

## Essex Pension Fund Business Plan 2012/13

### Introduction

Under the Local Government Pension Scheme (Administration) Regulations 2008 the County Council is required to maintain a pension fund for its employees and those of other Scheduled Bodies within its area. The Fund is also empowered to admit employees of certain other bodies.

The County Council's functions as administering authority are delegated to the Essex Pension Fund Board (the Board), the Investment Steering Committee (ISC) and its officers. The Board exercises all of the powers and duties of the Council in relation to its functions as Administering Authority except where they have been specifically delegated to another committee or officers. The ISC determines investment strategy, the Fund's asset allocation, appoints investment managers and reviews investment performance and the Statement of Investment Principles. An Independent Person and the County Solicitor act on behalf of the Administering Authority for the purposes of the 2 stage pension complaints procedure. The Executive Director for Finance implements the decisions of the Board and ISC and is responsible for managing the day to day operations of the Fund. This includes the power to seek professional advice and devolve the day to day handling of the Fund to professional fund managers and advisers within the scope of the regulations. Those day to day operational procedures are the subject of further delegation arrangements which are detailed below in the background section. This Plan deals with all of the County Council's delegated functions as Administering Authority.

### Background

Provisional total membership of the Fund as at 31 March 2012 is:

Active members	42,761
Pensioners/dependents	32,203
Deferred Members	37,675
<u>Total</u>	<u>112,639</u>

This membership comes from around 400 separate Employing bodies, and includes:

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

The estimated total value of pensions paid during 2011/12 was £140m, together with other benefits totalling £45m. The average value of pension in payment during the year was £4,355.

Other than those responsibilities delegated specifically to the Board, or the ISC, all of the Administering Authority responsibilities are delegated to officers.

The Investment Team, under the management of the Head of Investments, co-ordinate the investment management and funding arrangements and provide monitoring and accounting for the investments of and contributions to the Essex Pension Fund.

Pension Services, under the management of the Pension Services Manager, provide a comprehensive pension administration and membership service to the Stakeholders in the Essex Pension Fund, ensuring that all benefits are paid promptly and that all statutory requirements are met.

### **Objectives for 2012/13**

The Essex Pension Fund objectives for 2012/13 are as follows. Detailed action plans outlining improvement areas for achieving these objectives are set out at Annex B. These action plans do not itemise tasks required as part of day to day normal business.

### **Governance**

- 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

### **Investments**

- To maximise the returns from investments within reasonable risk parameters
- To ensure the Fund is properly managed
- Ensure all significant Fund investment issues are communicated properly to all interested parties

## **Funding**

- 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

## **Administration**

- 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

## **Communications**

- 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

## **Staffing Establishment 2012/13**

The following staff breakdown covers those Essex County Council staff administering the Essex Pension Fund (LGPS) within both the Investment Team and Pension Services.

In addition to LGPS responsibilities, staff within Pension Services administer the Police and Fire Pension Schemes on behalf of the Administering Police and Fire Authorities, aspects of the Teachers Pension Scheme and provide a Pensioner Payroll service.

<b>Grades</b>	<b>Number of FTE posts at 1 April 2012</b>	<b>Comments</b>
Bands 7-11	2.69	An increase to the establishment of one FTE was agreed in 2009/10 –recruitment has been on hold since that time but is anticipated during 2012/13.  Staffing resources will be reviewed in line with agreed objectives
Band 6	3.00	
Range 5	8.00	
Bands 1-4	34.00	
<b>Total</b>	<b>47.69</b>	

## **Outline Budget Summary 2012/13**

For key elements of the Pension Fund an updated estimate of the 2011/12 outturn has been provided. A forecast for 2012/13 has also been provided based on existing membership levels. No assumptions have been made at this stage in regard to the outcome and effects of the Hutton Review. Monitoring will be carried out by officers during the year and the impact of any significant developments will be reported to the Board.



**ESSEX PENSION FUND**
**MARCH 2012**
**CONTRIBUTIONS, BENEFITS, TRANSFERS, INVESTMENT MANAGEMENT & ADMINISTRATION EXPENSES**

2010/11 Actual £'000			2011/12 Updated Estimate £'000	2011/12 Updated Estimate £'000	2012/13 Original Estimate £'000
	<b>Note</b>	<b>INCOME</b>			
(50,353)	1	<b>Employee Contributions</b>		(48,455)	(48,504)
		<b>Employer Contributions</b>			
(96,103)	2.1	Ongoing Contributions	(94,649)		(94,744)
(71,482)	2.2	Deficit Contributions	(59,335)		(60,818)
(5,521)	2.3	Financial Strain and Augmentation	(6,191)		(6,303)
(173,106)				(160,176)	(210,369)
(27,852)	3	<b>Transfers in</b>		(16,096)	(28,688)
(251,311)		<b>TOTAL INCOME</b>		(224,727)	(239,057)
		<b>EXPENDITURE</b>			
		<b>Benefits Payable</b>			
130,775	4.1	Pensions	140,235		141,497
43,229	4.2	Lump Sums	39,810		40,169
3,338	4.3	Death Benefits	4,602		3,970
177,342				184,647	185,636
17,261	5	<b>Transfers Out</b>		10,349	17,779
13,560	6	<b>Total Investment Management Expenses</b>		14,626	14,991
1,816	7	<b>Administration</b>		1,852	1,908
209,979		<b>TOTAL EXPENDITURE</b>		211,474	220,314

	2011/12 £'000	2012/13 £'000
<b>ESTIMATED CASH BALANCE</b>		
<b>Opening cash balance</b>	(13,150)	(5,317)
<b>TOTAL INCOME</b> (excluding accruals)	(226,018)	(240,423)
<b>TOTAL EXPENDITURE</b> (excluding accruals)	211,385	220,221
<b>less Investment Management Expenses charged directly to mandates</b>	(4,534)	(4,670)
	(19,167)	(24,871)
<b>Further allocations to Fund Managers (note 8)</b>	27,000	20,000
<b>ESTIMATED CLOSING CASH BALANCE</b>	(5,317)	(10,188)

**Note**

- 1 Employees pay between 5.5% and 7.5% of pay as a contribution toward their future pension liability.
- 2.1 Ongoing contributions relate to the future pension liabilities of an employer's current workforce.
- 2.2 Each Actuarial Valuation compares the assets and liabilities for each employing body in the Fund. Where liabilities exceed assets, deficit payments are required.
- 2.3 Where an employer has agreed to the early retirement of an employee, a calculation is made of the impact of the premature cessation of contributions and investment returns as well as the premature payment of retirement benefits. This calculation, known as Financial Strain, is then charged to the employer.
- 3 Payments made by other pension schemes in respect of employees moving between funds and represents the current value of past contributions.
- 4.1 The annual pension paid to a member on retirement based on final pay. The annual pension payment will rise each April in line with the increase of the Consumer Price Index.
- 4.2 A tax free lump sum paid on retirement based on final pay.
- 4.3 Payable on death of an employee or pensioner.
- 5 Payments made to other pension schemes in respect of employees moving between funds and represents the current value of past contributions, along with returned contributions.
- 6 Management fees for Investment Managers and Custodian.
- 7 Administration expenditure is mainly made up of the recharge of costs for Pension Services and the Investment Team. It also includes actuarial, audit & legal fees and other expenses.
- 8 Additional funds generated from surplus cash flow awarded to new or existing investment mandates.

## **Essex Pension Fund Business Plan 2012/13**

### **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:**

<b>Action</b>	<b>How will this be achieved?</b>
1. Annual business plan will be put in place.	A draft business plan will be produced based upon the draft objectives and submitted to the Board for approval in March 2012.
2. Further roll out of training and training needs assessments	Ongoing review of training needs and implementation of a training programme to fill any knowledge gaps for PFB, ISC and officers, with reference to the CIPFA Knowledge and Skills Framework.
3. Board members' knowledge centre	A web based facility for Members to replace the handbook will be identified and put in place.

Action	How will this be achieved?
4. Annual review of governance policy	Review governance policy to ensure it is relevant and up to date, including the governance compliance statement therein.
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it. The 2011/12 review was deferred to 2012/13.
6. Commence procurement of Independent Investment Adviser	Of the two Independent Investment advisers to the ISC, one contract will end in July 2012, and the ISC has agreed not to make a further re appointment The remaining Independent Investment adviser is due to end his contract mid way through 2013. Arrangements will be made to ensure that a successor is in place when required.



# Investments

## **Objectives:**

- To maximise the returns from investments within reasonable risk parameters
- To ensure the Fund is properly managed
- Ensure all significant Fund investment issues are communicated properly to all interested parties

## **Actions:**

Action	How will this be achieved?
7. Monitor compliance with statutory guidance on investment decision making and disclosure.	Annually review the Statement of Compliance to be published in the SIP.
8. Review of asset allocation	Annual review of asset allocation as part of the annual review of strategy & structure at the July 2013 ISC.
9. Review of Statement of Investment Principles (SIP)	Annual review of SIP following the annual review of strategy & structure.
10. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.

# 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?
11. Review Funding Strategy Statement	In conjunction with the interim review and in discussion with the Actuary, the FSS will be reviewed to ensure that it remains appropriate.
12. Interim Review as at 31 March 2012.	An interim review of the Fund as at 31 March 2012 will be commissioned from the Actuary.
13. Admission/employer participation/bulk transfer policy	A framework structure and associated documentation will be agreed with the Fund Actuary and implemented.

## 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
14. Reform of LGPS	Pending outcomes, review and put in place a plan to deliver any requirements (e.g. revised processes, systems, etc).
15. Complete the annual end of year data exercise as at 31 March 2012	Provide data to the Fund Actuary in order that any necessary calculations may be carried out.
16. Review the provision of AVC arrangements	The outcomes of the AVC review will be implemented.
17. Administration Strategy	Carry out consultation exercise, approve and publish agreed strategy.
18. Integration of Pensions Services and Investment Team	A review will be carried out of the two teams that currently service the Pension Fund, with a view to integrating structures.
19. Procurement of Global Custodian	The market testing of the Funds Global Custody services will be completed.
20. 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)

## 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?
21. Reform of LGPS	Pending outcomes, review and put in place a plan to deliver any communication requirements including delivery of key messages
22. Implement agreed Communications Policy	Implement in accordance with detailed provided in report on 7 March Board agenda, including consideration of implementation of on line facilities (subject to appropriate business case).