

Pension Fund Accounts

Introduction

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of the Council, Essex district, borough and unitary councils, and for other scheduled and admitted bodies. The Pension Fund accounts are set out in the following pages, as detailed below.

	Page
Fund account	126
Net assets statement	127
Notes to the Pension Fund Accounts:	
1. Background	128
2. Basis of preparation	128
3. Actuarial valuation	129
4. Accounting policies	129
5. Membership activities	132
6. Investment income	133
7. Administrative expenses	134
8. Investment expenses	134
9. Investments	135
10. Additional Voluntary Contributions (AVC) Investments	139
11. Current assets and liabilities	140
12. Related party transactions	140
13. Further information	140

Pension Fund Accounts

Pension Fund Accounts

Fund account for the year ended 31 March 2010

2008/09 £000	Note		2009/10 £000	£000
		Contributions and Benefits		
		Income		
		Contributions receivable		
(47,271)	5	Employees' contributions	(49,558)	
(163,956)	5	Employers' contributions	(154,488)	
(22,358)	5	Transfers from other schemes	(25,264)	
(192)		Other income	(201)	
<u>(233,777)</u>		Total income		(229,511)
		Expenditure		
		Benefits payable		
115,672	5	Pensions	125,384	
32,020		Commutation of pensions and lump sums	31,826	
3,510		Death benefits	3,986	
		Payments to and on account of Leavers		
6		Refunds of contributions	14	
6		State scheme premiums	5	
13,701	5	Transfers to other schemes	16,141	
1,812	7	Administration expenses	1,869	
<u>166,727</u>		Total expenditure		179,225
(67,050)		Net additions from dealings with members		(50,286)
		Returns on investments		
(69,956)	6	Investment income	(46,999)	
822,540	9	Change in market value of investments	(778,921)	
3,340		Taxation	2,512	
13,687	8	Investment management expenses	13,627	
<u>769,611</u>		Net returns on investments		(809,781)
702,561		Net (increase)/decrease in the Fund during the year		(860,067)
(2,927,368)		Net assets as at 1 April		(2,224,807)
<u>(2,224,807)</u>		Net assets as at 31 March		(3,084,874)

Pension Fund Accounts

Pension Fund Accounts

Net assets statement as at 31 March 2010

31 March 2009		Note	31 March 2010	
£000	£000		£000	£000
Restated				
		9		
		Investments at market value		
		Investment assets		
149,665		Fixed interest securities	217,771	
1,348,654		Equities	1,905,749	
72,068		Index linked securities	172,895	
120,822		Property unit trusts	186,281	
325,981		Managed funds	381,123	
4,996		Derivative Contracts	1,631	
83,165		Property	117,700	
103,882		Cash/deposits	92,716	
15,479		Other investments	24,408	
	2,224,712			3,100,274
		Investment liabilities		
(38,908)		Derivative Contracts	(28,896)	
(4,003)		Other Investments	(4,787)	
	(42,911)			(33,683)
	2,181,801	Total Investments		3,066,591
		11		
		Current assets and liabilities		
	14,413	Cash		5,065
	32,151	Debtors and payments in advance		19,337
	2,228,365			3,090,993
	(3,558)	Creditors and receipts in advance		(6,119)
	2,224,807			3,084,874

Note:

Figures as at 1 April 2009 for Derivative Contracts pending fx debtors and creditors have been restated. These now exclude the economic exposure of the foreign exchange (fx) trades and disclose solely the market value of the unrealised profit or loss.

Pension Fund Accounts

Notes to the Pension Fund Accounts

1. Background

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund (the Fund) for its employees and those of other scheduled Bodies within its area. The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. As a result the Fund now contains around 350 employing bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report & Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity and shareholder activism through the use of limited partnerships. The Investment Steering Committee (ISC) oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Board. The Fund's Statement of Investment Principles is contained in the Pension Fund Annual Report & Accounts.

2. Basis of preparation

The Pension Fund Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA, and the main recommendations of the Statement of Recommended Practice (SORP): 'Financial Reports of Pension Schemes' (Revised May 2007).

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies can be obtained by contacting the Council's Investments team or alternatively can be found on the Essex County Council website.

The Pension Fund Statement of Accounts summarises the transactions of the scheme and the net assets of the Fund. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year.

Pension Fund Accounts

3. Actuarial valuation

The most recent actuarial valuation of the Pension Fund was at 31 March 2007, when the market value of the assets was **£3,043m**. The assets of the Fund were valued on the market value approach and showed that the assets held were sufficient to cover **79.6%** of the Fund's liabilities at that time. The valuation was carried out using the projected unit method. Contribution rates are set after the valuation has been completed and appropriate deficit recovery periods set. The Fund's Funding Strategy Statement is contained in the Pension Fund Annual Report & Accounts.

The main economic assumptions used in the actuarial valuation were:

	Past service liabilities % per annum	Future service liabilities % per annum
Rate of return on investments		
Pre retirement	6.90%	6.50%
Post retirement	5.40%	6.50%
Rate of pay increases	4.60%	4.25%
Rate of increase to pensions in payment	3.10%	2.75%

The actuary has set a common contribution rate of **12.7%** of pensionable pay. This rate is varied for each participating body depending on their individual circumstances. In addition, a past service deficiency contribution of **7.0%** has been set to enable the Fund to reach 100% funding in 20 years from the date of the last actuarial valuation. This rate and recovery period are also varied for individual employers, to reflect their individual circumstances. The report of the actuary can be found in the Pension Fund Annual Report & Accounts.

A triennial actuarial valuation of the Fund as at 31 March 2010 has been commissioned.

4. Accounting policies

4.1 Accounting convention

The Pension Fund Statement of Accounts has been prepared on an accruals basis, except for transfers to and from the scheme which are accounted for on a cash basis.

Pension Fund Accounts

4.2 Investments

In the majority of cases, equity investments are valued at the last traded price recorded on the Stock Exchange Electronic Trading Service or bid market price at 31 March 2010.

For unquoted equity in the private equity limited partnerships, there is usually a time delay in receiving information from the private equity fund managers. The valuations shown in the net asset statement for these investments are the latest valuations provided to the County Council. In general these are valuations at 31 March 2010 and are compiled in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. In a limited number of cases, an estimate of the valuation as at 31 March 2010 has been made. To estimate the valuation at 31 March 2010, the Fund amends the 31 December 2009 valuation for payments made to and payments received from the private equity managers in the period 1 January 2010 to 31 March 2010.

Unit Trusts and managed funds are valued at the average of the bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

The value of fixed interest investments in the Fund's investment portfolio excludes interest earned but not paid over at the Fund year end, which is included separately within accrued investment income (as disclosed in Note 9).

Futures are valued at the closing market price published by the relevant futures exchange (eg. London International Financial Futures Exchange).

Forward foreign exchange contracts outstanding at year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31st March.

Direct property investments have been valued, at open market value, at 31 March 2010, by Jones Lang LaSalle, Chartered Surveyors.

Acquisition costs are included in the purchase cost of investments.

4.3 Investment income

Investment income is taken into account where dividends have been declared at the end of the financial year. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the fund account.

Income from fixed interest and index linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

Pension Fund Accounts

The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

4.4 Foreign currencies

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction. In the financial statements, balances are recorded at rates ruling on 31 March 2010.

4.5 Contributions

Normal contributions, both from the employees and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for when received.

4.6 Benefits payable

Under the rules of the Fund, retirees receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Other benefits are accounted for on the date the member leaves the Fund or on death.

4.7 Transfers to / from other schemes

Transfer values are normally accounted for on a payment/receipts basis since not only do they frequently apply to several past years but, in the case of transfer values due, information is not available at the year end on which to make an accrual.

4.8 Administrative and other expenses

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. A proportion of relevant officers' salaries have been charged to the Fund on the basis of time spent on investment related matters and pension administration.

Pension Fund Accounts

5. Membership activities

5.1 Membership

31 March 2009		31 March 2010 (Provisional)
46,857	Contributors	45,696
26,272	Deferred pensioners	31,024
27,992	Pensioners	29,299

Deferred pensioners are former employees who have chosen not to transfer their pension rights.

5.2 Pension benefits payable

2008/09 £000		2009/10 £000
44,551	County Council	47,629
51,539	District / unitary authorities	55,122
9,944	Other scheduled bodies	11,588
9,638	Other admitted bodies	11,045
<u>115,672</u>		<u>125,384</u>

5.3 Contributions receivable

Contributions receivable from employers are set out below:

2008/09 £000		2009/10 £000
88,097	Normal	94,680
145	Augmentation	105
69,731	Deficit	55,390
5,983	Other	4,313
<u>163,956</u>		<u>154,488</u>

Other employers' contributions relate to payments for the cost of early retirements.

Pension Fund Accounts

2008/09			2009/10	
Employee £000	Employer £000		Employee £000	Employer £000
16,315	51,634	County Council	17,167	53,130
14,588	52,860	District / unitary authorities	15,020	54,742
12,272	31,131	Other scheduled bodies	12,886	33,969
4,096	28,331	Other admitted bodies	4,485	12,647
47,271	163,956		49,558	154,488

During 2009/10 no lump sum employer contributions in respect of actuarial deficit were received.

The 2008/09 employer contributions reflect the payment of **£16.235m** by the Department of Health for the deficit valuation arising out of the termination of Fund membership of the Central Council for the Education and Training of Social Workers. Also during 2008/09 lump sum contributions in respect of the Actuarial deficit were received from Chelmsford Borough Council (**£1.419m**) and the Social Care Institute of Excellence (**£265,000**).

5.4 Transfers from other schemes

There were no amounts received in respect of group transfers from other schemes during 2008/09 or 2009/10.

5.5 Transfers to other schemes

During 2009/10 **£1.249m** was paid out to HPSS and a further **£0.436m** was paid to Tayside Council as a result of the termination of fund membership of the Central Council for the Education and Training of Social Workers. No amounts were payable in respect of group transfers to other schemes during 2008/09.

6. Investment income

2008/09 £000		2009/10 £000
5,021	Income from fixed interest securities	2,325
42,872	Dividends from equities	26,492
416	Income from index linked securities	3,677
7,396	Net rent from properties	7,904
12,892	Interest from cash deposits	5,295
1,359	Other	1,306
69,956	Total	46,999

Pension Fund Accounts

7. Administrative expenses

2008/09 £000		2009/10 £000
1,491	Administration and Processing	1,540
128	Actuarial Fees	175
193	Legal and other Professional Fees	154
<u>1,812</u>		<u>1,869</u>

8. Investment expenses

2008/09 £000		2009/10 £000
13,266	Administration, Management and custody	13,228
89	Performance Measurement Services	55
332	Other Advisory Services	344
<u>13,687</u>	Total	<u>13,627</u>

Pension Fund Accounts

9. Investments

9.1 The value of investments held by each manager together with investments in private equity and shareholder activism partnerships on 31 March was as follows:

2009			2010		
£m	%		£m	%	
146	6.7	Alliance Bernstein	224	7.3	
271	12.4	Aviva Investors	357	11.6	
160	7.3	Baillie Gifford and Co	248	8.1	
218	10.0	Capital International	1	0.0	
-	-	Fidelity International	224	7.3	
97	4.5	First State Investments (UK) Ltd	154	5.0	
133	6.1	Goldman Sachs Asset Management International	161	5.2	
711	32.6	Legal and General Investment Management	1,051	34.3	
146	6.7	Marathon Asset Management Ltd	245	8.0	
14	0.6	Mellon Capital Management	24	0.8	
111	5.1	Prudential M&G Alpha Opportunities	137	4.5	
48	2.2	Prudential M&G Infracapital	46	1.5	
65	3.0	Private Equity	112	3.7	
(9)	-0.4	Record Currency Management	33	1.1	
71	3.2	Shareholder activism	49	1.6	
2,182	100.0		3,066	100.0	

Pension Fund Accounts

- 9.2** The table below shows the movements in the market value of the investments held during the financial year, including profits and losses realised on the sales of investments since 1 April.

	Value at 1 April 2009 Re-stated £000	2009/10 Movement				Value at 31 March 2010 £000
		Purchases plus net transfers £000	Sale Proceeds £000	Change in Market Value £000	Cash Movement £000	
Fixed interest	149,665	128,412	(88,350)	28,044	-	217,771
Equities						
UK	237,351	63,077	(88,239)	117,394	-	329,583
Overseas	1,111,303	549,752	(630,681)	545,792	-	1,576,166
Index Linked	72,068	105,056	(16,617)	12,388	-	172,895
Managed & Unitised						
PUTS	120,822	87,257	(24,515)	2,717	-	186,281
Other	325,981	33,805	(52,415)	73,752	-	381,123
Derivative Contracts	(1,905)	-	-	1,926	-	21
Properties	83,165	25,015	(2,650)	12,170	-	117,700
Cash Deposits	101,600	106,138	13,140	(13,139)	(115,182)	92,557
Margin Account	2,282	-	2,123	(2,123)	(2,123)	159
	2,202,332	1,098,512	(888,204)	778,921	(117,305)	3,074,256
Debtors - outstanding sales	7,978					18,687
Creditors - outstanding purchases	(3,838)					(4,609)
Investment income debtors	7,501					5,721
Investment income creditors	(165)					(178)
Derivative Contracts pending fx debtors	1,804					1,610
Derivative Contracts pending fx creditors	(33,811)					(28,896)
	2,181,801					3,066,591

Figures as at 1 April 2009 for Derivative Contracts pending fx debtors and creditors have been restated. These now exclude the economic exposure of the foreign exchange (fx) trades and disclose solely the market value of the unrealised profit or loss.

For 2009/10, the total transaction costs were **£2.0m** (2008/09: £1.9m).

Pension Fund Accounts

9.3 An analysis of investment assets at 31 March is shown below.

2009 £000 Restated		2010 £000
	Fixed interest securities	
63,278	UK public sector quoted	57,037
42,409	UK quoted	160,734
267	Overseas public sector	-
43,711	Overseas quoted	-
	Equities	
57,807	UK quoted	78,128
684,967	Overseas quoted	993,734
179,544	UK unit trusts	251,455
426,336	Overseas unit trusts	582,432
	Index linked securities	
72,068	UK public sector quoted	172,895
-	UK quoted	-
	Managed funds	
171,542	UK unquoted	195,008
115,616	Overseas quoted	128,758
38,823	Active currency	57,357
	Derivative Contracts	
4,996	Derivative Assets	1,631
(38,908)	Derivative Liabilities	(28,896)
	Property	
21,950	UK properties (leasehold)	27,650
61,215	UK properties (freehold)	90,050
120,822	Property unit trusts	186,281
	Cash deposits	
84,484	Sterling	80,875
17,116	Foreign currency	11,682
2,282	Margin accounts	159
	Investment accruals	
7,978	Debtors - outstanding sales	18,687
(3,838)	Creditors - outstanding purchases	(4,609)
7,501	Income accrual - Debtor	5,721
(165)	Income accrual - Creditor	(178)
2,181,801	Value at 31 March	3,066,591

Figures as at 1 April 2009 for Derivative Contracts pending fx debtors and creditors have been restated. These now exclude the economic exposure of the foreign exchange (fx) trades and disclose solely the market value of the unrealised profit or loss.

Pension Fund Accounts

- 9.4** The Fund holds the following investments in unit trusts / pooled vehicles at 31 March which are in excess of 5% of the value of the Fund:

2009		Unit trust / pooled vehicle	2010	
£000	%		£000	%
179,544	8.1	Legal and General - UK Equity Index	251,456	8.2
139,221	6.3	Legal and General - North America Equity Index	192,169	6.2
139,490	6.3	Legal and General - Europe (Ex UK) Equity Index	188,021	6.1
n/a	n/a	Goldman Sachs - UK Sterling Credit Portfolio	160,734	5.2

As at 31 March 2010, the Fund had a commitment to contribute a further **£133m** to existing partnership investments, including private equity (31 March 2009: £113m). It is anticipated that payments against these commitments will be made over the next 1 – 5 financial years.

- 9.5** A breakdown of derivative contracts is as follows:

31 March 2009 £000	31 March 2009 £000		31 March 2010 £000	31 March 2010 £000
Economic Exposure (restated)	Market Value (restated)		Economic Exposure	Market Value
		Futures contracts - exchange traded		
32,899	523	UK Government fixed interest	-	-
(40,182)	(132)	Overseas government fixed interest	-	-
125,291	2,669	UK equities	-	-
(123,327)	(4,965)	Overseas equities	1,229	21
5,319	-	Cash backing open futures	(1,229)	-
-	(1,905)		-	21
		Forward foreign exchange contracts		
652,455	-	Sterling	830,955	-
(684,462)	-	Foreign currency	(858,241)	-
-	1,804	Pending foreign exchange assets	-	1,610
-	(33,811)	Pending foreign exchange liabilities	-	(28,896)
(32,007)	(33,912)	Total Derivative Contracts held at year end	(27,286)	(27,265)

Futures contracts are used to gain exposure to investment markets without the need to purchase underlying stocks and shares.

Forward foreign exchange contracts are used to hedge against the currency risk of the Fund's overseas investments.

Pension Fund Accounts

10. Additional Voluntary Contributions (AVC) Investments

2008/09 £000		2009/10 £000
6,355	Value of AVC fund at beginning of year	5,446
646	Employees contributions	365
(768)	Investment income and change in market value	1,098
(787)	Benefits paid and transfers out	(859)
<u>5,446</u>		<u>6,050</u>

In accordance with regulations 5 (2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, additional voluntary contributions (AVCs) are not included within the transactions recorded within the Fund Account.

The AVC providers to the Fund are The Equitable Life Assurance Society and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

The Fund relies on individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers. A summary of the information provided by Equitable Life and Standard Life to the Fund is shown in the table above.

Pension Fund Accounts

11. Current assets and liabilities

31 March 2009 £000		31 March 2010 £000
	Current assets	
14,413	Cash	5,065
	Debtors and payments in advance	
32,151	Contributions due	19,337
	Current liabilities	
	Creditors and receipts in advance	
(1,968)	Benefits due	(3,523)
(1,590)	Investment management expenses	(2,596)
<u>43,006</u>	Net total	<u>18,283</u>

12. Related party transactions

Under FRS8 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

During the year, none of the Essex Pension Fund Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex County Council Pension Fund. There were no material contributions due from employer bodies at the year end which remained outstanding after the due date for payment.

Note 11 to the accounts shows the Pension Fund cash held with the County Council at 31 March and note 7 shows the charges made to the Pension Fund by the County Council for administration costs.

13. Further information

The Council publishes a separate Pension Fund Report and Accounts. Copies may be obtained from:

Group Manager Investments
PO Box 11
County Hall
Chelmsford CM1 1LX

Telephone **01245 431301** E-mail pensions.investments.web@essex.gov.uk