5.8 The FSS should be completed and approved by the Board prior to completion of the actuarial valuation by 31 March 2014.

## **6. Link to Essex Pension Fund Objectives**

- 6.1 Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the Funding Strategy Statement
- 6.2 To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible
- 6.3 To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives

## **7. Risk Implications**

- 7.1 The risk implications of setting the funding strategy are set out in the draft FSS.
- 7.2 Revision of the FSS to incorporate management information emerging from the employer analysis and engagement work carried out in preparation for the valuation will reduce the risk of an inappropriate funding strategy being in place, and of the setting of inappropriate employer contribution rates and irrecoverable deficits.
- 7.3 The Pension Fund Score Card also contains measures which relate directly to the funding strategy and are reported to each Board

## **8. Communication Implications**

- 8.1 The final valuation report, rates and adjustment certificate and FSS must be issued to the Secretary of State for Communities and Local Government and to each participating employer by 31 March 2014.
- 8.2 The admission and bulk transfer policies will be revised to reflect the revised funding strategy.
- 8.3 Further dialogue will take place with academies.

## **9. Finance and Resources Implications**

- 9.1 It is a requirement to complete the triennial valuation and to keep the FSS under review. Resources are planned accordingly.
- 9.2 There will be financial implications for the Fund and its participating employers emerging from the 2013 actuarial valuation and from changes made to the FSS, as a result of the new employer contribution rate and payment patterns agreed with individual employers. These are effective from 1 April 2014.
- 9.3 Employer engagement throughout the processes of the valuation and revision of the FSS should assist participating employers to better manage and understand their financial responsibilities to the Fund.

## **10. Background Papers**

- 10.1 18 September 2013 Pension Fund Board Report EPB/28/13 (FSS)
- 10.2 9 December 2013 Pension Fund Board Report EPB/36/13 (Valuation progress)
- 10.3 9 December 2013 Pension Fund Board Report EPB/38/13 (Academy pooling consultation)

**Appendix A – Updated Funding Strategy Statement**



## Essex County Council Pension Fund

### Funding Strategy Statement

*This Statement has been prepared by Essex County Council (the Administering Authority) to set out the funding strategy for the Essex County Council Pension Fund (the Fund), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 and reissued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.*

#### 1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (“the Administration Regulations”) replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:-
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- The FSS must be revised and published whenever there is a material change in the policy on the matters set out in either the FSS or the SIP.

Benefits payable under the Local Government Pension Scheme (the Scheme) are guaranteed by statute and therefore the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (“the BMC Regulations”). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the Actuary appointed by the Fund, including a rates and adjustments certificate. Contributions to the Fund should be set so as to “secure its solvency”, whilst the Actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The Actuary must have regard to the FSS in carrying out the valuation.

## **2. Purpose of the FSS in policy terms**

Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Actuary.

The purpose of this FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

## **3. Funding Objectives and purpose of the Fund**

The funding objectives of the Fund are:

- Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the Funding Strategy Statement
- To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible
- To have consistency between the investment strategy and funding strategy
- To manage employers' liabilities effectively, having due

consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives

- Maintain liquidity in order to meet projected net cash-flow outgoings
- Minimise unrecoverable debt on termination of employer participation

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), and, subject to forthcoming legislation, with effect from 1<sup>st</sup> April 2014 as defined in the LGPS 2014 Regulations.

#### **4. Responsibilities of the key parties**

Although a number of parties, including investment fund managers, investment advisers and external auditors, have responsibilities to the Fund, the key parties for the strategy are seen as the Administering Authority, each individual employer and the Fund Actuary.

The Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund Actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP when necessary.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- pay over all contributions, including their own as determined by the Fund Actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain; and
- notify the Administering Authority promptly of all changes to membership or, other changes proposed, which affect future funding.

The Fund Actuary should:

- prepare valuations, including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

## **5. Solvency issues and target funding levels**

To meet the requirements of the Administration Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay. The actuarial assumptions to be used in the calculation of the funding target are set out in the Appendix.

The key assumptions making up the funding strategy and as adopted for the 2013 actuarial valuation are that:

- our long-term aim is to achieve 100% funding of pension liabilities;
- the Scheme is expected to continue for the foreseeable future;
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term;
- we wish to minimise fluctuations in employers' contributions in order to assist them with their financial planning and to meet their financial responsibilities to the Fund;

- the Fund is still relatively immature in terms of its membership profile and we can therefore take advantage of that fact in setting our investment strategy;
- we have a large number of employing bodies with different characteristics including size and strength of covenant.

The effective date of the current actuarial valuation of the Fund is 31 March 2013. The preliminary results of the valuation indicate that overall the assets of the Fund represented 80% of projected accrued liabilities at the valuation date.

The Administering Authority after due consideration of all of the information available to it including consultation with the Fund Actuary and other interested parties, has adopted the following objectives to achieve the funding target:

- we will set employers' contribution rates to achieve 100% funding of liabilities in the long term;
- employer contribution rates will be made up of two separate elements:
  - an ongoing rate, as a percentage of pensionable pay, to meet the costs of future service (payable no later than the 19<sup>th</sup> day of the month following the month of relevant payroll run); and
  - a deficit recovery contribution, expressed in most instances as a cash sum, to recover any shortfall revealed by the actuarial valuation (payable as detailed in this Funding Strategy Statement);
- we will for the purpose of our administration, the calculation of contribution rates and for the setting of maximum deficit recovery periods, continue to deal with town and parish councils (T&PC) as a group. We will consider a cessation valuation policy for group employers. This will be subject to a separate consultation
  - we will set deficit recovery periods for the T&PC that as far as possible are likely to reduce the level of deficit during the inter-valuation period if all of the Actuary's assumptions prove correct.
- schools, including former grant maintained schools (but excluding Academies), will be treated as part of the local authority within whose area of responsibility they fall for the purpose of setting contribution rates and deficit recovery periods; any discretions in respect of these matters will fall to the local authority;
- schools that opt to become Academies become stand-alone employers in their own right but inherit responsibility for the share of scheme deficit attributable to the former school(s) from which they were formed and that

share of scheme deficit will then be taken into account in calculating their separate contribution rate taking account of the Department of Communities and Local Government (DCLG) guidance on ~~recovery periods~~ setting academies' contribution rates.

- for 2014/2015, pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/2014 employer contribution rate. A separate exercise will be undertaken with academies in due course to set appropriate contribution rates for 2015/2016 and 2016/2017. Where necessary, stability mechanisms described in this Statement may be used in the transition to the appropriate contribution rates.
- we will set objective and maximum deficit recovery periods for the remaining employers
  - the agreed deficit recovery periods will be set at levels that safeguard the interests of the Fund by having regard to the Fund's judgement of the strength of covenant and the financial stability of individual employers;
  - individual employers will, at the discretion of the Fund, be able to increase their deficit recovery period up to the maximum deficit recovery period subject to providing assurance of greater strength of covenant and financial stability. (e.g. guarantor employer consent, provision of a bond, a deposit, a parent company guarantee or other surety);
  - where a deficit recovery period greater than that of "average future working life" was applied at the 2010 valuation, the starting point for the deficit recovery period to be applied at the 2013 valuation is three years less than that previously applied. The Fund may, at its discretion, allow this three year period to be reapplied.

*While a deficit exists, annual ~~deficit~~ contributions will not generally be reduced. This may result in a shorter deficit recovery period than the Objective*



## Objective and maximum deficit recovery periods for active employers (i.e. those employers with active members)

Category	Employer	Example	Objective	Draft Maximum
A	Scheduled - major tax raising bodies	District Council, Fire Authority	2010 deficit recovery period less three years	30 years
B	<del>Scheduled - Academies</del>	Academies	<del>2010 deficit recovery period less three years or deficit recovery period at post 2010 commencement</del>	<del>Recovery period of Essex CC/Southend BC/Thurrock Council, as appropriate, according to the location of the Academy.</del>
B	Scheduled - Academies	Academies	Pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/2014 employer contribution rates in 2014/2015. A separate exercise will be undertaken with academies to set contribution rates for 2015/16 and 2016/17.	
C	Scheduled - other	Further & Higher education corporations	2010 deficit recovery period less three years	27 years
D	Resolution	Town / Parish Councils	2010 deficit recovery period less three years	30 years
E	Transferee admission	Contractor	contract length or average remaining working life of employer's staff in LGPS, if shorter	contract length or average remaining working life of employer's staff in LGPS, if shorter
F	Community admission . 1	Voluntary, not for profit, charities, housing associations	average remaining working life of employer's staff in LGPS	average remaining working life of employer's staff in LGPS
G	Community admission . 2	Employer providing evidence of financial security to the satisfaction of the Essex Pension Fund	average remaining working life of employer's staff in LGPS	20 years

1. The draft maximum deficit recovery periods are designed, where appropriate, to stabilise the amount of deficit contributions payable. It is not designed to allow for a reduction in contributions.

2. In addition, mitigations may be adopted to allow for affordability and stability of contributions as well as for transition to revised policies. These may include the stepped introduction of revised contribution rates.

3. The provision of financial security for Category G employers could include the agreement and provision of a guarantee by a Category A employer.

4. While a deficit exists, annual ~~deficit~~ contributions will not generally be reduced. This may result in a shorter deficit recovery period than the Objective.

5. Contributions generally will not be reduced below the future service rate.

6. Contributions are subject to the certification of the Fund Actuary.

- The **Town & Parish Council** employers' contributions will be phased over the 3 year period 2014/15 to 2016/17. ~~if necessary~~
- The 2014/15, 2015/16 and 2016/17 deficit amounts certified for each employer will reflect one of the following:



- i. the actuarially assessed value of the annual deficit paid in twelve equal instalments monthly in arrears with each payment being due by the 19th day of the following month; or
  - ii. the actuarially assessed value of the annual deficit paid in one lump sum payment prior to 30 April of the specified year; or
  - iii. the actuarially assessed value of i) or ii) for all three years paid in 36 or 3, respectively, equal instalments; or.
  - iv. the actuarially assessed value of paying the deficit for ~~two or~~ three years in one lump sum payment prior to 30 April ~~2014 of the specified year.~~
- Individual employers retain the freedom to
  - make a lump sum payment prior to 1 April 2014, following agreement with the administering authority. The annual deficit amounts certified for financial years 2014/15, 2015/16 and 2016/17 will reflect the actuarially assessed value of making this payment, **either utilising the payment over the three years or over the deficit recovery period;**
  - decide to repay their share of the deficit over a shorter period should they so choose;
  - **make additional payments to the Fund over and above the minimum employer contribution rates certified.**

In determining the deficit recovery period(s) the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles;
  - the need to balance a desire to attain the target as soon as possible against the major increases in the level of employers' contributions which a shorter period would require; and
  - the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.
- Reductions to the ongoing contribution rate (future service rate) may be stepped.
- Where an employer augments scheme benefits, immediate payment of the augmentation cost will be required to be made to the Fund;

- Where an employer allows an early retirement, for any reason other than ill health, that produces a strain cost, payment of the strain cost may be met either in the form of an immediate lump sum to the Fund, or by payment over three years to the Fund including interest;
- Levels of ill health will be monitored and will normally be reflected in assumptions at triennial valuations or sooner if deemed necessary
- Employers who are able to and have closed the Scheme to new members, or have had no new members in the previous two years to 31 March 2013, will have their employer contribution rate assessed on a closed basis at the triennial valuation.
- Where an employer is able to and closes the Scheme to new members, between valuations, the employer contribution rate may be reassessed on a closed basis and a revised certificate issued.
- In preparation for the cessation of an employer's participation in the Scheme:
  - The future service rate and deficit recovery contribution may be reviewed by the Fund Actuary and amended if required.
  - All community admission bodies will be allowed flexibility to elect to adopt a funding approach prior to termination in line with the "least risk" exit debt basis, if that is their preference.
  - In certain circumstances, subject to satisfactory surety, a formal plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer to manage payment of deficit up to and beyond the termination date.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer would be due to the Scheme as a termination contribution, unless it was agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer would be transferred within the Scheme to another participating employer. The basis of the termination valuation will be determined in consultation with the Fund Actuary.
  - In certain circumstances, subject to satisfactory surety, a formal payment plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer.
- All transferee admission bodies (i.e. "best value" contractors delivering services to scheme employers) will be accepted for admission into the Fund so long as all the necessary regulatory requirements for admission are satisfied, including those covering the assessment of the requirement for and provision of security to the satisfaction of the administering authority.

- In the case of a transferee admission body, or any participating employer acting as guarantor in the case of non-transferee admission bodies, implementation of an alternative funding basis or approach (including on termination) will be subject to agreement from the relevant guarantor body/scheme employer. Any special funding arrangements between the scheme employer and transferee admission body should be covered by the commercial arrangements, i.e. outside the Fund and not part of the admission agreement.
- Community admission bodies will be accepted for participation in the Fund, or otherwise, on a case by case consideration of the merits of admission and the associated risks to the Fund. In accordance, with regulatory requirements, a bond, indemnity, guarantee will be required for all community admission body cases, to the satisfaction of the administering authority.
  - For community admission bodies the Fund will consider application of special conditions or requirements as deemed appropriate.
- In the case where a contractor wishes to offer a broadly comparable scheme, rather than apply to become an admitted body of the Fund, standardised bulk transfer terms will be offered via the Actuary's Letter. The letter will be structured so as to target an asset transfer to the contractor's Broadly Comparable scheme such that it is equivalent to 100% of the past service liabilities reserved for by the Fund in respect of the transferring members' accrued service as at the date of transfer. The Fund will only agree to any variations in the standard in exceptional circumstances and with the prior agreement of the transferring scheme employer.

## **6. Link to investment policy**

Funding and investment strategy are inextricably linked. The Investment Steering Committee (ISC) has been delegated with responsibility for investment strategy. The key investment objectives are *"to ensure the investment strategy is consistent with the funding objectives"* and *"to maximise investment returns within reasonable risk parameters"*. The ISC determines investment strategy after taking professional advice.

### **Investment Strategy**

The investment strategy is set out in the Fund's Statement of Investment Principles. This is available from [www.essexpensionfund.org.uk](http://www.essexpensionfund.org.uk).

In setting the investment strategy the ISC takes account of both the current funding level and the relative maturity profile of the Fund (the relative proportion of liabilities in respect of active, deferred and pensioner members). The asset allocation determined by the ISC sets the proportion of assets to be invested in equities, bonds and alternative assets. The resulting structure reflects the ISC's views on the appropriate balance between maximising the long term return on investments and minimising risk. The strategy is set for the long term, but reviewed regularly

The Fund's current investment strategy is as follows.

Equities			Bonds			Alternatives		
	Manager	Target %		Manager	Target %		Manager	Target %
UK	LGIM	6.0	Index-linked gilts	LGIM	2.5	Property	Aviva	12.0
Regional	LGIM	18.0	Active Cash plus	GSAM	5.5	Private equity	Hamilton Lane	4.0
Global	Marathon	35.0		M&G	5.5	Infrastructure	M&G	6.0
	M&G		-	-	-		Partners Group	
	Longview		-	-	-	Timber	Stafford	2.0
	Baillie Gifford		-	-	-	Loans	M&G	0.5
	RAFI		-	-	-	-	-	-
Emerging	First State	5.0	-	-	-	-	-	-
<b>Total</b>		<b>62.0</b>	<b>Total</b>		<b>13.5</b>	<b>Total</b>		<b>24.5</b>

In spring 2013, the Fund's investment consultants, Hymans Robertson undertook an assessment of the investment return expectations of the Fund's investment strategy. This concluded that the current central return expectation was 6.1% per annum.

## Asset Split

The Fund does not account for each employer's assets separately. The Fund's Actuary is required to apportion the assets of the Fund between the employers at each valuation.

## Consistency with Funding Basis

In the opinion of the Actuary, the current funding policy is consistent with the both investment strategy of the Fund, and the requirement to take a "prudent longer term view" of the funding of liabilities.

As at 31 March 2013 the discount rate used, in order to calculate the current value of future pension benefits payable is 5.8%.

## 7. Identification of risks and counter-measures

Awareness of the risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks.

The funding of defined benefits is by its nature uncertain. The funding strategy is

based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial valuation and beyond. This may require a subsequent contribution adjustment to bring the funding back into line with the target.

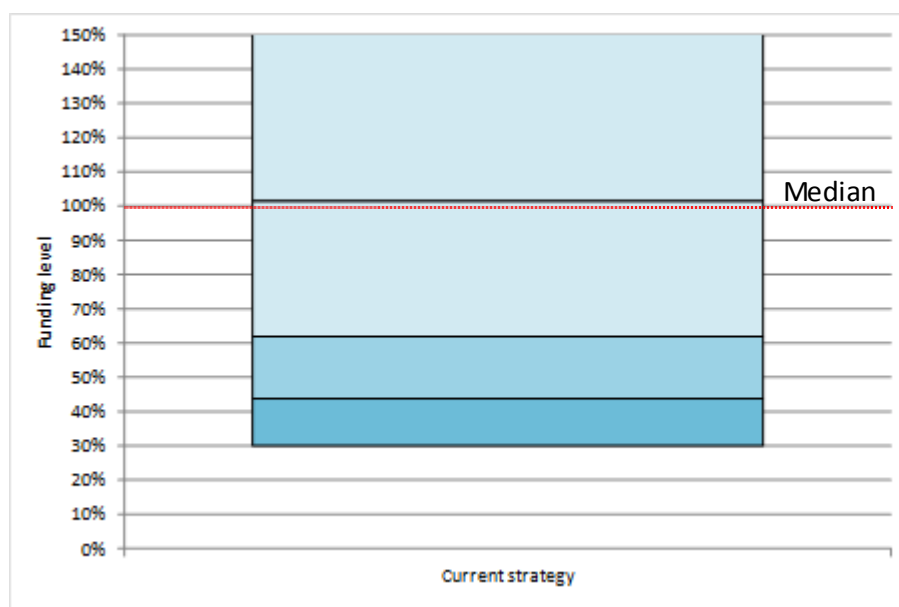
~~The chart below shows a “funnel of doubt” funding level graph (to be inserted), which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 40 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).~~

~~Insert “funnel of outcomes” chart~~

## Impact of investment strategy

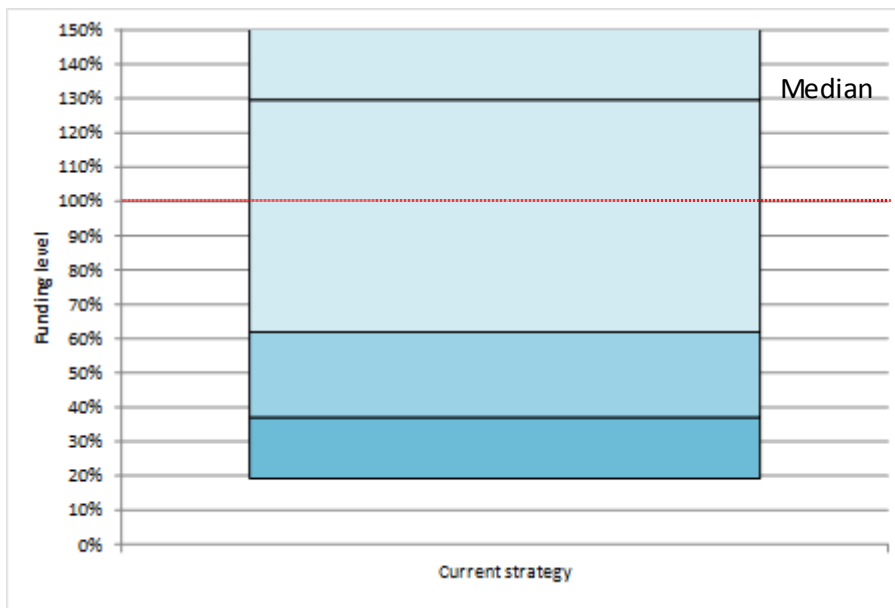
Charts A and B below show the projected range of outcomes for the funding level in 2025 and 2034 assuming that the current investment strategy remains in place for the full period (62% equities, 24.5% in alternatives and 13.5% in bonds). These are effectively slices across the funnel of outcomes at years 2025 and 2034, with the median line shown. We also mark the 100% funded line, which is the objective we are aiming to achieve.

**Chart A: 2025 projection of current investment strategy**



- In the 2025 projection, the median projection (the centre line of the lighter blue area) corresponds broadly to a 100% funding level. Therefore there is a 50/50 chance of being fully funded on the gilts + 1.5% p.a. basis by then.

**Chart B: 2034 projection of current investment strategy**



- In the 2034 projection, the median line is well above the 100% funded position on the gilts + 1.5% p.a. basis at that date. Therefore there is a significantly better than 50/50 chance of achieving the funding target with the current investment strategy and proposed contributions by the end of the recovery period. The actual probability of achieving the funding objective by the end of 21 year projection period is c.61%.

The Administering Authority has itself undertaken an exercise to identify those risks that are specific to the Fund and the measures to be taken to counter those risks.

The resultant risk assessment is attached to this FSS as Schedule A.

## **8. Monitoring and Review**

In preparing this statement, the Administering Authority and the Essex Pension Fund Board has taken advice from Barnett Waddingham, the Fund Actuary, and has also consulted with its institutional investment advisers Hymans Robertson, and its independent investment adviser Keith Neale.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions and/or deviation in the progress of the funding strategy;
- if there have been significant changes to Fund membership, or LGPS benefits;
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy; and
- if there have been any significant special contributions paid into the Fund.

**Essex County Council Pension Fund**

**Funding Strategy Risk Analysis**



Essex Pension Fund Risk Register										
Risk Area:	Essex Pension Fund	Date:	12/02/2014							
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
<b>Funding Risks</b>										
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	4	2	8	Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. At each triennial valuation assess funding position and progress made to full funding. Full annual interim reviews to enable consideration of the position. A specific scorecard measure is in place on this matter.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	4	3	12	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.	3	3	9
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and increases required in employers' contributions	3	3	9	Diversified investment structure and frequent monitoring against targets with potential for a change of managers where considered appropriate.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F4	Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	3	3	9	Monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions	3	3	9	Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F6	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant	4	3	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4



Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 12/02/2014								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
<b>Funding Risks</b>										
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	4	3	12	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	3	2	6
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F8	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	3	2	6	At each triennial actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in the short and long term.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F9	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	3	3	9	Risk profile analysis performed with a view on the strength of individual employer's covenant being formed when setting terms of admission agreement (including bonds) and in setting term of deficit recovery whilst attempting to keep employers' contributions as stable and affordable as possible. Pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F10	Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cash flow requirements.	4	2	8	Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	3	1	3
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F11	Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions	3	2	6	Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	3	1	3



Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 12/02/2014								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
<b>Funding Risks</b>										
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F12	Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase	3	3	9	Ensure that employers are reminded of their responsibilities, monitor and send reminders of employers responsibilities re this where appropriate, investigate the adoption of an administration strategy to clarify employer responsibilities. Employer analysis work and officer dialogue with employers concerned (including guarantors as appropriate)	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F13	Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)	3	3	9	At each triennial valuation pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F14	Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer	3	4	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F15	Failure to ensure appropriate transfer is paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.	2	3	6	Follow the standardised approach to bulk transfers of liabilities as part of admission policy framework, complying with any statutory requirements and protecting the interests of the Fund's employers by measuring the solvency of the Fund and relevant employers before and after transfer.	2	1	2
Funding	To have consistency between the investment strategy and funding strategy	F16	Over or under cautious determination of employer funding requirements due to inconsistent approach or failing to recognise the impact of the investment strategy on funding	3	3	9	Measurement will look at expected return projections vs actuarial assumptions in order to test the continued appropriateness and consistency between the funding and investment strategy.	2	2	4
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F17	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements	2	1	2



Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 12/02/2014								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
<b>Funding Risks</b>										
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F18	Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.	2	1	2
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	4	3	12	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible	3	2	6
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	4	3	12	Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible	3	2	6
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F21	Employee participation in the Essex LGPS reduces (possibly in response to changes in contribution rate / benefit structure or changes in patterns of service delivery)	4	3	12	Communications with both Employers and Employees over the benefits of the LGPS, both before and after any structural change. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.	3	2	6

## Detailed assumptions used in calculating the funding target

Financial Assumptions	2013 % per annum
Discount Rate	5.8%
Retail Price Inflation (RPI)	3.5%
Consumer Price Inflation (CPI)	2.7%
Pension and Deferred Pension Increases	2.7%
Short Term Pay Increases	In line with the CPI assumption for the 2 years to 31 March 2015
Long Term Pay Increases	4.5%

Statistical Assumptions	2013
Post retirement mortality:	
Current mortality	S1PA tables
Mortality Projection	2012 CMI Model with a long term rate of improvement of 1.5% per annum
Retirement Ages	Each member retires at their weighted average "tranche retirement age", i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits
	If the member is over this retirement age, then it is assumed they will retire at their oldest tranche retirement age. If over the oldest tranche retirement age, the member is assumed to have a 1/3 chance of retiring in each of the next 3 years, and it is assumed all members will be retired by age 75.
Proportion Married	There is an 80%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits
Partner Age Difference	Males are 3 years older than their spouse and Females are 3 years younger than their spouse
Ill-health tiers	50% of ill-health retirements will be eligible for benefits based on full prospective service and 50% will qualify for a service enhancement of 25% of prospective service



Statistical Assumptions		2013
Commutation	It is assumed that members at retirement will commute pension to provide a lump sum of 60% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum of £1 of pension	
50/50 Scheme Allowance	It is assumed that 10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme	
Other Statistical assumptions	Same as used by Government Actuary's Department when LGPS reforms were designed and based on analysis of incidence of death, retirement and withdrawal for Local Authority Funds	
	Sample rates shown below	

Incidence per 1000 active members per annum								
Age	Death		Ill Health retirement		Withdrawal		Salary Scales	
	Males	Females	Males	Females	Males	Females	Males	Females
25	0.1	0.1	0.1	0.1	122.0	144.5	100	100
30	0.2	0.1	0.2	0.1	104.4	122.4	102	101
35	0.3	0.2	0.3	0.3	89.4	103.6	111	105
40	0.5	0.3	0.6	0.5	76.5	87.7	117	108
45	0.8	0.5	1.1	0.8	65.5	74.3	121	110
50	1.3	0.8	2.2	1.6	56.0	62.9	124	110
55	2.1	1.3	4.1	2.9	48.0	53.3	127	110
60	3.4	2.0	7.8	5.3	41.0	45.1	127	110
65	5.4	3.0	14.8	9.8	35.1	38.2	127	110



<b>Essex Pension Fund Board</b>	<b>EPB/02/14</b>
<b>date: 5 March 2014</b>	

## **Local Government Pension Scheme (LGPS) Reform**

Report by the Director for Essex Pension Fund and Head of Essex Pension Fund

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Enquiries to Kevin McDonald 01245 431301, Ext: 21301 and Jody Evans 01245 431700, Ext 21700

### **1. Purpose of the Report**

To update the Board on developments regarding:

- 1.1 potential structural reforms of the Local Government Pension Scheme;
- 1.2 required scheme Regulations; and
- 1.3 governance arrangements

### **2. Recommendations**

It is recommended that the Board note:

- 2.1 the report
- 2.2 the letter (attached) written by Cllr Bass, Chairman of the Essex Pension Board to Local Government Minister Brandon Lewis M.P.

### **3. Potential Structural Reform**

- 3.1 A consultation on potential options for the future structure of the LGPS is expected to commence at some stage in either the first quarter or first half of 2014.
- 3.2 A verbal update will be given at the meeting.

### **4. Required Scheme Administration Regulations**

- 4.1 At the time of writing the transitional regulations are still outstanding. This continued delay has resulted in an increased residual score (from amber to red) of risk A1 which covers the delivery of a high quality service to beneficiaries, potential beneficiaries and employers.
- 4.2 Whilst officers are making the necessary contingency arrangements, this delay does affect the timely implementation of updates to the current software system, which in turn will place a high level of reliance on manual calculations. This requires the diversion of resources from other areas with less priority. It will impact scorecard measures principally within section 4.1 (the delivery of a high quality service).

### **5. New Governance Regulations**

- 5.1 Following on from the last Board meeting, Board members attended a training session on Governance on 22 January 2014. This session covered the Pension Regulator's consultation on its draft Codes of Practice and Regulatory Strategy under the requirements of the Public Service Pensions Act 2013.
- 5.2 It was noted that whilst draft Governance regulations for the LGPS were expected by March/April 2014 the Fund's key requirement was sufficient clarity in time to plan and implement the necessary arrangements.

### **6. Letter to the Minister for Local Government**

- 6.1 As a consequence of concerns arising from delays in the transitional regulations, potential delays in clarity surrounding new governance requirements and also uncertainty surrounding intentions of the pooling of Academies, Cllr Bass, Chairman of the Essex Pension Fund wrote to Local Government Minister Brandon Lewis M.P. at the start of February 2014. A copy of the letter is attached to this report.

### **7. Link to Essex Pension Fund Objectives**

7.1 Maintaining awareness of current issues with regard to LGPS reform will assist the Board in achieving the following Fund objectives:

- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- To ensure the Fund is properly managed

## **8. Risk Implications**

8.1 Failure to maintain an awareness of current issues with regard to LGPS reform and respond to consultations would mean that the Fund's views were not taken into account when changes are proposed.

8.2 Failure to administer scheme in line with Regulations.

## **9. Communication Implications**

9.1 When consultations on structural reform and revised governance requirements commence, responses will be produced for the Board to consider.

## **10. Finance and Resources Implications**

None

## **11. Background Papers**

11.1 Fund response to new governance arrangements discussion paper 2 September 2013

11.2 Fund response to the Call for Evidence, September 2013



<b>Essex Pension Fund Board</b>	<b>EPB/03/14</b>
<b>Date: 5 March 2014</b>	

## **Update on Pension Fund Activity**

Joint Report by the Director for Essex Pension Fund & Head of Essex Pension Fund  
 Enquiries to Kevin McDonald on 01245 431301 and Jody Evans on 01245 431700

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### **1. Purpose of the Report**

1.1 To provide the Board with an update on the following:

- 2013/14 business plan
- 3 year business plan
- risk management
- scorecard (measurement against objectives)

1.2 To provide the Board with proposals for the detailed actions:

- 2014/15 business plan

### **2. Recommendations**

2.1 That the Board notes:

- progress against the 2012/13 business plan
- the 3 year business plan
- the current risks with a residual score of six or above
- the latest scorecard measures

2.2 That the Board agrees:

- the detailed actions proposed for the 2014/15 business plan
- to move both the scheme member and employer survey to May each year, commencing in May 2015.

### **3. Background**

3.1 The following documents accompany this report:

- an update on the 2013/14 business plan at Annex A(i);
- the 3 year business plan at Annex A(ii);
- risks with a residual score of six or above are detailed at Annex B;
- the full scorecard is attached at Annex C.

### **4. Related matters subject to separate agenda items**

4.1 Matters subject to separate agenda items include:

- Actuarial Valuation & Funding Strategy
- LGPS Reform
- ISC Quarterly Report

### **5. Business Plan 2013/14**

5.1 Progress is on track with the business plan shown at Annex A(i). Of the 22 actions for 2013/14:

- nine have been completed;
- four are nearing completion and
- the remaining nine are ongoing in nature.

### **6. Business Plan 2014/15**

6.1 Although much of the Board's work is ongoing some actions from the 2013/14 Business Plan are not carried forward into the new year. The Actuarial Valuation in the current year is replaced by a new action for Interim Review. Further actions are also proposed given pending consultations on both new governance requirements and options for structural reform.

6.2 A series of actions for the year 2014/15 are set out on the right hand side of Annex A, and **it is recommended** that the Board agree these as the basis for next year's business plan.

### **7. 3 year Business Plan**

7.1 The 3 year Business Plan, providing a high level summary of key work streams is shown at Annex A (ii). This will be updated for the next Board meeting in July 2014 in light of the Board's decisions re: the detailed actions for 2014/15.



## **8. Risk Register**

- 8.1 There is one risk with a changed score. At the time of writing the transitional regulations are still outstanding. This continued delay has resulted in an increased residual score (from amber to red) of risk A1 which covers the delivery of a high quality service to beneficiaries, potential beneficiaries and employers. Further details, including mitigations, are included within the separate agenda item on LGPS reform.

## **9. Scorecard**

- 9.1 Matters to note are detailed below:
- 9.2 The annual survey of both scheme members and employers took place at the end of 2013. The results were broadly positive and are detailed within scorecard in measures **1.1.4 & 1.1.5**, and throughout sections **5.1, 5.2** and **5.3** of annex C.
- 9.3 The survey commenced in late November. Whilst this year's increased participation is encouraging, it was noted that a greater number of responses were received after the Christmas break.
- 9.4 To maximise the response rate, **it is recommended** that the survey be moved to May each year, commencing in May 2015 to ensure greater feedback can be received from our members and employers.
- 9.5 **1.2.2 – 1.2.4 & 2.2.2 -2.2.4** A verbal update on the Board training measures will be given at the meeting.
- 9.6 Following the Fund Actuary's work on the triennial valuation, Institutional Investment Consultants, Hymans Robertson undertook an Asset Liability Study. This was to be considered by the Investment Steering Committee at its meeting on 24 February 2014. As a result of that Study, measure **3.1.1** now reflects the assessment of the probability of the Fund assets reaching 100% of liabilities over 21 years as 61%. Furthermore **3.3.2** highlights one of the Study's key conclusions: that the investment strategy is consistent with the funding strategy. .

## **10. Link to Essex Pension Fund Objectives**

- 10.1 Monitoring Pension Fund activity via the business plan, risks and scorecard assists the Fund in achieving all of its objectives, and in particular:
- Provide a high quality service whilst maintaining value for money
  - Understand and monitor risk and compliance
  - Continually measure and monitor success against our objectives

## **11. Risk Implications**

- 11.1 Key risks are identified at Annex B.

## **12. Communication Implications**

- 12.1 Other than ongoing reporting to the Board, there are no communications implications.

## **13. Finance and Resources Implications**

- 13.1 The business plan for 2014/15 is challenging and labour intensive and will require significant input by officers and advisers to bring some of the actions to conclusion.

## **14. Background Papers**

- 14.1 None.

## **Essex Pension Fund Business Plan 2013/14 Proposed actions for Business Plan 2014/15**

### **Governance**

#### **Objectives:**

- Provide a high quality service whilst maintaining value for money
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk and compliance
- Continually measure and monitor success against our objectives

#### **Actions:**

Action	How will this be achieved?	Officer managing action*	Progress as at March 2014	2014/2015 Business Plan
1. Annual business plan will be put in place.	2013/14 business plan actions presented to 6 March 2013 Board for approval.	DfEPF & HoEPF	Complete	Draft 2014/15 business plan actions presented to 5 March 2014 Board for approval.

Action	How will this be achieved?	Officer managing action*	Progress as at March 2014	2014/2015 Business Plan
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2013/14.  Specific provision will be made for any new Board Members.	IGAA	In progress -  Governance training took place on 22 January 2014 Procurement training is scheduled prior to 5 March 2014 meeting	Training & training needs assessments will continue in 2014/15.  .
3. Board members' knowledge centre	A web based facility for Members to replace the handbook will be identified and put in place.	HoEPF	Complete	Shadow training to be offered to Board Members to maximize usage.
4. Annual review of governance policy	Review governance policy to ensure it is relevant and up to date, including the governance compliance statement.	DfEPF, HoEPF & IGAA	Complete.	Scheduled for September 2014
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it.	GTM and IGAA	Complete.	A further review is planned for July 2014
6. Procurement of Independent Governance Adviser	The Board will consider its approach to this matter in 2014/2015	DfEPF & HoEPF	In progress –  A separate report appears elsewhere on the March agenda	The procurement will be completed during 2014/2015
7. Implement the requirements of the Public Sector Pension Act 2013	Respond to consultation on draft Governance regulations  Agree & implement required changes to Governance arrangements	DfEPF, HoEPF & IGAA	Action commencing in 2014/15 Not applicable for 2013/14	Ongoing action during 2014/15

# Investments

## Objectives:

- To maximise the returns from investments within reasonable risk parameters
- To ensure the Fund is properly managed
- Ensure investment issues are communicated appropriately to the Fund's stakeholders

## Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at March 2014
8. Review of asset allocation	Review of asset allocation as part of the strategy & structure deliberations at the ISC strategy meetings. 4 July 2013 and 24 February 12 ISC.	DfEPF	Complete
9. Implement any review of investment allocation arrangement	Implement the decisions taken at the February 2013 ISC strategy meeting.  Complete appointment of Global Equity managers.	DfEPF	Complete
10. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.	DfEPF	Complete
Action	How will this be achieved?	Officer	Progress as at March 2014

2014/2015 Business Plan
Review to take place in July 2014 and February 2015
Implement as required any changes
Scheduled for July 2014 strategy review
2014/2015 Business Plan

		<b>managing action*</b>		
11. Review the Statement of Investment Principles (SIP)	Annual Review of SIP – to include review of Statement of Compliance on Investment Decision Making	DfEPF	Complete	To be reviewed after July 2014
12. Procurement of Independent Investment Adviser	The current arrangement ceases in July 2015. The ISC will consider its approach to this matter in 2014/2015	DfEPF	Action commencing in 2014/15 Not applicable for 2013/14	Scheduled for 2014/15
13. Participate in the consultation on LGPS structural reform	Respond to consultation on draft options for the structure of LGPS in England & Wales	DfEPF	Although work on this took place during 2013/14, including response to the Call for Evidence, this is a new measure in the Business Plan.	Ongoing action during 2014/15

# Funding

## Objectives

- Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the Funding Strategy Statement
- To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible
- To have consistency between the investment strategy and funding strategy
- To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives
- Maintain liquidity in order to meet projected net cash-flow outgoings
- Minimise unrecoverable debt on termination of employer participation

## Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at March 2014
14. Review Funding Strategy Statement	In conjunction with the Actuarial Valuation and in discussion with the Actuary, a revised FSS will be drafted, consulted upon and finalised 2013/14.	DfEPF and HoEPF	In progress -  A separate item on this matter appears elsewhere on March 2014 Board agenda
15. Actuarial Valuation as at 31 March 2013	A triennial valuation will be commissioned. Progress reports will be brought to the Board and the results shared with employing bodies.	DfEPF and HoEPF	In progress -  A separate item on this matter appears elsewhere on March 2014 Board agenda
Action	How will this be achieved?	Officer	Progress as at March 2014

2014/2015 Business Plan
The Funding Strategy Statement will be reviewed in conjunction with the results of the 2014 interim review
Action ceasing in 2013/14 Not applicable for 2014/15
2014/2015 Business Plan

		<b>managing action*</b>		
16. Interim Review as at 31 March 2014.	An interim review of the Fund as at 31 March 2014 will be commissioned from the Actuary.	DfEPF and HoEPF	Action commencing in 2014/15 Not applicable for 2013/14	The result of the interim review will be considered at the September 2014 Pensions Board meeting
17. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis	DfEPF and HoEPF	In progress -  To be monitored during 2013/14 as part of valuation & funding strategy process.	Ongoing monitoring to continue throughout 2014/15.



## Administration

### **Objectives:**

- Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need
- Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount
- Data is protected to ensure security and authorised use only

### **Actions:**

Action	How will this be achieved	Officer managing action*	Progress as at March 2014	2014/2015 Business Plan
18. New 2014 LGPS	Pending outcomes review and put in place a plan to deliver any requirements (e.g. revised processes, systems, etc).	HoEPF	In progress -  An item on this matter appears elsewhere on the 5 March 2014 Board agenda.	Developments will continue to be monitored and brought to the Board's attention during 2014/15
19. Complete the annual end of year data exercise as at 31 March	Complete year end accounting, gather information from employer and update Axise, and produce annual benefit statements.	HoEPF	Complete for 31 March 2013.	Required as part of the preparation for the 31 March 2014 interim review.

Action	How will this be achieved	Officer managing action*	Progress as at March 2014	2014/2015 Business Plan
20. Administration Strategy	The Administration Strategy will be monitored during 2013/14.	HoEPF	In progress –  The Administration Strategy will be monitored during 2013/14, as part of the Actuarial Valuation process.	To be monitored & reviewed during 2014/15.
21. Integration of Pensions Services and Investment Team	The final stages of the new structure's implementation will be completed during 2013/14.	DfEPF and HoEPF	In progress –  The last appointee to the new structure will take up their post next month.	Action ceasing in 2013/14 Not applicable for 2014/15
22. Auto Enrolment – Work based Pensions	Monitor developments and maintain dialogue with Pension Fund employers throughout the process of auto enrolment implementation. (Staggered staging dates apply to all employers – depending on size – between 2012 and 2016)	HoEPF	In progress –  Approximately 30 Fund employers are expected to have staging dates during the 2013/14	Monitoring of auto enrolment will continue during 2014/15.
23. Implementation of new administration system	A project plan to be in place to deliver a new system by 31 December 2014	HoEPF	In progress –  The contract with the new provider was signed in early February. This is the first key milestone. Implementation planning is currently underway.	To continue through 2014/2015

## Communications

### Objectives:

- Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally
- Ensure our communications are simple, relevant and have impact
- Deliver information in a way that suits all types of stakeholder
- Aim for full appreciation of the pension scheme benefits and changes to the scheme by all scheme members, prospective scheme members and employers

### Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at March 2014	2014/2015 Business Plan
24.New 2014 LGPS	Pending outcomes, review and put in place a plan to deliver any communication requirements including delivery of key messages	HoEPF	In progress –  Tim Hazelwood from LGE presented to an employer road-show held at Anglia Ruskin University on 29 November 2013. All Employers were invited.	Will continue during 2014/2015
25.Actuarial Valuation & Funding Strategy	The draft Funding Strategy and Valuation results will be shared with Employers. A series Employer Forums are planned for autumn 2013.	DfEPF and HoEPF	In progress –  A separate item on this matter appears elsewhere on March 2014 Board agenda	Action ceasing in 2013/14 Not applicable for 2014/15

Action	How will this be achieved	Officer managing action*	Progress as at March 2014	2014/2015 Business Plan
26. Monitor Communications Policy	The communications policy will be monitored during 2013/2014	HoEPF	On -going	To continue during 2014/2015.

Key:

DfEPF: Director for Essex Pension Fund

HoEPF: Head of Essex Pension Fund

GTM: Governance Team Manager

IGAA: Independent Governance & Administration Adviser

# Essex Pension Fund

## 3 Year Business Plan

### April 2013 to March 2016

Area of activity	2013/14	2014/15	2015/16
<b>Governance</b>			
Business plan	March for the following year	March for the following year	March for the following year
Members' knowledge and understanding			
• Prepare & implement training strategy	December	December (Review)	December (Review)
• Training needs assessment (TNA)	Ongoing	Ongoing	Ongoing
Governance review	December	December	December
Effectiveness of Pension Fund Board	July	July	July
Annual Statement of Accounts	July (draft) September (Final)	July (draft) September (Final)	July (draft) September (Final)
Employer Forum(s)	October - March	April / May February	February
Review scorecard (risk register)	Quarterly	Quarterly	Quarterly
Review performance	Quarterly	Quarterly	Quarterly
Administering Authority discretions and delegations review		October-December	
Employing Authority discretions and delegations review		October-December	
Communications policy review	July	July	July

Area of activity	2013/14	2014/15	2015/16
<b>Investment (Steering Committee)</b>			
Strategic asset allocation review	July & February	July & February	July & February
Asset/Liability study	February		
Statement of Investment Principles review	June	October	October
Review investment management fees	July	July	July
Individual manager review	Quarterly	Quarterly	Quarterly
<b>Funding</b>			
Funding Strategy Statement	September	September	September
Actuarial Valuation 2013	September - March		
Interim funding review		September	September
Admission/employer participation/bulk transfer policy	Ongoing	Ongoing	Ongoing
<b>Administration</b>			
LGPS reform – planning for administration changes	Ongoing	April (go-live)	Follow up amendments
Review/Procurement of IT System	December-March	Ongoing	
End of year data exercise	July	July	July
Auto-enrolment / workbased pensions	ECC staging date 1/1/13 Rolling Employer staging dates	Rolling Employer staging dates	Rolling Employer staging dates
<b>Communications</b>			
LGPS reform	September – March	Ongoing	Ongoing
Implement communications policy	September – March	Ongoing	Ongoing
Introduce infoBOARD and develop usage	July-March	Ongoing	Ongoing

## ANNEX B

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous Risk Score	Risk Owner	Comments, Actions and Recommendations
Governance	Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G7	Failure of succession planning for key roles on PFB	3	2	6	6	Graham Hughes	The Board's approach to training, where members are working toward compliance with the CIPFA Knowledge & Skills Framework, should help minimise any adverse impacts of failure in succession planning because there should be a greater number of candidates for any position with appropriate knowledge and skills in depth.
Governance	Evolve and look for new opportunities that may be beneficial for our stakeholders, ensuring efficiency at all times	G12	Insufficient staff causes failure to free up time to look for other best practice areas then opportunities may be missed	2	3	6	6	Kevin McDonald /Jody Evans	Following a staff consultation process, a revised officer structure was finalised in the first quarter of 2013. One appointment is ongoing.
Investments	To maximise the returns from investments within reasonable risk parameters	I1	If investment return is below that assumed by the Actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk.	3	3	9	9	Kevin McDonald	Diversified portfolio; Annual Strategy Review; Asset Liability Study, extended recovery periods to smooth contribution increases.
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	3	3	9	9	Kevin McDonald	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	3	2	6	6	Kevin McDonald	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.

## ANNEX B

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous Risk Score	Risk Owner	Comments, Actions and Recommendations
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	3	2	6	6	Kevin McDonald	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	3	2	6	6	Kevin McDonald	As above
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F21	Employee participation in the Essex LGPS reduces (possibly in response to changes in contribution rate / benefit structure or changes in patterns of service delivery)	3	2	6	6	Kevin McDonald / Jody Evans	Communications with both Employers and Employees over the benefits of the LGPS, both before and after any structural change. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A1	Failure to administer scheme in line with Regulations and policies e. g. LGPS Reform – delays in the release of draft Regulations in sufficient detail could impact on the implementation of required system changes and staff training.	3	4	12	9	Jody Evans	The calculation of pensionable service and associated benefits could be undertaken on a manual basis, however this would not only impact on turnaround times / performance measures, but would also be the first such calculation undertaken on the new CARE basis.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A6	Lack or reduction of skilled resources. Significant increase in the number of employing bodies e.g. academies.	3	3	9	9	Kevin McDonald / Jody Evans	Continually monitor staffing position. Continually monitor the impact of the volume of employers admitted to the Fund.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A17	Failure to administer scheme in line with Regulations and policies - Brewster test case in Northern Ireland pave way for retrospective action re: surviving co-habiting partners with no nomination for surviving partners pension.	3	2	6	6	Jody Evans	In the event of revised LGPS Regulations on nomination arrangements for surviving co-habiting partners' pensions, a case by case review will be conducted.

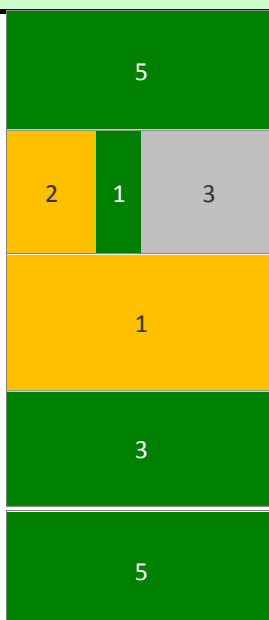


## Essex Pension Fund Scorecard - 5 March 2014

**Guidance:** Measures are grouped around key objectives identified by the Board. For some objectives there are several indicators monitoring progress. The number of measures which are red, amber and green for each objective are displayed on the scorecard. Details of individual measures, including performance, targets, contextual commentary, definition and scope are given in the attached drill down pack.

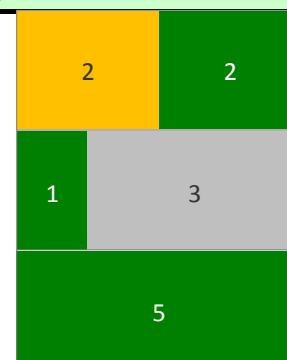
### 1. GOVERNANCE

- 1.1 - Provide a high quality service whilst maintaining value for money
- 1.2 - Ensure the Pension Fund is managed by people who have the appropriate knowledge and expertise
- 1.3 - Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times. Continually measure and monitor success against our objectives.
- 1.4 - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- 1.5 - Understand and monitor risk and compliance



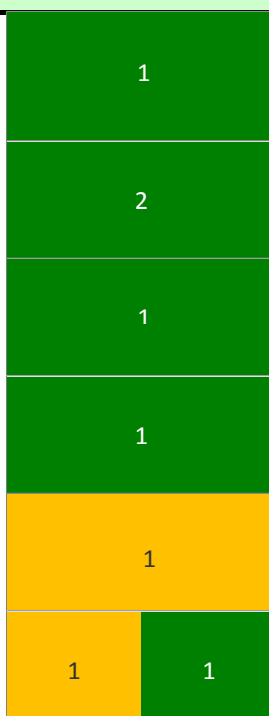
### 2. INVESTMENTS

- 2.1 - Maximise returns from investments within reasonable risk parameters
- 2.2 - Ensure the Pension Fund is properly managed (ISC attendance, skills and governance arrangements)
- 2.3 - Ensure investment issues are communicated appropriately to the Fund's stakeholders



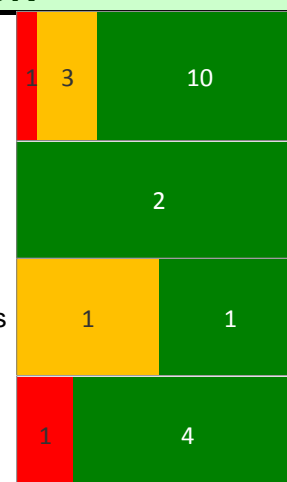
### 3. FUNDING

- 3.1 - Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the funding strategy statement
- 3.2 - To recognise in drawing up its Funding Strategy, the desirability of employer contributions that are as stable as possible
- 3.3 - To have consistency between the Investment strategy and the funding strategy
- 3.4 - To manage employers liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives.
- 3.5 - Maintain liquidity in order to meet projected net cash flow outgoings
- 3.6 - Minimise unrecoverable debt on termination of employer participation



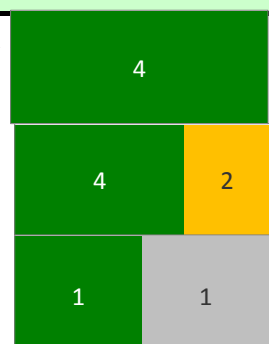
### 4. ADMINISTRATION

- 4.1 - Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need.
- 4.2 - Data is protected to ensure security and authorised use only
- 4.3 - Ensure proper administration of financial affairs
- 4.4 - Compliance with Fund's governance arrangements



### 5. COMMUNICATIONS

- 5.1 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.
- 5.2 - Ensure our communications are simple, relevant and have impact and deliver information in a way that suits all types of stakeholder.
- 5.3 - Aim for full appreciation of the pension scheme benefits and changes to the Scheme by all scheme members, prospective scheme members and employers.



### Key

<b>G</b>	= on or exceeding target	<b>Gy</b>	= data not currently available / work in progress
<b>A</b>	= missing target but within agreed tolerance		
<b>R</b>	= missing target by more than agreed tolerance		

## 1.1 - Provide a high quality service whilst maintaining value for money

**Measure Purpose:** To provide a high quality service whilst maintaining value for money

**Scope:** Cost, scheme member satisfaction and scheme member complaints and compliments

**Measure Owner:** Jody Evans

**Data lead:** David Tucker/Matt Mott

### Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
1.1.1 Cost per scheme member	2nd	quartile	G	G	2nd/3rd quartile	2nd/3rd quartile	Low	Annual (Aug)
1.1.2 Number of scheme member complaints	5		G	G	5	20	Low	Quarterly
1.1.3 Number of scheme member compliments	16		G	G	15	60	High	Quarterly
1.1.4 Scheme member survey - % of positive answers	96.4%	%	G	G	95%	95%	High	Annual (Mar)
1.1.5 Employer survey - % of positive answers	97.3%	%	G	G	95%	95%	High	Annual (Mar)

### Rationale for performance status and trend

**1.1.1.** Cost per member was £17.80 in 2012/13 (£18.57 in 2011/12 ) compared to the CIPFA Benchmarking average of £20.87 (£21.54 in 2011/12). This Fund remains in the second quartile.

**1.1.2.** The number of complaints received in the 3 months to 31 December 2013 was 5. (Previous quarter 2)

**1.1.3.** The number of compliments received in the 3 months to 30 December 2013 was 16. (Previous quarter 23)

**1.1.4.** 500 scheme members (employees) were invited to participate in a five question survey conducted in November 2013. 118 members returned completed survey's resulting in a total of 810 answers. Of which 29 were negative responses. The remainder 781 (96.4%) were positive. The 2012 scheme member survey was 97.3% positive.

**1.1.5.** 378 employers were invited to participate in a 10 question survey conducted in November 2013. Of 112 responses 3 were negative which resulted in a 97.3% positive response rate. The 2012 employer survey was 97.7% positive.

## 1.2 - Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise

**Measure Purpose:** To ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise

**Scope:** Training needs analysis, attendance of training. Progress against training plans and My Performance objectives.

**Measure Owner:** Kevin McDonald

**Data lead:** Graham Hughes/Jody Evans/Barry Mack

### Status

	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity	Frequency
1.2.1 Board Member attendance at training	75.3%	%	G	A	80%	80%	High	Quarterly
1.2.2 Board Members with adequate skills - average scores for <b>comprehensive</b> training need analysis (TNA)		%	Gy	Gy	65%	65%	High	Quarterly
1.2.3 Board Members with adequate skills - average skills for <b>introductory</b> training needs analysis (TNA)		%	Gy	N / A	75%	75%	High	Quarterly
1.2.4 Board Members completing training needs analysis (TNA)		%	Gy	Gy	90%	90%	High	Quarterly
1.2.5 Board Member attendance at Board meetings	74%	%	A	A	80%	80%	High	Quarterly
1.2.6 Officer training plans and My performance Objectives in place	100	%	G	G	100%	100%	High	Annual (May)

### Rationale for performance status and trend

**1.2.1.** This measure reflects attendance by Board Members at training prior to the July , September & December Boards, the training session on 22 January, ISC Members at training prior to the June & July ISC meeting and ISC members attendance at the Baillie Gifford Investment Conference in October.

**1.2.2. - 1.2.4** A verbal update will be given at the meeting on these measures.

**1.2.5.** This represents attendance at Board meetings in July, September and December 2013.

**1.2.6.** My Performance objectives have been agreed for all Pension Administration & Pension Investment officers.

1.3 - Evolve and look for new opportunities, ensuring efficiency at all times

Measure Purpose: To evolve and look for new opportunities, ensuring efficiency at all times

Scope: Actions listed in Business Plan

Measure Owner: Kevin McDonald & Jody Evans

Data lead: Kevin McDonald & Jody Evans

Status	Value	Previous status	Current status	Target	Annual target	Polarity	Frequency
1.3.1 Fund Business Plan quarterly review - actions on track	59 % Complete/nearing completion 41 % on-going	A	A	70% Complete, 30% in progress	100% complete	High	Quarterly

Rationale for performance status and trend
<p>1.3.1 Against a total of 22 actions or projects for the year:</p> <ul style="list-style-type: none"><li>9 (41%) complete</li><li>4 (18%) nearing completion</li><li>9 (41%) are matters of an on-going nature</li><li>0 (0%) are scheduled to commence later in the year</li></ul> <p>The business plan is detailed in Annex A of this report.</p>

# 1.4 - Act with integrity and be accountable to our stakeholders

**Measure Purpose:** To act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based

**Scope:** Formal complaints against Board Members relating to their role as member of the EPFB or ISC, with reference to Essex County Council's Code of Conduct. Formal complaints are those made to Standards Committee. The same complaint may be referred onto the Local Government Ombudsman or a third party may seek judicial review. Measure also includes annual review of key decisions and accountability and contract management measures currently in development

**Measure Owner:** Graham Hughes

**Data lead:** Graham Hughes

Status	Value	Units	Previous status	Current status	Target	Polarity	Frequency
1.4.1 Number of complaints made	0		G	G	0	Low	On-going
1.4.2 Number of complaints upheld	0		G	G	0	Low	On-going
1.4.3 The Board has provision for representatives of employers and scheme members. Appointees are currently in place.	Yes		G	G	Yes	High	Quarterly

## Rationale for performance status and trend

- 1.4.1 Reflects performance over the previous 12 months as at 17 February 2014.
- 1.4.2 Reflects performance over the previous 12 months as at 17 February 2014.
- 1.4.3 This is measured on an on-going basis. Yes = green; No = red.
- Scheme member and employer survey measurements shown in section 1.1 also provide an indication of accountability to stakeholders.

## 1.5 - Understand and monitor risk and compliance

**Measure Purpose:** Understand and monitor risk and compliance

**Scope:** On-going reporting and discussion of key risks to the Fund. Output from internal audit reviews.

**Measure Owner:** Kevin McDonald & Jody Evans

**Data lead:** Kevin McDonald & Jody Evans

### Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
<b>1.5.1</b> Number of internal audit reviews finding limited/no assurance	0		G	G	0	0	Low	On-going
<b>1.5.2</b> Number of internal audit recommendations outstanding	0		G	G	0	N/A	Low	On-going
<b>1.5.3</b> Percentage of risks on the risk register with a residual score that is classified as amber	11.9	%	G	G	<20%	<20%	High	Quarterly
<b>1.5.4</b> Percentage of risks on the risk register with a residual score that is classified as red	0.1	%	G	G	0%	0%	High	Quarterly
<b>1.5.5</b> Number of matters raised by external auditors relating to Pensions Services	0		G	G	0	N/A	Low	Annually (Sep)

### Rationale for performance status and trend

**1.5.1** This includes all internal audits conducted in the last 12 months. The 2012/13 internal audit reports for both Pensions Administration and Pensions Investment received full assurance.

**1.5.2** The 2012/13 internal audit reports for both Pensions Administration and Pensions Investment contained a total of three "advice & best practice" recommendations, all of which have been completed.

**The 203/14 Internal Audit reports are in the process of completion and will be included on the agenda for the Board's next meeting in July 2014.**

**1.5.3** The Fund currently has 84 risks in its register, of which 10 have a residual score that is classified as amber. These are detailed at Annex B to this report. The previous quarter's score was 11 amber risks. Measurement: below 20% = green; between 20%-25% = amber; above 25% = red

**1.5.4** The Fund currently has 81 risks in its register, one of which have a residual score that is classified as red. This relates to the delayed release of transitional regulations for the new Career Average benefit scheme which will apply to the LGPS w.e.f. 1 April 2014. The risk is detailed in Annex B to this report. There were no red risks in the previous quarter. Measurement: 0% = green; under 2% = amber; above 2% = red

**1.5.5** There were no recommendations for Members to note in the 2012/13 Annual Governance Report from EY.

## 2.1 - Maximise returns from investments within reasonable risk parameters

Data as at: 31 March 2013

**Measure Purpose:** To maximise the returns from investments within reasonable risk parameters

**Scope:** All investments made by Pensions Fund: asset returns, liquidity and volatility risk

**Measure Owner:** Kevin McDonald

**Data lead:** Samantha Andrews

Status	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity
2.1.1 Annual return compared to Peer Group	5th	ranking	A	A	1st	1st	High
2.1.2 Annual Return compared to Benchmark	12.6	%	G	G	9.9%	9.9%	High
2.1.3 Five year (annualised) return compared to Benchmark	6.0	%	G	G	5.2%	5.2%	High
2.1.4 Five year (annualised) return compared to central expected return of current investment strategy	6.0	%	R	A	6.1%	6.1%	High

### Rationale for performance status and trend

The investment returns shown in these measures are as at 31 March 2013

**2.1.1** The Essex Pension Fund's annual return for 2012/13 was 12.6%. resulting in a ranking of fifth out of the six LGPS in our selected group of neighbouring Funds comprising of Suffolk, Norfolk, Cambridgeshire, Hertfordshire, and Kent. Highest was Cambridgeshire with 15.5%. lowest was Norfolk with 12.4%. In 2011/12 Essex was fifth out of six.

**2.1.2** The annual return of 12.6% exceeded the 2012/13 benchmark of 9.9%.

**2.1.3** The five year annualised return of 6.0% exceeded the benchmark of 5.2%

**2.1.4** The five year annualised Average annual return on investments for April 2008 - March 2013 was marginally below the central expected return, as calculated by Hymans Robertson's internal asset model.

2.2 - Ensure the Fund is properly managed

**Measure Purpose:** To ensure that the Fund is properly managed  
**Scope:** Attendance at ISC and ISC member skills and knowledge  
**Measure Owner:** Kevin McDonald      **Data lead:** Samantha Andrews & Barry Mack

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
2.2.1 ISC Member attendance at ISC meetings	95.8	%	G	G	80%	80%	High	On-going
2.2.2 ISC Members with adequate skills - average scores for <i>comprehensive</i> training need analysis (TNA)		%	Gy	Gy	65%	65%	High	Quarterly
2.2.3 ISC Members with adequate skills - average skills for <i>introductory</i> training needs analysis (TNA)		%	Gy	N / A	75%	75%	High	Quarterly
2.2.4 ISC Members completing training needs analysis (TNA)		%	Gy	Gy	90%	90%	High	Quarterly

Rationale for performance status and trend

2.2.1 This represents attendance at ISC meetings in June, July and November 2013. This agenda item was finalised prior to the ISC on 24 February 2014.

2.2.2 - 2.2.4 A verbal update on these measures will be given at the meeting.



2.3 - Ensure investment issues are communicated appropriately to the Fund's stakeholders

Measure Purpose: To ensure all significant Fund investment issues are communicated properly to all interested parties  
Scope: Publication of meeting minutes and agendas, communication governance arrangements agreed by Board and ISC  
Measure Owner: Kevin McDonald Data lead: Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Frequency
2.3.1 % of ISC agendas sent out 5 working days before meetings	100	%	G	G	100%	High	Quarterly
2.3.2 % of ISC committee items sent out 5 working days before meetings	100	%	G	G	100%	High	Quarterly
2.3.3 % of draft ISC minutes sent out 7 working days after meetings	100	%	G	G	100%	High	Quarterly
2.3.4 % of draft ISC minutes uploaded to internet 12 working days after meetings	0	%	G	G	100%	High	Quarterly
2.3.5 Number of communication and governance arrangements for the ISC not in place	0		G	G	0	High	On-going

Rationale for performance status and trend

2.3.5 Measure will flag as red if one of the following communications arrangements is not in place:

- ISC Terms of Reference in place and noted at the beginning of the municipal year
- Pension Fund Business Plan in place and renewed at the beginning of the financial year
- SIP to be reviewed and published annually
- Annual Report & Accounts published by 30 November
- One independent adviser and one institutional investment consultant attended or were available to attend the last ISC meeting
- Briefing report provided to EPFB on the matters dealt with at the preceding ISC meeting
- Complete management information including asset values and returns made available for consideration at last ISC meeting

All arrangements are in place.

3.1 - Achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the Funding Strategy Statement

Data as at: February 2014

Measure Purposes: To achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters.

Scope: Sources of funding: employer contributions and investments

Measure Owner: Kevin McDonald

Data leads: Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.1.1 Probability of hitting funding target	61	%	G	G	50%	50%	High	Three yearly

Rationale for performance status and trend

3.1.1 . Following the Actuarial Valuation, an asset liability study was undertaken by the Fund's Institutional Investment Consultants , Hymans Robertson. This was to be considered by the Investment Steering Committee at its meeting on 24 February 2014.

Based on the assumptions and methodology in the investment consultant’s long term stochastic projection model, they have reported that the probability of being fully funded in 21 years’ time is 61%

## 3.2 - To recognise in drawing up its Funding Strategy the desirability of employer contributions that are as stable as possible

**Measure Purposes:** To recognise the desirability of employer contributions that are as stable as possible

**Scope:** Fund Employers

**Measure Owner:** Kevin McDonald

**Data lead:** Sara Maxey

### Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
<b>3.2.1</b> Stability mechanisms are included within the current Funding Strategy	Yes		G	G	Yes	Yes	High	3 yearly
<b>3.2.2</b> Each of the 17 major precept raising bodies are were offered contributions which increased by no more than 1% per year or 3% per valuation.	Yes		G	G	Yes	Yes	High	3 yearly

### Rationale for performance status and trend

**3.2.1** The Funding Strategy Statement is reviewed at least every three years as part of the Valuation process to include suitable stability mechanisms.

**3.2.2** During consultation on the 2013/14 Funding Strategy, each of the 17 major presenting bodies were offered five options for employer contributions. These included an option which would increase employer contributions by no more than 1% (of pensionable pay) in the first year and 3% (of pensionable pay) over the three year Valuation cycle. The 17 major precepting bodies are listed below:

Essex County Council  
 Basildon District Council  
 Braintree District Council  
 Brentwood Borough Council  
 Castle Point District Council  
 Chelmsford City Council  
 Colchester Borough Council  
 Epping Forest District Council  
 Harlow District Council  
 Maldon District Council  
 Rochford District Council  
 Southend-on-Sea Borough Council  
 Tendring District Council  
 Thurrock Borough Council  
 Uttlesford District Council  
 Essex Police Authority  
 Essex Fire Authority

### 3.3 - Consistency between the Investment strategy and the Funding strategy

**Measure Purpose:** To have consistency between the investment strategy and funding strategy

**Scope:** Long term investment return assumed by funding strategy and average expected return on investment portfolio

**Measure Owner:** Kevin McDonald

**Data leads:** Samantha Andrews

#### Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
<b>3.3.1</b> Expected return of investment strategy	6.1	%	A	G	5.8%	5.8%	High	Annual
<b>3.3.2</b> Investment strategy reviewed after Asset Liability Study	Yes		Gy	G	Yes	Yes	Yes	3 yearly

#### Rationale for performance status and trend

##### 3.3.1 Long term return assumed by Funding Strategy

The 2013 Actuarial Valuation is currently underway.  
For the 2013 Valuation the Fund Actuary's assumption for investment return was 5.8%

**Included within the draft Statement of Investment Principles approved by the ISC on 27 March 2013 was a central expectation, from the end December 2012, for the absolute return on the Fund assets of 6.1% p.a.**

##### 3.3.2 Investment Strategy reviewed

This new measure highlights that the ISC on 24 February 2014 was to review the Investment Strategy and its consistency with the Funding Strategy as part of its consideration of the Asset Liability Study, conducted by Hymans Robertson after the 2013 Actuarial Valuation.

### 3.4 - Manage employers’ liabilities effectively

**Measure Purpose:** To manage employers’ liabilities effectively by the adoption of employer specific funding objectives

**Scope:** All employers contributing to the scheme

**Measure Owner:** Kevin McDonald

**Data leads:** Sara Maxey

Status								
	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.4.1 Does the Funding Strategy incorporate different funding objectives for different groups of employers ?	Yes	%	G	G	Yes	Yes	High	3 Yearly

Rationale for performance status and trend

3.4.1 The draft Funding Strategy, agreed by the Board in September 2013 included different funding objectives for different groups of employers. This was also the case for the Funding Strategy that accompanied the previous Actuarial Valuation in 2010.

3.5 - Maintain liquidity in order to meet projected net cash flow outgoings

Measure Purpose: Maintain liquidity in order to meet projected net cash-flow outgoings  
Measure Owner: Kevin McDonald                      Data lead: Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.5.1 Contribution income adequate to meet benefit payments.	Yes		A	A	Yes	Yes	High	On-going

Rationale for performance status and trend

**3.5.1** This measure captures the most recent comparison of fund income (excluding investment income) and fund expenditure. Fund expenditure is currently forecast to exceed fund income (excluding investment income) in 2015/16. In that instance investment income would be used to fund part of the payment of Fund benefits.

Score criteria is based on the contribution income adequate to meet benefit payments for the following time periods

Green = more than two years  
Amber = between one and two years  
Red = less than one year

**The next review of cash flow will take place in 2014/15.**

3.6 - Minimise unrecoverable debt on termination of employer participation

**Measure Purpose:** To highlight unrecoverable, or potentially unrecoverable, deficit due to employers leaving the Fund  
**Scope:** All employers contributing to the scheme  
**Measure Owner:** Kevin McDonald                      **Data leads:** Sara Maxey

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.6.1 Potentially unrecoverable deficit due to employers leaving scheme (as a percentage of Total Fund deficit)	0.010	%	A	A	0.00%	0.00%	Low	Quarterly
3.6.2 Deficit unrecoverable due to employers leaving scheme (as a proportion of Total Fund deficit)	0	%	G	G	0.00%	0.00%	Low	Quarterly

Rationale for performance status and trend

**3.6.1** Scoring:  
0% = Green.  
Below 0.02%(£250,000) = Amber.  
Above 0.02% = Red

The Fund has been notified that an admitted body, Harlow Welfare Rights & Advice (HWRA) has been placed into liquidation. The Actuary's calculation of the termination deficit on a least risk basis is £95,000.

**3.6.2** Scoring:  
0% = Green.  
Below 0.02%(£250,000) = Amber.  
Above 0.02% = Red

There have been no unrecoverable deficits since the last Board meeting. The score is therefore green.

The Fund's total deficit as at 31 March 2013 Actuarial Valuation was £953m.

## 4.1 - Deliver a high quality, friendly and informative service

**Measure Purpose:** Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need

**Scope:** Communication and administration turnaround times, scheme member appeals, payment errors

**Measure Owner:** Jody Evans

**Data lead:** David Tucker/Joel Ellner/Daniel Chessell/Matt Mott

Status	Value	Units	Previous status	Current status	Annual Target	CIPFA Average	Polarity	Frequency
4.1.1 Letter detailing transfer in quote issued within 10 working days (394 cases)	90.4%	%	A	A	95.0%	87.9%	High	Annual (Aug)
4.1.2 Letter detailing transfer out quote issued within 10 working days (285 cases)	90.0%	%	A	A	95.0%	89.8%	High	Annual (Aug)
4.1.3 Letter detailing process of refund and payment made within 5 working days (359 cases)	85.8%	%	A	A	95.0%	87.6%	High	Annual (Aug)
4.1.4 Letter notifying estimated retirement benefit amount within 10 working days (6499 cases)	95.7%	%	G	G	95.0%	90.8%	High	Annual (Aug)
4.1.5 Letter notifying actual retirement benefits and payment made of lump sum retirement grant within 5 working days (1802 cases)	95.4%	%	G	G	95.0%	89.5%	High	Annual (Aug)
4.1.6 Letter acknowledging death of active /deferred / pensioner member within 5 working days (942 cases)	99.1%	%	G	G	95.0%	92.4%	High	Annual (Aug)
4.1.7 Letter notifying the amount of dependent's benefits within 5 working days (914 cases)	95.9%	%	G	G	95.0%	87.5%	High	Annual (Aug)
4.1.8 Calculate and notify deferred benefits within 10 working days (4908 cases)	83.3%	%	R	R	95.0%	81.9%	High	Annual (Aug)
4.1.9 Annual benefit statements issued to active members by 30 September.	Yes		G	G	Yes	N/A	High	Annual (Sep)
4.1.10 Annual benefit statements issued to deferred members by 30 June.	Yes		G	G	Yes	N/A	High	Annual (Jun)
4.1.11 Number of payments errors	0	number	G	G	0	N/A	Low	Quarterly
4.1.12 New IDRPs during the year	2		G	G	Below CIPFA average	Pending	Low	Annual (Aug)
4.1.13 IDRPs - number of lost cases	0		G	G	Below CIPFA average	Pending	Low	Annual (Aug)
4.1.14 Employer survey - feedback on training and educational materials - % of positive responses	99.1%		G	G	95.00%	N/A	Low	Annual (Mar)

**4.1.1 - 4.1.8** The Fund is aiming for a target of 95%. Above 95% = green, above 85% = amber, below 85% equals red. It should be noted that the Fund already compares favourably with other funds and is aiming even higher. A new column showing draft 2012/2013 CIPFA Benchmarking averages has been included for the first time.

**4.1.1 & 4.1.2** Changes to regulations and to factors required to calculate transfers were subject to a delay by the Government Actuarial Department this led officers to postpone processing and therefore impacted the turnaround times. Transfers is an area that is effected by regular factor amendments and have been subject to regular minor changes within the regulations over the last 2 years.

**4.1.3** Turnaround times for processing and paying of refunds increased slightly from 85.5% (2011/12) to 85.8% (2012/2013). However the numbers of refund cases has more than doubled from the previous year, due to more people claiming refunds.

**4.1.4** Estimates of retirement benefits processed during 2011/2012 more than doubled to 4634 cases from the previous figure in 2010/2011 of 2233 cases. During 2012/2013 we have seen another significant increase to 6499.

**4.1.8** Turnaround times for this measure improved from 78% (2010/11) to 82.6% (2011/12) to 83.3% (2012/2013). This is an area of high demand due to levels of employee turnover within our many employers. A new procedure is in place from 1 April 2013 and this is mentioned in a report on the September Board.

**4.1.9** The 2012/13 Annual benefits statements for Active members were dispatched in late August 2013. The previous dispatch was in August 2012.

**4.1.10** The last dispatch of these statements to Deferred members was in June 2013. The previous dispatch was in June 2012.

**4.1.11** Measure captures the number of errors made by Pensioner Payroll which have resulted in scheme members being paid the wrong amount. During last 3 months, 0 payments errors to scheme members. Procedural checks are in place to measure this on a quarterly basis.

**4.1.14** In November 2013 an employer survey was issued, 378 employers were invited to participate and 112 responses were received when asked about feedback on training materials and educational materials. Only one negative response was received resulting in a 99.1% positive response. In 2012 the result showed a 95.3% positive response. 116 survey responses that were received 4 respondents chose not to answer this question.



4.2 - Data is protected to ensure security and authorised use only

Measure Purpose: Data is protected to ensure security and authorised use only

Scope: All service area budgets within the directorate

Measure Owner: Jody Evans

Data lead: Anna Casbolt

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
4.2.1 Number of information security breaches	0		G	G	0	0	Low	Quarterly
4.2.2 Actions in place for all breaches	0		G	G	Actions in place for all	Actions in place for all	N/A	Quarterly

Rationale for performance status and trend

4.2.1 There were no breaches this quarter.

Green = 0 breaches  
Amber = 1 or more medium or minor breaches  
Red = 1 or more major or critical breaches

4.2.2 There were no required actions this quarter.

## 4.3 - Ensure proper administration of financial affairs

**Measure Purpose:** To ensure proper administration of the Fund's financial affairs

**Scope:** Investments and Contributions

**Measure Owner:** Kevin McDonald

**Data leads:** Samantha Andrews & Sara Maxey

### Status

	Value	Units	Previous status	Current status	Current target	Annual target	Polarity	Frequency
<b>4.3.1</b> % of monthly reconciliations of equity and bond investment mandates which are timely	100	%	G	G	0%	100%	High	Quarterly
<b>4.3.2</b> % of contributing employers submitting timely payments	97.9	%	A	A	100%	100%	High	Quarterly

### Rationale for performance status and trend

**4.3.1** Performance over quarter ending December 2013 was 100%:(Green).

The investment team's focus in the quarter ending June, is closing the accounts.

Quarter ending December 100%

Quarter ending March 100%

Quarter ending June 0% (The work of the Investment Team at this time is focussed on year end closure)

**4.3.2** For the quarter ending December 2013 the performance was amber as payments from **97.9%** of the 427 contributing employers were received within the month they fell due. In cash terms this equated to **99.6%** of a total employer contribution of £36.6m.

## 4.4 - Compliance with the Fund's governance arrangements

**Measure Purpose:** To ensure compliance with the Fund’s governance arrangements agreed by the Council  
**Scope:** Publication of Essex Pensions Funding Board agendas and minutes. Governance arrangements agreed by Board  
**Measure Owner:** Graham Hughes/Jody Evans/Kevin McDonald      **Data lead:** Graham Hughes/Jody Evans/Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
4.4.1 % of Board agendas sent out 5 working days before meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.2 % of Board items sent out 5 working days before meetings	91	%	G	R	100%	100%	High	Quarterly
4.4.3 % of draft Board minutes sent out 7 working days after meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.4 % of Board minutes uploaded to internet 12 working days after meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.5 Compliance with governance arrangements - number of governance arrangements not in place	0	number	G	G	0	0	High	On-going

Rationale for performance status and trend

4.4.2 The procurement frameworks paper for the Board meeting on 9 December 2013 was a to follow item.

4.4.5 Measure will flag as red if one of the following governance arrangements is not in place:

- An Employer Forum has taken place during the last year - Fund is compliant
- The last Employer Forum received reports and representation from the ISC and EPFB - Fund is compliant

NB: Compliance with Board Membership arrangements is covered at measure 1.4.4

5.1 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.

**Measure Purpose:** Communicate in a friendly, expert and direct way to our stakeholders, treating all our stake holders equally.  
**Scope:** All scheme members and employers  
**Measure Owner:** David Tucker      **Data lead:** Matt Mott

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.1.1. % of positive responses from the scheme member survey. - <i>Helpfulness of the Pensions Teams.</i>	99.1	%	G	G	95%	95%	High	Annual (Mar)
5.1.2. % of positive responses from the Employer Survey. - <i>Expertness of Pensions Teams.</i>	99.1	%	G	G	95%	95%	High	Annual (Mar)
5.1.3. % of positive responses from the Employer Survey. - <i>Pensions Teams are friendly and Informative.</i>	100	%	G	G	90%	90%	High	Annual (Mar)
5.1.4. A Communication Plan is in place for the current year.	Yes		G	G	Yes	Yes	High	Annual (Jun)

Rationale for performance status and trend

**5.1.1** In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 111 responses were received to the question to ‘How would you rate the Essex Pension Fund on helpfulness of staff?’. Only one negative response was received resulting in a 99.1% positive response. In 2012 the result showed a 100% positive response. 118 survey responses that were received 7 respondents chose not to answer this question

**5.1.2** In November 2013 an employer survey was issued, 378 employers were invited to participate and 110 responses were received to the question to ‘How would you rate Essex Pension Fund staff on their level of expertise?’. Only one negative response was received resulting in a 99.1% positive response. In 2012 the result showed a 100% positive response. 116 survey responses that were received 6 respondents chose not to answer this question.

**5.1.3** In November 2013 an employer survey was issued, 378 employers were invited to participate and 111 responses were received to the question to ‘How would you rate Essex Pension Fund staff on being friendly and informative?’. No negative response was received resulting in a 100% positive response. In 2012 the result showed a 100% positive response. 116 survey responses that were received 5 respondents chose not to answer this question.

**5.1.4** A Communication Plan is in place for 2013/14.

5.2 - Ensure our communications are simple, relevant and have impact. To deliver information in a way that suits all types of stakeholder

Measure Purpose: Ensure our communications are simple, relevant and have impact. To deliver information in a way that suits all types of stakeholder

Scope: All Scheme members and employers

Measure Owner: David Tucker

Data lead: Matt Mott

Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.2.1. % of positive responses from the Scheme member Survey - <i>Clarity of website information.</i>	97.1%	%	G	G	95.0%	95.0%	High	Annual (Mar)
5.2.2. % of positive responses from the Scheme Member Survey - <i>Understandable Annual Benefit Statements.</i>	82.0%	%	A	A	95.0%	95.0%	High	Annual (Mar)
5.2.3. % of positive responses from the Scheme Member Survey - <i>Communications that suit needs, easy to understand and relevant.</i>	99.1%	%	A	G	95.0%	95.0%	High	Annual (Mar)
5.2.4. % of positive responses from the Employer Survey - <i>Clarity of Website information.</i>	92.4%	%	G	A	95.0%	95.0%	High	Annual (Mar)
5.2.5. Increase in response of the Scheme Member Survey compared to last year.	143.9%	%	G	G	Increase	Increase	High	Annual (Mar)
5.2.6. Increase in response rate of the Employer Survey compared to last year.	269.8%	%	G	G	Increase	Increase	High	Annual (Mar)

5.2.1 In November 2012 an Employee Survey was issued. 400 scheme members were invited to participate and 82 responses were received. 4 responses indicated that the website was not very clear, This results in a 95.1% positive response. In November 2011 the positive response was 91%.

5.2.2 In November 2012 out of 400 scheme members 82 responses were received. 11 responders ticked the box that described understanding the Annual Benefit Statement as "not easy". As a result the positive response score is 86.6%. We are contacting those of the 11 responders who have identified themselves, and will use this feedback ahead of the 2013 Annual benefit Statement process. In November 2011 the positive response was 88%.

5.2.3 In November 2012 out of 400 scheme members 82 responses were received. 7 responders ticked the box that described information provided as "not" suiting needs, easy to understand and relevant. As a result the positive response score is 91.4%. We are contacting those of the 7 responders who have identified themselves, and will use this feedback. This is a new measure.

5.2.4 In November 2012, 43 responses were received from the Employer Survey - regarding Clarity of Website information. 2 anonymous responses stated that the website was not clear. This results in a 95.3% positive response. We will review the web site content with the new Independent Governance & Administration Adviser. In November 2011 the positive response was 100%.

5.2.5 82 responses in 2012 is a 90.7% increase on the 43 received in 2011.

5.2.6 43 responses in 2012 is a 34.4% increase on the 32 received in 2011.

5.3 - Aim for a full appreciation of the pension scheme benefits and changes to the Scheme by all scheme members, prospective scheme members and employers

**Measure Purpose:** Aim for a full appreciation of the pension scheme benefits and changes to the Scheme by all scheme members, prospective scheme members  
**Scope:** All scheme members and employers  
**Measure Owner:** David Tucker      **Data lead:** Matt Mott

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.3.1. % of opt outs is within reasonable parameters		%	Gy	Gy	0.10%	0.10%	N/A	Quarterly
5.3.2. % of positive responses from the Employer Survey - <i>Information available is helpful in employers understanding their responsibilities</i>	97.3%	%	G	G	95%	95%		Annual(Mar)

Rationale for performance status and trend

5.3.1 This measure is under development.

5.3.2 In November 2013 an employer survey was issued, 378 employers were invited to participate and 112 responses were received when asked about feedback on information available is helpful to employers understanding their responsibilities. Only three negative response were received resulting in a 97.3% positive response. In 2012 the result showed a 95.3% positive response. 116 survey responses that were received 4 respondents chose not to answer this question.

<b>Essex Pension Fund Board</b>	<b>EPB/05/14</b>
<b>Date: 5 March 2014</b>	

## **Employer Forum 2014**

Joint Report by the Director for the Essex Pension Fund & the Head of the Essex Pension Fund

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Enquiries to Kevin McDonald on 01245 431301 & Jody Evans on 01245 431700

### **1. Purpose of the Report**

- 1.1 To agree the date for the 2014 Employer Forum.
- 1.2 To update the Board on the consultation process regarding the position of the Smaller Employers Representative (SER) on the Essex Pension Fund Board.

### **2. Recommendations**

- 2.1 That a date is agreed.
- 2.2 The update is noted.

### **3. Annual Employer Forum**

3.1 The Annual Forum is usually held in the early part of each calendar year. At the meeting, Board Members will be asked to agree a date in either April or May for the 2014 Forum.

1.2 The event will cover topics including:

- Investment performance
- The new Career Average benefit arrangements; and
- Government consultations

.

### **3 Smaller Employer Representative**

3.1 In early 2012, at the Annual Employer Forum, smaller employers elected Jenny Moore, from Billericay School (an Academy) to serve for a period of two years as SER on the Essex Pension Fund Board. Under normal circumstances arrangements for the nomination and election process would commence shortly.

4.1 Since that election, the Public Services Pension Act 2013 has gained parliamentary assent. Under the terms of this Act, all Public Sector Pension Schemes are required to establish a Local Pension Board. It is expected that this requirement will commence in April 2015.

4.2 The precise role of this new Local Pension Board has yet to be clarified however draft Regulations outlining how the Act applies to the Local Government Pension Scheme are anticipated prior to Easter 2014. These may include details on representation requirements.

4.3 It is expected that the existing governance arrangements of the Essex Pension Fund will undergo some change or realignment in around a year's time and any new appointment might therefore be short-lived.

### **5 Timing of SER election**

5.1 In view of these developments in governance requirements it was felt that there was merit in canvassing opinion amongst constituent employers on whether there would be support for extending Jenny Moore's existing tenure for a further 12 months. This would allow clarity on new arrangements to be gained, and appropriate actions taken.

5.2 Jenny Moore indicated that, provided such support was forthcoming, she would be happy to continue in this role for another year.

### **6. Options**



- 6.1 Constituent employers were therefore asked to indicate (over the three weeks immediately prior to the Board's meeting) whether they had a preference for commencing the election for SER to the Essex Pension Fund Board either:

**OPTION A: immediately**

or

**OPTION B: after a delay to coincide with the new governance arrangements which commence in April 2015 \***

Note: \* Option B in effect would mean an election in around 12 months' time.

- 6.2 The outcome of preferences notified will be given at the Board's meeting.

## **7. Link to objectives**

- 7.1 Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise.
- 7.2 Aim for full appreciation of the pension scheme benefits and changes to the scheme by all scheme members, prospective scheme members and employers.



<b>Essex Pension Fund Board</b>	<b>EPB/06/14</b>
<b>date: 5 March 2014</b>	

## **Forward Look**

Report by the Secretary to the Board

Enquiries: Graham Hughes, Corporate Law & Assurance, 01245 430935, Ext 20935

### **1. Purpose of the Report**

- 1.1 To present a Forward Look detailing the Board's future business.

### **2. Recommendations**

- 2.1 That the Forward Look attached as Appendix A be noted and approved.

### **3. Updated Format**

- 3.1 For ease of reference, the format of the Forward Look has been updated to include the training sessions and external events highlighted on the training plan.

### **4. Link to Essex Pension Fund Objectives**

- 4.1 The Forward Look assists the Board in achieving the following Fund Objectives:
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
  - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
  - Continually measure and monitor success against our objectives

### **5. Risk Implications**

- 5.1 Failure to plan its business carefully may cause the Board to approach its work in an unstructured way and to make ineffective use of its Members', Officers' and Professional Advisers' time.

### **6. Communication and Finance and Resources Implications**

- 6.1 None

## Essex Pension Fund Board Forward Look

### Notes:

There will also be a strategy day held in November 2014 and half day training sessions in May 2014 and January and May 2015. An Annual Employer Forum for 2014 has yet to be finalised (there is an item elsewhere on the agenda to consider a date).

Meeting	Agenda Item	Type
9 July 2014	Pre-Board Training	Every meeting
	<u>Board meeting:</u>	
	LGPS Reform update	Every meeting during 2014
	Update on Pension Fund Activity: Business Plans, Risks and Measurement against Fund Objectives	Every meeting
	External Audit Programme of Work and Fees	Annual item
	Internal Audit Annual Report of Pension Fund Work	Annual item
	Draft Essex Pension Fund 2013/14 Accounts	Annual item
	Essex Pension Fund Board Annual Report	Annual item
	Investment Steering Committee (ISC) Quarterly Report	Every meeting
	Annual Review of Member Attendance	Annual item
	Employer Forum [to report back on the event]	Annual item
17 September 2014	Pre-Board Training	Every meeting
	<u>Board meeting:</u>	
	LGPS Reform update	Every meeting during 2014
	Update on Pension Fund Activity: Business Plans, Risks and Measurement against Fund Objectives	Every meeting
	Essex Pension Fund 2013/14 Accounts	Annual item
	External Auditors Report	Annual item
	Investment Steering Committee	Every meeting

**10 December 2014**

Pre-Board Training

Every meeting

Board meeting:

LGPS Reform update

Every meeting during 2014

Update on Pension Fund Activity: Business Plans, Risks and  
Measurement against Fund Objectives

Every meeting

Governance Policy and Compliance Statement

Annual item

Investment Steering Committee

Every meeting

Calendar of Meetings for 2015/16 municipal year

Annual item

