Essex Pension Fund Strategy Board

11:15	Wednesday, 13 September 2017	Committee Room 2, County Hall, Chelmsford, CM1 1QH

Quorum: 4

Membership	**Representing**
Councillor S Barker	Essex County Council (Chairman)
Councillor S Canning	Essex County Council
Councillor A Goggin	Essex County Council
Councillor G Mohindra	Essex County Council
Councillor L Scordis	Essex County Council
Councillor K Smith	Essex County Council
Councillor C Souter	Essex County Council
Councillor C Riley	Castle Point Borough Council
Councillor A Moring	Southend-on-Sea Borough Council
Ms S Child	Scheme Members
Ms J Moore	Smaller Employing Bodies

For information about the meeting please ask for:
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Essex County Council

Essex County Council and Committees Information

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Part 1

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

		Pages
1	**Apologies for Absence**	
2	**Declarations of Interest** To note any declarations of interest to be made by Members in accordance with the Members' Code of Conduct	
3	**Minutes** To approve as a correct record the Minutes of the Board meeting held on 5 July 2017	7 - 10
4	**Training: An overview of scheme benefits**	
5	**Update on Pension Fund Activity** A 2017/18 Business Plan B Risk Management - Risk Register C Measurement against Fund Objectives - Scorecard To note a report (EPB/17/17) by the Director for Essex Pension Fund and the Head of Essex Pension Fund	11 - 50
	1:15pm - 2:00pm LUNCH	
6	**LGA Consultation on Academies** To consider a report (EPB/18/17) by the Director for Essex Pension Fund	51 - 56
7	**Colleges Review** To consider a report (EPB/19/17) by the Director for Essex Pension Fund	57 - 68
8	**Fund discretions: Scheme Pays** To consider a report (EPB/20/17) by the Director for Essex Pension Fund and the Head of Essex Pension Fund	69 - 72
9	**Training: Annual Accounts**	
10	**Essex Pension Fund Annual Accounts** To note a report (EPB/21/17) by the Director for Essex Pension Fund	73 - 126

11	**External Audit Results Report** To note a report (EPB/22/17) by EY	**127 - 162**
12	**Investment Steering Committee (ISC) Quarterly Report** To consider a report (EPB/23/17) By the Director for Essex Pension Fund	**163 - 172**
13	**Date of Next Meeting** To note that the next meeting of the Board will be held on Wednesday 13 December 2017 at 2.00pm in Committee Room 2, County Hall.	
14	**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.

15 Year-end returns 2016/17 charging policy

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

16 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.

Close of formal meeting

Training: INFOboard

Minutes of the meeting of the Essex Pension Strategy Board, held in Committee Room 2 County Hall, Chelmsford, CM1 1QH on Wednesday, 05 July 2017

Present:

Member

Essex County Council

Cllr S Barker (Chairman)
Cllr S Canning
Cllr A Goggin
Cllr G Mohindra
Cllr L Scordis
Cllr C Souter

District/Borough Councils in Essex

Cllr C Riley

Unitary Councils

Scheme Members

Mrs S Child

Smaller Employing Bodies

Jenny Moore

The following officers and advisers were also present in support

Kevin McDonald	Director for Essex Pension Fund
Jody Evans	Head of Essex Pension Fund
Ian Colvin	Independent Governance and Administration Adviser
Sara Maxey	Employer Relationship Manager
Sam Andrews	Investment Manager
Matt Mott	Communications Manager
David Tucker	Employer Liaison Manager
Ian Myers	Senior Committee Officer

1 Appointment of Chairman and Vice-Chairman

The appointments of Cllr Susan Barker (Chairman) and Cllr Stephen Canning (Vice-Chairman) were noted

2 Board Membership and Terms of Reference

Members received report EPB/10/17 from the Secretary to the Board which detailed the Board's membership and Terms of Reference.

Resolved:

That the report be noted

3 Apologies for Absence

Apologies were received from Cllr Andrew Moring, Southend Borough Council.

4 Declarations of Interest

The Chairman requested Members declare any interests as appropriate.

Cllr Colin Riley declared he was in receipt of an Essex LGPS pension. Cllr Alan Goggin declared he is a Director of Market Field Academy and his wife is in receipt of an Essex LGPS pension. Cllr Clive Souter declared he is a Governor at Passmores Academy.

5 Reminder of schedule of meetings for the remainder of the municipal year

Resolved:

The dates of future meetings for this municipal year be noted.

6 Minutes

Resolved:

That the Minutes of the Essex Pension Strategy Board held on 8 March 2017 be approved as a correct record and signed by the Chairman.

7 Investment Steering Committee (ISC) Quarterly Report

Members received report EPB/11/17 by the Director for Essex Pension Fund which provided details on ISC activity since the last Board noting it had met on two occasions.

Member were informed that the former Chairman, Mr Rodney Bass, would be attending future meetings of the ISC and this Board as a Specialist Consultant.

Resolved:

That the report be noted.

8 Essex Pension Fund Advisory Board (PAB) Quarterly Report

Members received report EPB/12/17 by the Director for Essex Pension Fund and the Head of Essex Pension Fund which provided an update on Pension Advisory Board (PAB) activity since the last Baord meeting.

Resolved:

That the report be noted.

9 Academies Valuation Forum

Members received report EPB/13/17 by the Employer Relationship Manager which provided an update on the Academies Valuation Forum.

Members received a further update from the Director for Essex Pension Fund noting:

- Pooling of Academies is understood to remain the Governments preferred delivery model.
- There are approximately 300 Academies in Essex at present.
- A plan had been developed that details how a common Academies contribution rate (25%) will be achieved within the next nine years.

Resolved:

That the report be noted

10 Draft Pension Fund Accounts

Members received report EPB/14/17 which provided a summary of the process for publication of the Pension Fund's financial statement for 2016/17.

Members were informed the draft accounts would be circulated following the meeting and presented for review at the September meeting of the Board

Resolved:

That the report be noted

11 Essex Pension Fund Board - Annual Report

Members received the Annual Report from the Secretary to the Board. Members were informed the Chairmen would also present the report to Full Council.

Resolved:

That the report be noted

12 Annual Review of Member Attendance

Members received report EPB/16/17 from the Secretary to the Board which detailed Member's attendance at Board meetings for the period 1 July 2016 to 3 May 2017.

It was confirmed that Scheme Member, Mrs Sandra Child had 100% attendance.

Resolved:

That the report be noted

13 Training

Members received a presentation from Ian Colvin, Independent Governance and Administration Adviser.

The presentation focussed on the Governance arrangements of the fund, current legislation and the Regulator's Code of Practice.

It was agreed that further training on an overview of scheme benefits will be presented prior to the future Board meeting being held on 13 September 2017.

14 Date of Next Meeting

Members noted the next meeting of the Board would be held on Wednesday 13 September 2017.

There being no further business the meeting closed at 4.20pm

Chairman

Essex Pension Fund Strategy Board	EPB/17/17
Date: 13 September 2017	

Update on Pension Fund Activity

Joint Report by the Director for Essex Pension Fund & Head of Essex Pension Fund
Enquiries to Kevin McDonald on 03330 138488 and Jody Evans on 03330 138489

1. Purpose of the Report

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

- 2017/18 business plan
- risk management
- scorecard

2. Recommendations

2.1 That the Board notes:

- progress against the 2017/18 business plan
- the current risks with a residual score of six or above
- the latest scorecard measures

3. Background

3.1 The following documents accompany this report:

- an update on the 2017/18 business plan at Annex A;
- risks with a changed score or 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:

- annual accounts;
- external auditors report;
- quarterly Investment Steering Cttee report; and
- year-end charging policy

5. LAPF investment awards

5.1 Essex has been shortlisted in the *scheme governance* category at the forthcoming investment awards organised by the (LAPF) Local Authority Pension Funds publication. The Chairman and Vice Chairman will attend the ceremony on Tuesday 19 September.

6. Business Plan 2016/17 & 2017/18

6.1 Progress with the business plan shown at Annex A (i). Of the 21 actions for 2017/18:

- 3 (15%) have been completed;
- 12 (55%) are in progress; and
- 6 (30%) are scheduled to commence later the year.

6.2 One of the key actions to be undertaken by the PSB in 2017/18 will be considering the 31 March 2017 Interim Review. This work is underway and the Actuary will present to the Board's next meeting in December.

7. 3 year Business Plan

7.1 Officers are currently reviewing the 3 year business plan, and an update will be brought to the December meeting.

8. Risk Register

8.1 There are currently 83 risks in the Fund's risk register of which 14 have a residual score of six or more (amber) and are shown at Annex B.

8.2 One amber risk has changed score since the last meeting.

A.1 new financial system: *Residual Score reduced from 9 to 6*

A financial system migration took place at the end of November 2016. The Pension Fund has now completed year end reporting and statutory deadlines have been met.

The Fund is also currently implementing phase II of UPM which will include "Member Web" stages of User Acceptance Testing are on-going.

9. Scorecard

9.1 The scorecard is shown at Annex C.

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 2017/18 is challenging and will require significant input by officers and advisers to bring some of the actions to conclusion. The staffing structure review is ongoing.

14. Background Papers

14.1 None.

ANNEX A

Essex Pension Fund Business Plan 2017/18
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

Action	How will this be achieved?	Officer managing action*	Progress as at September 2017
1. Annual business plan will be put in place.	Proposed actions for 2017/18 business plan actions were approved at March 2017 Board.	DfEPF & HoEPF	Complete
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2017/18. Specific provision will be made for any new Board Members.	IGAA	Induction, investment and governance training took place at meetings in May, June & July 2017 respectively. The 13 September PSB agenda includes training on scheme benefits & annual accounts. Assessment of training will continue throughout 2017/18.

Action	How will this be achieved?	Officer managing action*	Progress as at September 2017
3. Board members' knowledge centre	A web based facility for Members is in place.	HoEPF	Training on infoBOARD is scheduled at the conclusion of the 13 September PSB.
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	During 2017/18 a review of the Governance Policy and Compliance statement will be undertaken.
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it .	SCO & IGAA	A review is planned for 2018.

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

Action	How will this be achieved?	Officer managing action*	Progress as at September 2017
6. Review of asset allocation	A review will form part of the Asset Liability Study undertaken after the completion of the 2016/17 Actuarial Valuation process.	DfEPF	A review is scheduled for in autumn 2017.
7. Implement any review of investment allocation arrangement.	Implement the decisions taken at the ISC strategy meeting.	DfEPF	Any asset allocation decisions made by the ISC will be implemented as required during 2017/2018
8. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.	DfEPF	A review is scheduled for autumn 2017.

Action	How will this be achieved?	Officer managing action*	Progress as at September 2017
9. Review the Investment Strategy Statement (ISS)	A draft ISS was published in late March 2017 and a stakeholder consultation launched between late April and 22 June. The responses to the stakeholder consultation were considered at the 19 July meeting of the ISC. The final agreed ISS has now been published at: http://www.essexpensionfund.co.uk/media/2970/investment-strategy-statement-2017.pdf	DfEPF	Complete.
10. Respond to the requirements of LGPS structural reform process	Developments in relation to LGPS structural reform will be monitored	DfEPF	Progress reports on the Fund's involvement with the ACCESS pool will feature throughout 2017/18.

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

Action	How will this be achieved?	Officer managing action*	Progress as at September 2017
11. Interim Review as at 31 March 2017.	An interim review of the Fund as at 31 March 2017 will be commissioned from the Actuary.	HoEPF & DfEPF	The review will be considered in December 2017.
12. Review Funding Strategy Statement	A revised Funding Strategy Statement will be drafted, consulted upon and finalised in conjunction with the triennial valuation.	HoEPF & DfEPF	The Funding Strategy will be reviewed in light of the Asset/Liability Study and the 31 March 2017 interim review
13. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis.	HoEPF & DfEPF	Employer participation will continue to be reviewed during 2017/2018.

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

Action	How will this be achieved	Officer managing action*	Progress as at September 2017
14. Complete the annual end of year data exercise as at 31 March	Complete year end accounting, gather information from employer and update UPM, and produce annual benefit statements.	HoEPF	Complete Further detail is provided in agenda item 13 of the 13 September 2017 PSB agenda.
15. Administration Strategy	The Administration Strategy will be monitored annually.	HoEPF	The Administration Strategy will be monitored and reviewed during 2017/2018.
16. 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 January 2012 and March 2017)	HoEPF	Monitoring underway.

Action	How will this be achieved	Officer managing action*	Progress as at September 2017
17. Implementation of UPM (administration system)	Ongoing phase implementation will continue through 2017/2018.	HoEPF	The second phase will continue throughout 2017/2018 In addition the digital platform for members to view their benefits on line will launch during 2017/2018. A phased release is currently being planned.
18. Review of staffing structure	A review is scheduled to take place during 2016/17.	DfEPF & HoEPF	The review will finalise during 2017/2018
19. Confirmation of GMP entitlement	Confirming the GMP (Guaranteed Minimum Pension) element of all scheme members' entitlement is required to be completed by 2017/18	HoEPF	This project will continue throughout 2017/18. The "rectification of records" stage will commence in 2017/2018. The current deadline for the completion of this project is 31 December 2018.

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

Action	How will this be achieved?	Officer managing action*	Progress as at September 2017
20. Monitor Communications Policy	The communications policy will be reviewed during 2017/2018	HoEPF &CM	The communications policy will be kept under review during 2017/18
21. Communication GMP entitlement	All Employees involved will be communicated with confirming the GMP (Guaranteed Minimum Pension) element of their Pension entitlement.	HoEPF &CM	The current deadline for the completion of this project is 31 December 2018

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 PSB	3	2	6	**6**	Ian Myers	The Board's approach to training is based around the CIPFA Knowledge & Skills Framework and is aimed at minimising any adverse impacts of failure in succession planning. The immediate past Chairman is currently undertaking a 6 month role as Specialist Consultant ending December 2017.
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	A review of the staffing structure is underway.
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.
Investments	To ensure the Fund is properly managed	I16	The implementation of MiFiD II (January 2018) leads to the Fund being categorised by some / all of its service providers as a 'retail client' - the result of which could reduce the range of sub asset classes in which the Fund is able to invest, and may even require divestment from the current portfolio.	4	2	8	**8**	Kevin McDonald	Following the Fund's involvement in dialogue between the Local Government Association (LGA), Financial Conduct Authority (FCA) and the Fund Management Industry in the development of an appropriate approach for LGPS Funds, officers are now in involved in the process of preparing the necessary returns.
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 reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.

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	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.
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
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	
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 (owing to IT system issues)	3	2	6	**9**	Kevin McDonald / Jody Evans	A financial system migration took place at the end of November 2016. The Pension Fund has now completed year end reporting and statutory deadlines have been met. The Fund is currently implementing phase II of UPM which will include "Member Web" stages of UAT are on going.

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
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A6	Fund's resources not able to match the demands of providing the service.	3	3	9	9	Kevin McDonald / Jody Evans	A review of the staffing structure is underway.
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	3	9	9	Jody Evans	The Supreme Court has ruled in favour of Ms Brewster in her case against NILGOSC. This precedent seems likely to prompt revised LGPS Regulations throughout the UK. In view of this preparations are underway for a case by case review of surviving co-habiting partners' pensions to be conducted (this will cover the 6 year period 2008-2014 when a nomination was required under the Regulations).
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A18	Unable to meet Actuarial Valuation deadlines or produce Annual Benefit Statements for active Scheme Members in line with Regulatory deadlines due to lack or late provision of data from employers	4	2	8	**8**	Jody Evans	2017/18 exercise will commence with communications regarding a timetable, requirements and spreadsheet to employers along with encouragement to employers to engage with Fund Officers.
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally	C1	Increase in enquiries from Scheme Member resulting in increased workload for Fund officers	2	3	6	6	Kevin McDonald /Jody Evans	Whilst the volume of phone enquiries stemming from Freedoms & Flexibilities (for DC schemes) has now reduced, a number of detailed discussions on individual cases remain and represent a significant workload.

ANNEX C

Essex Pension Fund Scorecard - 13 September 2017

1. GOVERNANCE

1.1 - Provide a high quality service whilst maintaining value for money	5	
1.2 - Ensure the Pension Fund is managed by people who have the appropriate knowledge and expertise	3	
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	
1.4 - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	1	3
1.5 - Understand and monitor risk and compliance	5	

2. INVESTMENTS

2.1 - Maximise returns from investments within reasonable risk parameters	4	1
2.2 - Ensure the Pension Fund is properly managed (ISC attendance, skills and governance arrangements)	2	
2.3 - Ensure investment issues are communicated appropriately to the Fund's stakeholders	5	

3. FUNDING

3.1 - Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters and Funding Strategy timescales	1	
3.2 - To recognise in drawing up its Funding Strategy, the desirability of employer contributions that are as stable as possible	2	
3.3 - To have consistency between Investment and Funding strategies	2	
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.	1	
3.5 - Maintain liquidity in order to meet projected net cash flow outgoings	1	
3.6 - Minimise unrecoverable debt on termination of employer participation	1	1

4. ADMINISTRATION

4.1 - Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need.	3	9	2
4.2 - Data is protected to ensure security and authorised use only	2		
4.3 - Ensure proper administration of financial affairs	1		
4.4 - Compliance with Fund's governance arrangements	2	3	

5. COMMUNICATIONS

5.1 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.	4	
5.2 - Ensure our communications are simple, relevant and have impact and deliver information in a way that suits all types of stakeholder.	1	6
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.	1	1

Key

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

1.1 - Provide a high quality service whilst maintaining value

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	1st	quartile	G	G	2nd/3rd quartile	2nd/3rd quartile	Low	Annual (Dec)
1.1.2 Number of scheme member complaints	1		G	G	5 or under	20 or under	Low	Quarterly
1.1.3 Number of scheme member compliments	12		G	G	15 or more	60 or more	High	Quarterly
1.1.4 Scheme member survey - % of positive answers	99.8%	%	G	G	95%	95%	High	Annual (Dec)
1.1.5 Employer survey - % of positive answers	95.2%	%	G	G	95%	95%	High	Annual (Dec)

Rationale for performance status and trend

1.1.1. Cost per member was £14.95 in 2015/16 (£16.61 in 2014/15) compared to the CIPFA Benchmarking average of £18.37 (£19.17 in 2014/15).

1.1.2. The number of complaints received in the 3 months to 30 June 2017 was 1. The annual target is less than 20.

1.1.3. The number of compliments received in the 3 months to 30 June 2017 was 12. The annual target is 60.

1.1.4. 500 scheme members (employees) were invited to participate in a seven question survey conducted in April 2017. 122 members returned completed survey's resulting in a total of 1586 answers, of which 11 were negative responses. The remaining 1575 (99.3%) were positive. The previous survey has a 97.8% positive responses.

1.1.5. 378 employers were invited to participate in a 10 question survey conducted in October 2015. Of 147 responses 7 were negative which resulted in a 95.2% positive response rate. The previous survey has a 97.3% positive response.

The current employer survey was completed on 30 June 2017 and results will be reported in December 2017.

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:** Ian Myers/Jody Evans/Ian Colvin

Status

	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity	Frequency
1.2.1 Members training	Target exceeded		G	G	90%	90%	High	Quarterly
1.2.2 Board Member attendance at Board meetings	82%	%	G	G	80%	80%	High	Quarterly
1.2.3 Officer training plans and Supporting Success objectives in place	100%	%	G	G	100%	100%	High	Ongoing

Rationale for performance status and trend

1.2.1 In the measurement period Board Members' training credits exceeded the 90% target.
.
1.2.2 This represents attendance at Board meetings over the last twelve months.

1.2.3. Supporting Success / Perform objectives are in place for all staff working on the Essex Pension Fund by 31 July 2017.

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	15% Complete 55% in progress	A	A	30% Complete, 50% in progress	100% complete	High	Quarterly

Rationale for performance status and trend

1.3.1 Against a total of 21 actions or projects for the year:

3 (15%) complete
12 (55%) in progress
6 (30%) scheduled to commence later in 2017/18

The business plan is detailed in Annex A of this report.

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: Ian Myers **Data lead:** Ian Myers

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 Pension Strategy Board has provision for representatives of employers and scheme members. Appointees are currently in place.	Yes		G	G	Yes	High	Quarterly
1.4.4 The Pension Advisory Board has provision for representatives of both employers and scheme members. Appointees are currently in place.	No		R	R	Yes	High	Quarterly

Rationale for performance status and trend

1.4.1 Reflects performance over the last 12 months.

1.4.2 Reflects performance over the last 12 months.

1.4.3 Appointments to the PSB were finalised in In January 2016.
Yes = green; No = red.

1.4.4 There is currently a vacancy on the Pension Advisory Board.
It is understood that Eastern Region UNISON will confirm a replacement for Mr Keith Flowers later in September 2017.

Yes = green; No = red.

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
1.5.1 Number of internal audit reviews finding limited/no assurance	0		G	G	0	0	Low	Annual
1.5.2 Number of internal audit recommendations outstanding	0		G	G	0	N/A	Low	On-going
1.5.3 Percentage of risks on the risk register with a residual score that is classified as amber	18	%	G	G	<20%	<20%	High	Quarterly
1.5.4 Percentage of risks on the risk register with a residual score that is classified as red	0	%	G	G	0%	0%	High	Quarterly
1.5.5 Number of matters raised by external auditors relating to the Essex Pension Fund	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 2015/16 internal audit reports for both Pensions Administration and Pensions Investment received good assurance.

1.5.2 The 2015/16 internal audit reports for Pensions Investment and Pensions Administration has no outstanding recommendations.

1.5.3 The Fund currently has 83 risks in its register, of which 15 have a residual score that is classified as amber (15 in March). Full details are at Annex B to this report. Measurement: below 20% = green; between 20%-25% = amber; above 25% = red

1.5.4 The Fund currently has 83 risks in its register, none of which has a proposed residual score that is classified as red. (0 in December). Measurement: 0% = green; above 0% = red

1.5.5 There are no significant recommendations for Member to note in the 2016/17 Annual Results Report from EY.

2.1 - Maximise returns from investments within reasonable risk parameters

Data as at: 31 March 2017

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	1st	ranking	G	Gy	1st	1st	High
2.1.2 Annual Return compared to Benchmark	20.1	%	G	G	17.6%	17.6%	High
2.1.3 Five year (annualised) return compared to Benchmark	11.7	%	G	G	6.5%	6.5%	High
2.1.4 Five year (annualised) return compared to central expected return of current investment strategy	11.7	%	G	G	6.4%	6.4%	High
2.1.5 Five year (annualised) return compared to central expected return of current investment strategy including manager outperformance	11.7	%	G	G	7.2%	7.2%	High

Rationale for performance status and trend

2.1.1. Local Authority performance data is no longer available via State Street. The Fund is currently reviewing its peer group comparator in light of this.

2.1.2 The annual return of 20.1% was above the benchmark of 17.6%.

2.1.3 The five year return of 11.7% was above the benchmark.

2.1.4 The five year return of 11.7% was above the central expected return of the current investment strategy.

2.1.5 The five year return of 11.7% was above the expected return of the current investment strategy including investment manager outperformance.

The next update will be given in the December scorecard.

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 & Ian Colvin

Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
2.2.1 ISC Member attendance at ISC meetings	85	%	G	G	80%	80%	High	Quarterly
2.2.2 ISC Members training	Target exceeded		G	G	90%	90%	High	Quarterly

Rationale for performance status and trend

2.2.1 . This represents attendance at ISC meetings between 31 July 2016 and 1 September 2017. It includes Appointment Sub Committees and new member induction sessions.

2.2.2 In the measurement period, ISC Members' training credits exceeded the 90% target.
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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	100	%	R	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

Measures **2.3.1 - 2.3.2** cover the quarter ending 30 June 2017, during which all arrangements in respect of the ISC met the target.

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
- 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 in place.

3.1 - Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters and Funding Strategy

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%

The latest asset liability study will take place in autumn 2017.

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
3.2.1 Stability mechanisms are included within the current Funding Strategy	Yes		G	G	Yes	Yes	High	3 yearly
3.2.2 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 2017 Funding Strategy, each of the 17 major precepting bodies were consulted and agreed options for payment of employer contributions. Rates and adjustment certificates have been issued. 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

The 2016 Valuation is now complete.

3.3 - Consistency between the Investment and Funding strategies

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
3.3.1 Expected return of investment strategy	6.4	%	G	G	5.8%	5.8%	High	Annual
3.3.2 Investment strategy reviewed after Asset Liability Study	Yes		G	G	Yes	Yes	Yes	3 yearly

Rationale for performance status and trend

3.3.1 Long term return assumed by Funding Strategy

For the 2013 Valuation the Fund Actuary's assumption for investment return was 5.8%

As part of the review of the Statement of Investment Principles, Investment Consultants Hymans Robertson conducted a review of the Fund's investment structure using their Asset Model (HRAM), the stochastic scenario generator developed by Hymans Robertson LLP, calibrated using market data as at 31 October 2014. The result was an expectation of a 6.4% p.a. return which rose to 7.2% with the inclusion of investment managers outperformance.

The latest Asset Liability Study is scheduled for autumn 2017.

3.3.2 Investment Strategy reviewed

This measure highlights that the ISC on 24 February 2014 reviewed 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.

The latest Asset Liability Study is scheduled for autumn 2017.

3.4 - Manage employers' liabilities effectively

Measure Purpose: To manage employers' liabilities effectively by the adoption of employer specific funding objectives participation
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, was agreed by the Board in March 2017. It included different funding objectives for different groups of employers. This was also the case for the Funding Strategy that accompanied the previous Actuarial Valuations in 2013 and 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:** Sara Maxey & Sam Andrews

Status

	Value	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.5.1 Sufficient investment income is available to supplement contribution income to meet benefit payments.	Yes	G	G	Yes	Yes	High	Ongoing

Rationale for performance status and trend

3.5.1
The Fund uses a combination of rental income and UK equity dividends from the passive portfolio to supplement contributions in meeting benefit payments.

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	%	G	Gy	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

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3.6.2 Scoring:

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

There have been no confirmed unrecoverable deficits during the last quarter.

4.1 (Annual) - 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

	Previous value	Current value	Previous status	Current status	Target	CIPFA Average
4.1.1 Letter detailing transfer in quote issued within 10 working days (188 cases) (208 in 2015/16)	86.5%	89.1%	A	A	95.0%	n/a
4.1.2 Letter detailing transfer out quote issued within 10 working days (765 cases) (671 in 2015/16)	87.9%	89.3%	A	A	95.0%	n/a
4.1.3 Letter detailing process of refund and payment made within 5 working days (1,106 cases) (890 in 2015/16)	95.5%	95.3%	G	G	95.0%	n/a
4.1.4 Letter notifying estimated retirement benefit amount within 10 working days (2,346 cases) (4,047 in 2015/16)	98.2%	98.1%	G	G	95.0%	n/a
4.1.5 Letter notifying actual retirement benefits and payment made of lump sum retirement grant within 5 working days (2,517 cases) (2,178 in 2015/16)	99.2%	99.3%	G	G	95.0%	n/a
4.1.6 Letter acknowledging death of active /deferred / pensioner member within 5 working days (1,106 cases) (1,266 in 2015/16)	99.7%	99.7%	G	G	95.0%	n/a
4.1.7 Letter notifying the amount of dependent's benefits within 5 working days (1,106 cases) (1,266 in 2015/16)	95.4%	96.2%	G	G	95.0%	n/a
4.1.8 Calculate and notify deferred benefits within 10 working days (2,436 cases) (4,327 in 2015/16)	85.2%	88.7%	A	A	95.0%	n/a
4.1.9 Annual benefit statements issued to active members of LGPS (Career Average) by 31 August.	100.0%	100.0%	G	G	100.0%	n/a
4.1.10 Annual benefit statements issued to deferred members by 30 June.	100.0%	100.0%	G	G	100.0%	n/a
4.1.11 New IDRP appeals during the year (per one thousand members)	0.01	0.02	G	Gy	tbc	n/a
4.1.12 IDRP appeals - number of lost cases	0.00	0.00	G	Gy	tbc	n/a

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.

4.1.9 Annual Benefit Statements were issued to all active members by 31 August 2017.

4.1.10 Deferred members statements were issued in June 2017.

4.1.11 & 4.1.12 The CIPFA benchmarking statistics no longer include IDRP measures.
Revised targets are under considerations

4.1(Quarterly) - 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	Target
4.1.13 Number of payments errors	0	number	G	G	<9

Rationale for performance status and trend

4.1.13
This 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.
Quarterly target Green = <9; Amber = <16, Red = >16.

4.1.14

Payment of Death Grants detailed analysis	Mar'17 quarter	Jun'17 quarter
A: Notifications of Scheme Member deaths received	32	31
B: Number within A with death grant nomination	19	14
C: Number within B paid in line with nomination held	18	13
D: Number within B paid to next of kin (in instances of predeceased nominee)	1	1
E: Number within A paid to the Estate (in instances of predeceased nominee)	0	0
F: Number within A without death grant nomination	13	17
G: Number within F paid to next of kin	12	17
H: Number within F paid to the Estate	1	0
I: Number within F paid to the Treasury Solicitor	0	0

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

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 data breaches in the quarter.

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

4.2.2 No actions were required 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
4.3.1 % of monthly reconciliations of equity and bond investment mandates which are timely	21.0	%	A	G	0%	100%	High	Quarterly
4.3.2 % of contributing employers submitting timely payments	99.2	%	A	A	100%	100%	High	Quarterly

Rationale for performance status and trend

4.3.1 In the quarter up to June 2017, **21%** of reconciliations were completed on time compared to the target of **0%.**

4.3.2 For the quarter ending June 2017 **99.2**% of employers submitted timely payments. In cash terms this equated to **99.99%** of a total employer contribution of £90.4m this is higher than quarters due to the triennial and annual deficit payments being made following the commencement of Valuation 2016 rates.

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: Ian Myers/Jody Evans/Kevin McDonald **Data lead:** Ian Myers/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	100	%	G	G	100%	100%	High	Quarterly
4.4.3 % of draft Board minutes available 7 working days after meetings	0	%	G	R	100%	100%	High	Quarterly
4.4.4 % of Board minutes uploaded to internet 12 working days after meetings	0	%	G	R	100%	100%	High	Quarterly
4.4.5 Compliance with governance arrangements - number of governance arrangements not in place	0	number	R	G	0	0	High	On-going

Rationale for performance status and trend

4.4.3 and 4.4.4 relate to a delay in producing and uploading minutes of the July 2017 meeting

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

- Pension Fund Business Plan in place and renewed at the beginning of the financial year
- 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.
- PSB Terms of Reference in place and noted at the beginning of the municipal year

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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. - *Helpfulness of the Pensions Teams.*	100.0	%	G	G	95%	95%	High	Annual (Dec)
5.1.2. % of positive responses from the Employer Survey. - *Expertise of Pensions Teams* .	99.3	%	G	G	95%	95%	High	Annual (Dec)
5.1.3. % of positive responses from the Employer Survey. - *Pensions Teams are friendly and Informative.*	98.6	%	G	G	95%	95%	High	Annual (Dec)
5.1.4. A Communication Policy is in place for the current year.	Yes		G	G	Yes	Yes	High	Annual (July)

Rationale for performance status and trend

5.1.1 In April 2017 a scheme member survey was issued, 500 scheme members were invited to participate and 122 responses were received to the question to 'How would you rate the Essex Pension Fund on helpfulness of staff?'. All responses were positive resulting in a 100.00% positive response. The previous survey result for this question was also 99.1%.

5.1.2 In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 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 **99.3%** positive response. The previous survey result for this question was 99.1% positive.

5.1.3 In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received to the question to 'How would you rate Essex Pension Fund staff on being friendly and informative?'. Two negative responses were received resulting in a **98.6**% positive response. The previous survey result for this question was 100% positive.

The current employer survey was completed on 30 6 2017 and results will be reported in December 2017.

5.1.4 The Communications Policy was agreed at the July 2016 meeting of the PSB.

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 - *Clarity of website information.*	98.3%	%	A	G	95.0%	95.0%	High	Annual
5.2.2. % of positive responses from the Scheme Member Survey - *Understandable Annual Benefit Statements.*	92.6%	%	A	A	95.0%	95.0%	High	Annual
5.2.3. % of positive responses from the Scheme Member Survey - *Communications that suit needs, easy to understand and relevant.*	100.0%	%	G	G	95.0%	95.0%	High	Annual
5.2.4. % of positive responses from the Employ**er** Survey - *Clarity of Website information.*	95.2%	%	A	G	95.0%	95.0%	High	Annual
5.2.5. Increase in response of the Scheme Member Survey compared to last year.	%	Yes	G	G	Increase	Increase	High	Annual
5.2.6. Increase in response rate of the Employer Survey compared to last year.	24.6%	%	G	G	Increase	Increase	High	Annual
5.2.7 Employer survey - feedback on training and educational materials - % of positive responses	96.6%	%	G	G	95.0%	95.0%	High	Annual

Rationale for performance status and trend

5.2.1 - In April 2017 a scheme member survey was issued, 500 scheme members were invited to participate and 122 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. two negative response were received resulting in a 98.3% positive response. The response to this question in the previous survey was 93.7%.

5.2.2 - In April 2017 a scheme member survey was issued, 500 scheme members were invited to participate and 122 responses were received to the question to 'How easy was the information in your annual benefit statement to understand?'. 9 negative response was received resulting in a 92.6% positive response. The response to this question in the previous survey was 92% positive.

5.2.3 - In April 2017 a scheme member survey was issued, 500 scheme members were invited to participate and 122 responses were received. All responses were positive resulting in a 100.00% positive response. The response to this question in the previous survey was 99.2%.

5.2.4 - In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Seven negative responses was received resulting in a **95.2%** positive response. The previous survey result for this question was 92.4% positive.

5.2.5 - In April 2017 a scheme member survey was issued, 500 scheme members were invited to participate and 122 responses were received. In 2015 119 responses were received. This is an increase in respondents of 3 (0.8%). The previous survey result for this question was an increase of 43.9%.

5.2.6 - In October 2015 an employer survey was issued, 378 scheme members were invited to participate and 147 responses were received. In the previous survey 118 in 2013 responses were received. This is an increase in respondents of 29 (**24.6%**). The 2012 survey had a response from 43 employers.

5.2.7 - In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received. When asked about feedback on training materials and educational materials five negative responses were received resulting in a **96.6%** positive response. The previous survey result for this question was 99.1% positive.

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
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	3 yearly
5.3.2. % of positive responses from the Employer Survey - *Information available is helpful in employers understanding their responsibilities*	100.0%	%	G	G	95%	95%		Annual (Dec)

Rationale for performance status and trend

5.3.1 This measure will be reviewed in light of the 2016 Valuation data..

5.3.2 In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received. When asked about feedback on information available is helpful to employers understanding their responsibilities no negative response were received resulting in a **100.0%** positive response. In the previous survey the response to this question 97.3%.

The current employer survey was completed on 30 6 2017 and results will be reported in December 2017.

Essex Pension Fund Strategy Board	EPB/18/17
date:13 September 2017	

Scheme Advisory Board: consultation on academies objectives

Report by the Employer Relationship Manager

Enquiries to Sara Maxey on: 0333 0138496

1. Purpose of the Report

1.1 To consider a response to the Scheme Advisory Board's consultation on draft objectives for the development of academies in the Local Government Pension Scheme (LGPS).

1.2 To consider the adding to the Academies pool, those employing bodies managing outsourced contracts from Academies and Free Schools.

2. Recommendation

2.1 That the Board agree the response attached at annex A.

2.2 That the Board agree to the addition to the Academies pool of those employing bodies managing outsourced contracts from Academies and Free Schools whose admission agreement have been executed after 1 September 2017.

3. Scheme Advisory Board

3.1 The Scheme Advisory Board (SAB) is a national body that advises the Secretary of State for Communities & Local Government on LGPS matters.. The SAB can also advise Funds.

3.2 Membership of the SAB consists of:

- a Chairman appointed by the Secretary of State;
- six scheme employer representatives;
- six scheme member representatives;
- three non-voting members (including Nicola Mark, Head of the Norfolk Pension Fund and Chairmen of the Essex Pension Fund Advisory Board); and
- three advisers.

4. Background

4.1 The SAB has issued a consultation in respect of draft objectives for the development of academies in the LGPS. The closing date for responses is 29th September 2017.

4.2 The proposed draft objectives are:

- protect the benefits of scheme members through continued access to the LGPS;
- ring fence local tax payers and other scheme employers from the liabilities of the academy trust sector;
- improve the efficiency and effectiveness of administrative practices; and
- increase the accuracy and reliability of data.

In achieving the above any options for changes should neither:

- significantly alter cash flows at the fund level; nor
- significantly alter assets at the pool level

4.3 The Consultation question :

Do you agree that the above should represent the Board's objectives for the academies project?

5. The academy Trust sector and outsourced contracts

5.1 The 2016 Actuarial Valuation saw Board agree to the establishment of a single Pool for all schools that had converted to academies along with any new schools (free schools).

5.2 Academies and free schools (like local authorities) are able to let contracts for specific services (examples include catering and cleaning).

5.3 One of the SAB's consultation objectives is to "ring fence local tax payers and other scheme employers from the liabilities of the academy trust sector".

5.4 In the view of Fund officers and the Fund Actuary, the liabilities of the academies trust sector include academies, free schools and outsourced contracts (by an academy or free schools) for specific services.

5.5 In light of this **it is recommended**:

that the Board agree to the addition to the Academies pool of those employing bodies managing outsourced contracts from Academies and Free Schools whose admission agreement have been executed after 1 September 2017.*

*this excludes any actuarial reports issued since April 2017 and in progress.

6. Consultation Response

6.1 The Fund's proposed response to the consultation is attached commenting on each objective.

Essex Pension Fund
A2, County Hall
Chelmsford
Essex, CM1 1JZ
13 September 2017

Mr Robery Holloway
LGPS Academies Objectives Consultation
Scheme Advisory Board Secretariat
Local Government Association
Layden House, 76-78 Turnmill Street,
London
EC1 M 5LG

Dear Mr Holloway,

Response to Scheme Advisory Board Consultation:
Local Government Pension Scheme Academies Objectives

The Essex Pension Fund welcomes the opportunity to participate in this consultation. Set out below are our observations on relevant issues that the Scheme Advisory Board may need to consider given the approaches taken by Funds and Actuarial firms.

Background
The Essex Pension Fund is now the ninth largest of the eighty nine LGPS Funds within England and Wales. It currently has in excess of 600 employers including over 300 Academies and Free Schools. Essex Pension Fund has substantial experience with the issues that face the Academy sector.

1. **Protect the benefits of scheme members through continues access to the LGPS**
   The Fund agrees with this objective.

2. **Ring fence local tax payers and other scheme employers from the liabilities of the academy trust sector**

   In the view of the Fund the academies trust sector consists of the following:
   - academy schools;
   - free schools; and
   - employing bodies managing outsourced contracts (e.g. catering and cleaning) let by academies and free schools.

The above definition recognises the number of academies choosing to outsource some of their functions, more commonly cleaning or catering but can cover a range of services.

The Fund therefore suggests that the SAB objective to ring fence liabilities of the academy trust sector is clarified to explicitly include such outsourced contracts.

As a Fund all academies and free schools have been placed within a single pool, and arrangements are in place which would result in employing bodies managing outsourced contracts let by academy schools and free schools to follow suit.

3. Improve the efficiency and effectiveness of administrative practices

The Fund agrees with this objective in principle, and highlight that the Fund's own actions re: a single academy pool (described above) demonstrate commitment to this objective.

4. Increase the accuracy and reliability of data

The Fund agrees with this principle.

In our experience inaccurate and unreliable data is often:

- attributable to outsourced payroll providers who may be unfamiliar with the requirements of the LGPS; and / or
- the result of the academy not providing sufficient clarity around LGPS reporting requirements at the outset of procuring the payroll provider.

For and on behalf of the Essex Pension Fund,

Kevin McDonald
Director for Essex Pension Fund
Essex Pension Fund
Office telephone: 0333 0138 488
Email:kevin.mcdonald@essex.gov.uk

Essex Pension Fund Strategy Board	EPB/19/17
date: 13 September 2017	

Colleges Review

Report by the Employer Relationship Manager

Enquiries to Sara Maxey on: 0333 0138496

1. Purpose of the Report

1.1 To provide an update on the colleges review.

2. Recommendations

2.1 That the Board should note the report.

3. Background

3.1 At its meeting on 8 March 2017, the Board received a report on the Actuarial Valuation and Funding Strategy. Within this report a response to FEDEC (Federation of Essex Colleges) sent out on 11 January 2017 was attached.

3.2 The response to FEDEC following Board approval provided a transitional year for the valuation outcomes whilst Department for Education completed the Further Education and Sixth for college area review.

3.3 A final report has now been issued following the conclusion of the area review.

4. Further education and sixth form colleges area review

4.1 The Department for Education have concluded the area review and published in August 2017 the recommendations for Essex affected institutions, the outcomes are attached in annex A. The full report is available using the following link: https://www.gov.uk/government/publications/greater-essex-further-education-area-review

4.2 Pension Fund officers have reviewed the report and are discussing the outcomes with the Funds Actuary.

4.3 The Fund will commence discussions with the Further Education institutions and report back to the Board at its December meeting.

5. Risk Implications

5.1 A failure to monitor employer's liabilities which could lead to an inappropriate funding strategy and unrecovered debt on cessation of participation in the Fund.

6. Link to Essex Pension Fund Objectives

6.1 To manage employers liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives.

6.2 Minimise unrecoverable deficit on termination of employer participation.

7. Background Papers

7.1 Agenda item 16, PSB 16 September 2016.
7.2 Agenda item 11(PT II), PSB 21 December 2016

Recommendations agreed by the steering group

Ten recommendations were agreed by the steering group at their meeting in February 2017. These were:

- Chelmsford College and Writtle University College to establish a formal collaborative partnership to rationalise and improve the curriculum offer, drive up quality and share services to reduce costs. As stand-alone institutions, the colleges should continue to review provision and collaboration to ensure a sustainable local offer is available for employers and learners.
- Colchester Institute to remain as a stand-alone institution, focusing on developing greater financial resilience and continuing to develop provision aligned to local need
- Epping Forest College to focus on rapid quality improvement whilst seeking structural change following a Further Education Commissioner-led structure and prospects appraisal, to be completed by April 2017.
- Harlow College to remain as a stand-alone institution, with a focus on developing a campus at Stansted that will better meet employer and learner need.
- Palmer's College and Seevic College to merge, developing a coherent offer that will meet local learner and employer needs, provide a high quality academic offer in Thurrock and lead to rapid quality improvement across both campuses.
- Prospects College of Advanced Technology (PROCAT) to remain as a stand-alone institution, focusing on specialist provision to meet national employer demand as well as providing a local offer to learners.
- South Essex College to remain as a stand-alone institution, focusing on improving quality, developing its estate in Basildon and developing greater financial resilience
- The Sixth Form College Colchester to explore conversion to a single academy trust (SAT) or retain stand-alone sixth-form college status.
- Greater Essex colleges to review the potential for shared services, through scaling up the current shared services arrangement between South Essex College and Chelmsford College to provide cost savings.
- The Federation of Essex Colleges to work collaboratively to develop a mechanism to support quality improvement across the colleges in Greater Essex. This should result in an increase in the number of colleges in the area that have good or better Ofsted outcomes, better achievement rates and an improvement in the colleges' position in the national performance tables.

Each of these options is now outlined in more detail:

Chelmsford College and Writtle University College

Chelmsford College and Writtle University College to establish a formal collaborative partnership to rationalise and improve the curriculum offer, drive up quality and share services to reduce costs. As stand-alone institutions, the colleges should continue to review

provision and collaboration to ensure a sustainable local offer is available for employers and learners. The two colleges will remain independent, with no merger planned in the future, but will work collaboratively on the curriculum areas where there are areas of synergy that will allow them to develop a more coherent offer to meet employer and learner need.

- in terms of meeting current and future needs, the collaborative approach will enable the mapping of provision and progression routes, including to higher education, enhancing delivery in mid-Essex. The colleges intend to expand provision to higher level skills, including apprenticeships, aligned to LEP priorities such as construction and engineering, which will meet the needs of learners and employers. This will also include growth in high needs places.
- with regard to financial sustainability, Chelmsford College is in a stable position and showing signs of improving. While it currently meets only the staff costs benchmark, the position is forecast to improve from 2018 with a move towards all other benchmarks. Writtle University College is in a relatively strong position meeting most of the benchmarks currently. The initial financial assessment and college accounts indicate that the partnership will place both institutions in a stronger position and they will meet all the financial benchmarks by 2018.
- in respect of quality of provision, the most recent Ofsted inspection judged Chelmsford College to be requires improvement. Writtle University College currently has a good Ofsted rating. The proposed partnership will provide an opportunity to further improve quality through the sharing of good practice across learning delivery teams and to develop aligned systems and processes.
- the colleges' joint specialisms include construction, engineering, land-based provision and med-tech, all of which are LEP priorities. Chelmsford College offers provision for learners with special educational needs and disabilities and plans to increase this. The partnership will enable opportunities to combine and co-ordinate expertise and facilities.

Colchester Institute

Colchester Institute to remain as a stand-alone institution, focusing on developing greater financial resilience and continuing to develop provision aligned to local need.

- in terms of meeting current and future needs, the college offers a broad curriculum from entry level to level 6, closely aligned to LEP priorities, which meets the needs of learners and employers well. The college is planning to further develop provision in priority areas such as science, technology, engineering and maths (STEM) to meet skills shortages.
- with regard to financial sustainability, the college is stable and taking action to improve its financial position and invest in the provision and estate. It is forecasting to meet 4 of the 5 benchmarks by 2018, with staff costs remaining above the benchmark. The assessment of 'stand-alone' college options resulting from an area review assumes both financial sustainability and that colleges achieve and maintain a

quality grade of 'good' or 'outstanding'. Where income projections are not realised by the college there will be a risk that the financial health and sustainability may decline
- in respect of quality of provision, the most recent Ofsted inspection judged the college to be good.
- the college's specialisms include advanced manufacturing, engineering, construction, computing, health and hospitality. The college has developed provision to meet the LEP priorities.

Epping Forest College

Epping Forest College to focus on rapid quality improvement whilst seeking structural change following an Further Education Commissioner-led structure and prospects appraisal, to be completed by April 2017.

- in terms of meeting current and future needs, the college currently serves learners from London and Essex, offering a large proportion of students construction, business, sports and creative arts programmes. A structure and prospects appraisal (SPA) led by the Further Education Commissioner will look at long term structural change with a focus on ensuring that the offer meets local needs.
- with regard to financial sustainability, although not in financial difficulty currently, the college has experienced a fall in recruitment and this could continue following the recent Ofsted inspection outcome. The need to invest in quality improvement may also impact on the college's finances moving forward. The college will need to develop a revised financial plan which takes account of essential quality improvement work and the future direction agreed following the outcome from the SPA.
- in respect of quality of provision, the most recent Ofsted inspection judged the college to be inadequate. The college is working with the Further Education Commissioner and funding agencies on plans to address this and actions plans are already being put in place. A merger partner will be selected on the basis of being able to support the rapid quality improvement journey the college needs to take as well as other factors.
- the college's specialist facilities include motor vehicle, electrical installation and plumbing workshops, theatre and dance studio, HD TV studio, air cabin crew training room, music studios and open-plan art studios. The future direction of the college will shape the delivery specialisms and this will become clear following the structure and prospects appraisal, when a merger partner for the college will be identified.

Harlow College

Harlow College to remain as a stand-alone institution, with a focus on developing a campus at Stansted that will better meet employer and learner need.

- in terms of meeting current and future needs, the college offers a broad curriculum from entry level to level 6 that meets the needs of learners and employers well. The college is proposing to develop a technical and professional skills centre at Stansted which will focus on LEP priorities, helping to meet skills gaps and provide learning where there is currently no further education provision. The college is also looking at how it can increase SEND provision to meet the needs of learners in the area.
- with regard to financial sustainability, the initial financial assessment and college accounts indicate that the college is in a strong position with the financial resilience needed to remain stand-alone. It is meeting most of the financial benchmarks currently and forecasts to meet the current ratio benchmark by 2020. The assessment of 'stand-alone' college options resulting from an area review assumes both financial sustainability and that colleges achieve and maintain a quality grade of 'good' or 'outstanding'. Where income projections are not realised by the college there will be a risk that the financial health and sustainability may decline.
- in respect of quality of provision, the most recent Ofsted inspection judged the college to be good.
- the college's specialisms include construction and the built environment, business and IT, engineering and manufacturing, journalism, media and digital technology, science, health and care and support for the unemployed. These reflect the LEP and local authority priority areas.

Palmer's College and Seevic College

Palmer's College and Seevic College to merge, developing a coherent offer that will meet local learner and employer needs, provide a high quality academic offer in Thurrock and lead to rapid quality improvement across both campuses.

- in terms of meeting current and future needs, the merged college proposes to focus on LEP priorities including finance and health at the Seevic campus in Benfleet to address skill shortages and meet the needs of local learners and employers. The merged college will offer academic and technical pathways with progression routes to higher education. The Palmer's college campus in Thurrock will focus on the delivery of a high quality academic offer.
- with regard to financial sustainability, as stand-alone institutions, neither college currently meets either the staff costs or operating surplus ratios, although they meet all of the others. However, the merged college should be in a strong position and forecast to meet all financial benchmarks in 2017/18 following the merger.
- in respect of quality of provision, while both colleges are currently graded as requires improvement by Ofsted, Seevic College's most recent Ofsted inspection report identifies progress is being made by the new senior management team. The colleges are developing a robust quality improvement plan for implementation through the merger.

- the colleges' specialisms include sport and CILEX legal secretaries courses and the merged college will also focus on provision that supports the LEP priority around finance.

Prospects College of Advanced Technology (PROCAT)

Prospects College of Advanced Technology (PROCAT) to remain as a stand-alone institution, focusing on specialist provision to meet national employer demand as well as providing a local offer to learners.

- in terms of meeting current and future needs the college will focus on specialist curriculum areas with pathways to advanced and higher level skills in engineering and robotics, construction and building technologies, and transportation. This is both a local LEP priority and an area of provision in demand nationally.
- with regard to financial sustainability, the initial financial assessment and college accounts indicate the college has the financial resilience needed to remain stand-alone. It is currently meeting all the financial benchmarks in 2017 and is forecasting this to continue. The assessment of 'stand-alone' college options resulting from an area review assumes both financial sustainability and an assumption that colleges achieve and maintain a quality grade of 'good' or 'outstanding'. Where income projections are not realised by the college there will be a risk that the financial health and sustainability may decline.
- in respect of quality of provision, the most recent Ofsted inspection judged the college to be good.
- the college's specialisms include provision to meet the needs of the rail industry, Aircraft MRO and the college is CAA licensed.

South Essex College of Further and Higher Education

South Essex College to remain as a stand-alone institution, focusing on improving quality, developing its estate in Basildon and developing greater financial resilience.

- in terms of meeting current and future needs, the college offers provision in all 15 subject sector areas from entry level to level 3 and up to level 4, 5 and 6 in key sectors, meeting learner and employer needs well. The college proposes to expand provision, including apprenticeships and higher education, to further support local developments and LEP priorities.
- with regard to financial sustainability, the college is stable and taking action to improve its financial position and to invest in provision and the estate. The initial assessment of the current financial plan indicates that the college will meet 4 of the 5 benchmarks by 2020, but the operating surplus will remain just below the benchmark. The assessment of 'stand-alone' college options resulting from an area review assumes both financial sustainability and that colleges achieve and maintain a quality

grade of 'good' or 'outstanding'. Where income projections are not realised by the college there will be a risk that the financial health and sustainability may decline.

- in respect of quality of provision, the most recent Ofsted inspection at the time of the area review[36] judged the college to be requires improvement but the report identified that standards in teaching, learning and assessment, although improving due to strong leadership and effective management of staff.
- the college has identified specialisms across its campuses that are aligned to LEP priority sectors such as creative and cultural skills (levels1-6), health and care (levels1-6), construction, digital technology (level 3-6) and logistics.

The Sixth Form College, Colchester

The Sixth Form College, Colchester to explore conversion to a single academy trust (SAT) or retain stand-alone sixth-form college status.

- in terms of meeting current and future needs, the college offers a broad general curriculum that supports national and local priorities, including STEM-related subjects, providing learners with a broad choice and it prepares students for higher education.
- with regard to financial sustainability, initial financial assessment and college accounts indicate that, although the financial plans do not currently meet the benchmarks for operating surplus or staff costs, the college has remained financially resilient and is working on a plan for cost reduction. The college will be required to submit a detailed financial plan as part of its application to convert to academy status. The assessment of 'stand-alone' college options resulting from an area review assumes both financial sustainability and that colleges achieve and maintain a quality grade of 'good' or 'outstanding'. Where income projections are not realised by the college there will be a risk that the financial health and sustainability may decline.
- in respect of quality of provision, the most recent Ofsted inspection judged the college to be good.
- the college works collaboratively with schools and is a member of the Colchester Teacher Training Consortium and North East Essex Teaching School Alliance, supporting teacher training and driving up quality improvements. The college plans to convert to academy status to enable the college to continue to play an active role within these groups. It will be required to submit a plan for how it will add value to the local schools' educational landscape in its academy application.

36 South Essex College was re-inspected in May 2017, after the closure of the area review, and was judged as good by Ofsted

Shared Services

Greater Essex colleges to review the potential for shared services, through scaling up the current shared services arrangement between South Essex College and Chelmsford College to provide cost savings.

- further work is required by the colleges on describing what the wider shared services offer may be and whether a menu of options can be provided to extend the service to other colleges. There is some interest in this, especially for aspects such as shared procurement, but the plan will need to be more fully developed.

Quality Improvement

The Federation of Essex Colleges to work collaboratively to develop a mechanism to support quality improvement across the colleges in Greater Essex. This should result in an increase in the number of colleges in the area that have good or better Ofsted outcomes, better achievement rates and an improvement in the colleges' position in the national performance tables.

- the colleges will work collaboratively through the Federation of Essex Colleges to extend and further develop the mechanisms that can support them in quality improvement in order to raise attainment and outcomes for learners across the area.

Conclusions from this review

The purpose of area reviews is to put colleges on a stronger financial footing whilst also enabling them to better meet the economic and educational needs of students and employers for the long term.

Throughout the review, colleges have worked closely with their LEP, local authorities and the review team, sharing detailed information about their performance and processes. Each local steering group member has been in a position to offer ideas for change, and make comments and assessments about others' proposals and plans for their area. The review team is grateful for the positive approach taken by all the local stakeholders involved in the review.

The issues arising from the area review, summarised in 'The need for change', will be addressed through:

- colleges working collaboratively to map provision and develop progression routes to ensure that the local learning offer meets learner and employer needs and to provide routes to higher level technical and professional learning. This will include further developing provision for SEND and high needs learners
- developing progression routes beyond level 3 to increase the skills levels of local residents so that they can access higher level and better paid jobs
- increasing delivery of apprenticeships in key sectors, particularly at higher levels
- supporting better careers education, information, advice and guidance through collaborative working with colleges, the LEP and local authorities
- the collaboration between Chelmsford College and Writtle University College, which will provide a more coherent offer locally that will address LEP skills needs in priority areas
- the merger of Palmer's College and Seevic College, driving up quality and providing a more coherent local offer
- the development of greater financial resilience and continued responsiveness to skills needs in colleges that are to remain stand-alone
- colleges working collaboratively to drive up quality improvement through the Federation of Essex Colleges
- colleges exploring shared services to reduce costs to help ensure colleges are on a strong, sustainable financial footing
- colleges developing their estates to ensure facilities are suitable to support the delivery of provision in priority skills areas
- the development of greater specialisation in key areas where colleges have expertise in order to provide level 4+ provision in priority areas.

Next steps

The agreed recommendations will now be taken forward through recognised structural change processes, including due diligence and consultation.

Proposals for merger, sixth-form college conversion to academies, or ministerial approval, for example of a change in name, will now need intensive work by all parties involved to realise the benefits identified. Colleges will want to give consideration to making timely applications for support from the Restructuring Facility, where they can demonstrate that the changes cannot be funded through other sources. Colleges exploring academy conversion will be subject to the application process and agreement by the Sixth Form College Commissioner and the Regional Schools Commissioner.

Primary responsibility for implementation of recommendations relating to individual colleges rests with those institutions. However, it will be important to understand how progress is going in the round in each area and each set of area review recommendations will be formally monitored at both national and local levels. As the guidance produced for LEPs and local authorities sets out all those involved in the local steering group will be expected to play their full part in ensuring that changes happen within the timescale agreed. In this context, LEPs and local authorities are expected to retain their focus on driving changes, and assessing how implementation of recommendations is contributing to local economic performance. The EFA and SFA, with oversight from the Further Education Commissioner and Sixth Form College Commissioner, will also be monitoring progress across all areas.

A national evaluation of the area review process will be undertaken to assess the benefits brought about through implementation of options. It will include quantitative measures relating to the economy, to educational performance, to progression, to other measures of quality, and to financial sustainability. This analysis will also take account of the views of colleges, local authorities, LEPs, students and employers about how well colleges are responding to the challenges of helping address local skills gaps and shortages, and the education and training needs of individuals.

Department
for Education

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Essex Pension Fund Strategy Board	EPB/20/17
date: 13 September 2017	

Fund Discretions: Scheme Pays

Report by Matt Mott Communications Manager, Essex Pension Fund
Enquiries to Matt Mott 03330 138491

1. Purpose of the Report

1.1 To provide the Board with an understanding of Scheme Pays and Voluntary Scheme Pays following a tax charge. The tax charge would apply to an active scheme member exceeding HMRC limits known as Annual Allowance (AA) & Tapered Annual Allowance (TAA).

2. Recommendations

2.1 That the Board exercise their discretion for a member to elect for Voluntary Scheme Pays if they have a tax charge of more than £2,000.

3. Background

3.1 Each year the LGPS benefits of an active member will increase. This growth is known as Annual Allowance (AA) and has a limit set by HMRC of £40,000 per year.

3.2 If the growth exceeds the £40,000 AA limit in any tax year the scheme member may be liable to a tax charge on the amount above the AA limit.

3.3 If the tax charge is £2000 or more the scheme member may elect for the Fund to make payment to HMRC on their behalf. In doing so, the Fund will debit the scheme members benefits by a value equal to the tax charge.

3.4 From 6 April 2016 HMRC introduced a Tapered Annual Allowance (TAA). TAA may restrict growth of the pension benefits to a minimum of £10,000 before there is a further liability to taxation. However, the TAA may only affect scheme members whose pensionable pay exceeds £150,000 per year.

4. Current Situation

4.1 Only scheme members who exceed the £40,000 AA limit and have a tax charge of more than £2000 can elect under scheme regulations for “Scheme Pays”.

4.2 The TAA was introduced by HMRC after the effective date of LGPS regulations, 1 April 2014, and means scheme members who have exceeded the £10,000 TAA limit and have a tax charge cannot elect for “Scheme Pays”.

4.3 The Local Government Association (LGA) have confirmed in bulletin 154 – February 2017 (http://lgpslibrary.org/assets/bulletins/2017/154.pdf) that the Department for Communities and Local Government (DCLG) have agreed Administering Authorities have discretionary power to allow those affected by TAA to elect for “Voluntary Scheme Pays” if they have a charge exceeding £2,000.

4.4 It is a regulatory requirement placed upon the Fund to send a Savings Statement to all Scheme members who exceed AA or TAA.

4.5 This year the Saving Statement must be sent by 5 October 17 and the scheme member or the Fund must on the scheme members’ behalf make payment by 14 February 2019 for an AA charge. For a TAA tax charge the date for payment must be by 31 January 2018. It is because of this formal deadline that the paper is presented to the PSB in September 2017.

4.6 Statutory Dates

Dates	Action	Responsibility
6 April 16 to 5 April 17	LGPS growth	Scheme Member
5 October 2017	Saving Statement	The Fund
31 December 2017	Notify Fund of Scheme Pays Election TAA	Scheme Member
31 January 2018	Self-Assessment Tax Return	Scheme Member
31 January 2018	Payment to HMRC of TAA tax charge	The Fund
31 July 2018	Notify Fund of Scheme Pays Election AA	Scheme Member
14 February 2019	Payment of AA tax charge	The Fund

5. Administration

5.1 Other LGPS Funds, including the within the South Eastern Counties Superannuation Officer Group (SECSOG) are understood to be exercising their discretion in this area, allowing affected scheme members to elect for Scheme Pays.

6. Recommendation

6.1 That the PSB exercise their discretion on this matter and agree that scheme members exceeding their TAA by more than £2,000, but have not exceeded the standard £40,000 AA limit, are permitted to elect for Scheme Pays.

7. Risk implications

7.1 The Fund's risk register includes the following:

Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A12	Failure to deliver the LGPS properly results in significant numbers of complaints and/or IDRPs	Checking of calculations; ongoing engagement with employers and scheme members along with provision of guides etc; appropriate application of Fund discretions.	1	1	1

8. Link to Essex Pension Fund Objectives

- Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need
- Deliver information in a way that suits all types of stakeholder
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise

AGENDA ITEM 10

Essex Pension Fund Strategy Board	EPB/21/17
date: 13 September 2017	

Essex Pension Fund Accounts 2016/17

Report by the Executive Director for Corporate and Customer Services

Enquiries to Samantha Andrews on 03330 138501

1. Purpose of the Report

1.1 To provide Members with the Pension Fund financial statements for 2016/17.

2. Recommendation

2.1 That the Board should note the report.

3. Draft Accounts 2016/17

3.1 Following the last meeting of the Pension Strategy Board the draft accounts were circulated to members via email on 14 July 2017.

3.2 Colleagues from EY commenced the external audit on 17 July 2017. At the time of writing, no changes to the Fund Account or Net Asset Statement have been required.

3.3 A copy of the Pension Fund's financial statements for 2016/17 is attached at Appendix 1.

4. Background papers

4.1 The Local Government Pension Scheme (Administration) Regulations 2008

4.2 Local Government Pension Scheme (LGPS) Regulations 2013 (as amended)

Statement of Accounts - 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.

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Net Assets Statement	138
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Pension Fund Accounts

Fund Account for the year ended 31 March 2017

2015/16 Restated £000	Note		2016/17 £000	2016/17 £000
		Dealing with members and others directly involved in the Fund		
		Income		
		Contributions receivable		
(53,964)	8	Member contributions	(54,497)	
(168,443)	8	Employers' contributions	(169,859)	
(7,936)	8	Transfers in from other Pension Funds	(12,465)	
(1,576)		Other income	(1,720)	
(231,919)		**Total income**		(238,541)
		Expenditure		
		Benefits payable		
177,467	8	Pensions	183,131	
31,935		Commutation of pensions & lump sum retirement benefits	36,481	
6,344		Lump sum death benefits	5,693	
		Payments to and on account of Leavers		
544		Refunds of contributions	680	
321		State scheme premiums	378	
5,288	8	Transfers out to other schemes	11,890	
33,097	10	Management expenses	36,645	
254,996		**Total expenditure**		274,898
23,077		**Net additions from dealings with members**		36,357
		Returns on investments		
(87,752)	9	Investment income	(85,320)	
(43,640)	11	Profit and losses on disposal of investments and changes in market value of investments	(947,557)	
3,834	14	Taxes on income	2,571	
(127,558)		**Net returns on investments**		(1,030,306)
(104,481)		**Net (increase)/decrease in the assets available for benefits during the year**		(993,949)
(4,932,623)		**Net assets as at 1 April**		(5,037,104)
(5,037,104)		**Net assets as at 31 March**		(6,031,053)

The Fund in 2016/17 has changed its policy in the treatment of administration recharges in accordance with CIPFA's guidance. In prior years admin expenses were offset by the administration income received to the Fund from employers. For 2016/17 the administration expenses are shown gross of this income. The income totalling £1.306m (£1.281m in 2015/16) is now shown under other income in the Fund Account. The change in policy has a net nil effect.

Pension Fund Accounts

Net Assets Statement as at 31 March 2017

31 March 2016 £000	Note		31 March 2017 £000	£000
	11	**Investments at market value**		
		Investment assets		
235,486		Fixed interest securities	241,885	
3,124,105		Equities	3,797,199	
144,369		Index linked securities	252,209	
358,780		Property	366,185	
215,089		Property unit trusts	211,841	
247,281		Private Equity	297,552	
162,085		Infrastructure	191,819	
77,675		Timber	101,983	
76,705		Illiquid Debt	101,367	
248,358		Other managed funds	261,836	
17,300		Derivative contracts	20,544	
116,692		Cash/deposits	156,226	
7,632		Other investment balances	9,084	
5,031,557				6,009,730
		Investment liabilities		
(35,744)		Derivative contracts	(21,941)	
(353)		Other investment balances	(2,977)	
(36,097)				(24,918)
4,995,460		Total Investments		5,984,812
		Long term assets		
5,196		Contributions due from employers		4,294
	13	**Current assets and liabilities**		
		Current Assets		
26,311		Cash		35,592
17,669		Contributions due from employers and other current assets		17,257
5,044,636				6,041,955
		Current liabilities		
(7,532)		Unpaid benefits and other current liabilities		(10,902)
5,037,104		**Net assets of the scheme available to fund benefits**		6,031,053

Notes to the Pension Fund Accounts

1. Background

1.1 General description of the Fund

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund (" the Fund").

The Essex Pension Fund is part of the Local Government Pension Scheme and is administered by Essex County Council ("the Administering Authority") which is the reporting entity for this pension fund.

Established by the Local Government Superannuation Regulation 1974 the scheme is governed by the Public Service Pensions Act 2013, the Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme(LGPS) Regulations 2013 (as amended);
- LGPS (Transitional Provisions, Savings and Amendment) Regulation 2014 (as amended); and
- LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It 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. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and 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.

The Council has delegated its pension functions to the Essex Pension Fund Strategy Board and Investment Steering Committee (ISC). Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for Corporate and Customer Services along with the Director for Essex Pension Fund.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity, infrastructure and timber through the use of limited partnerships. The 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 Strategy Board. The Fund's Investment Strategy Statement, formally known as the Statement of Investment Principles, is contained in the Pension Fund Annual Report and Accounts and can be found on the Pension Fund website (www.essexpensionfund.co.uk).

1.2 Membership

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

Organisations participating in the Essex Pension Fund include:

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

There are around **700** employer organisations within Essex Pension Fund including the County Council itself.

1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from **5.5%** to **12.5%** of pensionable pay for the financial year ending 31 March 2017. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time, an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31 March 2016**. Details can be found on the website www.essexpensionfund.co.uk.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Essex Pension Fund website www.essexpensionfund.co.uk.

2. Basis of preparation

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2016/17 (SORP). The Code also incorporates the 2015 Statement of Recommended Practice (SORP) 'Financial Reports of Pension Schemes'.

The financial statements summarise the Fund's transactions for the financial year ended 31st March 2017 and its position as at 31st March 2017. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits (IAS 26) as at 31st March 2017 using IAS 19 methodology can be found in section 3.3.

The accounts are prepared on a going concern basis.

3. Actuarial valuation

The contributions payable for 2016/17 were determined by the 2013 Actuarial Valuation.

3.1 Actuarial Valuation 2016

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£4,993m** (on a smoothed basis) represented **89%** of the Funding Target liabilities of **£5,598m** at the valuation date. The valuation also showed that a primary rate of contribution of **16.3%** of Pensionable Pay per annum was required from employers. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full valuation report that is available from www.essexpensionfund.co.uk.

The main financial assumptions used were as follows:

Assumptions	Past and future liabilities Rate per annum
Rate of discount	5.10%
Short term pay increase	In line with CPI assumptions for 31 March 2016 to 31 March 2020
Long term pay increase	3.90%
Rate of increase to pensions in payment	2.40%
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that have reached SPA after this date, we have assumed that funds will be required to pay the entire inflationary increase.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2020.

3.2 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 102. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

3.3 Actuarial present value of promised retirement benefits

Separate to the Actuarial Valuation, IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed. For this purpose the actuarial assumptions and methodology used are based on IAS 19 rather than the assumptions and methodology used in the Actuarial Valuation for funding purposes.

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2016.

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2017 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond yield curve which is closest to the duration of the Fund's liabilities.

The duration of the Fund's liabilities is the weighted average time to pay each future expected cash flow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2017 is 19 years which in turn means a discount rate of **2.7%** per annum (31 March 2016: 3.6%). The value of the Fund's promised retirement benefits as at 31 March 2017 was **£9,485m** (31 March 2016: £7,438m).

4. Accounting policies

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

Normal contributions (also referred to as Primary Contributions), both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

Employer deficit funding contributions (also referred to as Secondary Contributions) are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and financial strain contributions are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid are classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 8 which commences on page 153).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 8 which commences on page 153).

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

4.1.3 Investment Income

- **Dividend income**

  Dividend income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Assets Statement as other investment balances due. 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, and a more detailed breakdown can be found in Note 14 (page 168) of the accounting notes that accompany these financial statements.

- **Income from fixed interest, index linked securities, cash and short term deposits**

  This income from fixed interest and index linked securities, cash and short term deposits are recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- **Income from other investments**

  This income is accounted for on an accruals basis. Any amount not received by the end of the financial year is disclosed in the Net Assets Statement under other investment balances.

- **Property related income**

  Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease.

  Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents are based on the future amount of a factor that

changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

- **Change in market value of investments**

  This is recognised as income during the year and 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.

4.2 Fund Account – Expense items

4.2.1 Benefits payable

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses 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. Any amounts due but not paid are disclosed in the Net Assets Statement as current liabilities.

Other benefits are accounted for on the date that members leave the Fund, or upon death.

4.2.2 Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 14).

As Essex County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investments and property expenses.

4.2.3 Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses where possible in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses 2016'.

4.2.4 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the administration part of the function are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. In 2016/17 this totalled **£1.955m** (2015/17: £2.346m).

The Fund in 2016/17 has changed its policy in the treatment of administration recharges in accordance with CIPFA's guidance. In prior years admin expenses were offset by the administration income received to the Fund from employers. For 2016/17, the administration expenses are shown gross of this income. The income totalling £1.306m (2015/16: £1.281m) is now shown under other income in the Fund Account. The change in policy has a net nil effect.

4.2.5 Oversight and governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. In 2016/17, this totalled **£1.249m** (£1.073m in 2015/16).

4.2.6 Investment management expenses

All investment management expenses are accounted for an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. For the investment managers who manage the main asset classes of the Fund these are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. With the investment managers who manage the alternative assets the fees are generally calculated on a commitment basis.

Some of the Fund's investments are via pooled vehicles. In the majority of cases the investment manager deducts its management fees directly i.e. the Fund are not invoiced for these costs. The gross up of management fees are offset through the change in market value of these investments.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, **£4.186m** of fees is based on such estimates (2015/16: £3.037m). A creditor has been raised and the actual invoice amount is shown within current liabilities.

The costs of the Pension Fund investment function are charged direct to the Fund along with any direct running costs.

The cost of obtaining investment advice from external consultants is included in investment management charges. Transaction costs and custody fees are included within investment management expenses.

4.3 Net Assets Statement

4.3.1 Financial Assets

Financial assets are included in the Net Asset Statement on a fair value basis, as at the financial year end date of 31 March. The financial asset is recognised in the Net Asset Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in fair value of the asset are recognised in the Fund Account.

The values of investments shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 11). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted where possible, the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG / Investment Association, 2016).

4.3.2 Contingent assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only be the occurrence or non-occurrence of one or more uncertain events not wholly within the Pension Fund's control.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probably and can be reliably measured.

4.3.3 Valuation of investments

The value of investments as shown in the Net Assets Statement is determined as outlined in the following paragraphs.

- **Market Quoted Investments**

  In the majority of cases, market quoted equity investments for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- **Unquoted Investments**

  Unquoted equity, and private equity limited partnership, investments are valued based on the Fund's share of the net assets of the partnership using the latest financial statements published by the respective fund managers. In 2016/17, these are mainly valued as at 31 December 2016, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31 March 2017

has been made. The 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31 March 2017.

Investments in unquoted property, illiquid debt, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- **Directly held investments**

  These include investments in limited partnerships, unlisted companies, trust and bonds.

  Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pooled or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or standards set by the constituent documents of the pool or the management agreement.

- **Unit trusts and managed funds**

  These are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

  In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

- **Value of fixed interest investments**

  Fixed interest investments in the Fund's investment portfolio are recorded at net market value, based on their current yield (i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within Note 9).

- **Direct Property Investments**

  Direct property investments have been valued, at open market value as at 31 March 2017, by Jones Lang LaSalle, Chartered Surveyors. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

4.3.4 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities – they are not held for speculative purposes.

Derivative contracts assets are held at fair value bid price, and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (see note 11).

The value of futures contracts is determined using exchange prices published by the relevant futures exchange (e.g. LIFFE – London International Financial Futures Exchange) at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial

margin and variation margin. No future contracts were entered into in the year of reporting, or in the prior year.

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 31 March.

4.3.5 Dividends, Interest and Foreign Currencies

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

4.3.6 Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

4.3.7 Financial Liabilities

Financial liabilities are recognised at fair value as at the financial year end date of 31st March. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability, and any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

4.3.8 Contingent liabilities and contingent assets

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Pension Fund's control.

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Pension Fund's control.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable and can be reliably measured.

4.3.9 Other financial Instruments

Financial assets are recognised by the Fund on the Balance Sheet only when goods or services have been provided or rendered to a third party. Financial liabilities are recognised when the goods or services ordered from a third party have been received by the Fund and the third party has performed its contractual obligations.

The Fund currently only has liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the balance sheet date is assumed to equate to the fair value.

The fair values of loans and receivables at 31st March have been reviewed and were assessed as being the same as the carrying amounts in the Balance Sheet. Assets are carried in the Balance Sheet at fair value. The values are based on the bid price.

When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

5. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 4, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Fund Accounts are:

- **Use of Financial Instruments**

  The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. The valuation of these types of investments is highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

- **Unquoted private equity**

  Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2017 was **£297.6m** (31 March 2016: £247.3m).

- **Infrastructure**

  Overseas infrastructure values are determined in accordance with generally accepted valuation principles, in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by MandG Investments is valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The value of infrastructure as at 31 March 2017 was **£191.8m** (31 March 2016: £162.1m).

- **Timber**

  Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2017 was **£102.0m** (31 March 2016: £77.7m).

- **Pension fund liability**

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

  As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement. This is shown in Note 3.3.

6. Assumptions made about the future and other major sources of estimation uncertainty

The Fund Accounts contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits *Note:* *Results are taken from the 2016 Actuarial valuation)*	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a **0.1%** decrease in the discount rate assumption would result in an increase in the pension liability of **£89m**. An increase of the CPI assumption by **0.1%** per annum increases the value of liabilities by approximately **£76m**. A **0.1%** increase in the long-term rate of salary increase would increase the value of liabilities by approximately **£8m.**

Item	Uncertainties	Effect if actual results differ from assumptions
		Increasing the long-term rate of improvement used in the mortality projection by **0.25%** per annum would increase the liability by approximately **£54m**.
Pooled property funds and directly held freehold and leasehold property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible, these valuation techniques are based on observable data but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation could result in an increase or decrease in the value of directly held property currently valued as **£366.2m**.
Private equity / Infrastructure / Timber / Illiquid debt	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity, infrastructure, timber and illiquid debt investments in the financial statements are **£693m**. There is a risk that this investment may be under or overstated in the accounts.

7. Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

For example, if there had been a marked decline in the global stock markets that would impact upon the market value of the fund's investments were they to be valued as at the date the accounts were authorized for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

8. Membership activities

8.1 Membership

31 March 2016		31 March 2017
53,432	Contributors	**59,954**
57,331	Deferred pensioners	**55,536**
37,370	Pensioners	**39,106**

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

The 31 March 2016 figures reflect the membership as per the 2016 Actuarial Valuation.

8.2 Pension benefits payable

2015/16 Restated £000		2016/17 £000
65,215	Administering Authority	**66,286**
95,237	Scheduled Bodies	**99,054**
11,113	Community Admission Bodies	**11,207**
5,378	Transferee Admission Bodies	**6,002**
524	Resolution Bodies	**582**
177,467		**183,131**

An exercise took place in 2016/17 where there category of each employer was reviewed. This resulted in some revisions. 2015/16 figures have been restated to reflect the revised employer categories. This change had a nil effect on the bottom line.

8.3 Contributions receivable

8.3.1 By category

Contributions receivable from employers are set out below:

2015/16 £000		2016/17 £000	£000
53,964	Employee's normal contributions		**54,497**
	Employers' normal contributions		
114,743	Normal contributions	**116,907**	
48,247	Employers' deficit recovery contributions	**48,613**	
5,453	Employers' augmentation	**4,339**	
168,443			**169,859**
222,407			**224,356**

The terminology used in the Actuarial Report for both employer contribution categories have been changed to:

- Employer normal contributions – primary contributions;
- Deficit contribution – secondary contributions;
- Employer augmentation relates to payments for the cost of early retirements.

In 2014/15 Colchester Women's Refuge entered into a three year cessation plan. The final payment of **£21,000** was paid in 2016/17.

In 2015/16 Essex County Scout Council entered into a five year cessation plan. The second instalment of **£28,000** was received in 2016/17. Three further payments of **£30,000** are due in 2017/18, 2018/19 and 2019/20.

In 2016/17, Southend Domestic Abuse Projects entered into a payment plan, agreeing five years of instalments totalling **£76,000**, with a review agreed as at March 2019 valuation.

In 2016/17, final termination amounts were received from University College London of **£457,000** and Inclusion Trust of **£500,000**.

8.3.2 By type

2015/16 Member £000	2015/16 Employer £000		2016/17 Member £000	2016/17 Employer £000
16,741	50,956	Administering Authority	**16,631**	**49,942**
33,558	104,499	Scheduled Bodies	**34,657**	**109,190**
1,218	6,575	Community Admission Bodies	**1,257**	**4,408**
2,176	5,609	Transferee Admission Bodies	**1,667**	**5,438**
271	804	Resolution Bodies	**285**	**881**
53,964	168,443		**54,497**	**169,859**

An exercise took place in 2016/17 where the category of each employer was reviewed. This resulted in some revisions. 2015/16 figures have been restated to reflect the revised employer categories. This change had a nil effect on the bottom line.

8.4 Transfers in from, and out to, other pension funds

2015/16 Transfers in £000	2015/16 Transfers out £000		2016/17 Transfers in £000	2016/17 Transfers out £000
-	-	Group transfers	**-**	**1,560**
7,936	5,288	Individual transfers	**12,465**	**10,330**
7,936	**5,288**	**Total**	**12,465**	**11,890**

In 2016/17, there were two bulk transfers out both to Bedfordshire Pension Fund, Single Fraud Investigation Unit for **£706,000** and Police for **£854,000**. No amounts were payable in respect of group transfers to other schemes during 2015/16.

9. Investment Income

9.1 By Type

2015/16 £000		2016/17 £000
25,865	Dividends from equities	**27,863**
1,016	Income from index linked securities	**597**
4,855	Private Equity income	**7,385**
15,748	Infrastructure / timberland income	**10,216**
11,978	Managed fund income	**11,589**
6,739	Income from pooled property investments	**8,383**
19,443	Net rent from properties	**14,120**
458	Interest from cash deposits	**528**
1,056	Other	**1,722**
87,158	**Total investment income showing net property rent**	**82,403**
	Add back:	
594	Property operating expenses	**2,917**
87,752	**Total investment income showing gross property rent**	**85,320**

In line with best practice guidelines, the note that accompanies investment income requires the Fund to show rent from property net of other property income and operating property expenses. However, rent from property which is included under 'investment income' in the Fund Account is shown on a gross basis.

9.2 Investment property net rental

2015/16 £000		2016/17 £000
19,486	Rental Income from investment property	**16,494**
(290)	Direct operating expenses arising from investment property	**(2,124)**
19,196	**Total**	**14,370**

9.3 Contractual rental receivable

The table below shows the contractual amount of rental income due to the Fund as at 31 March:

2015/16 £000		2016/17 £000
17,445	Within one year	17,372
51,547	Between one and five years	48,684
41,141	Beyond five years	34,010
110,133	Total	100,066

9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2015	240,745	81,390	322,135
Additions	33,166	24	33,190
Disposals	(9,349)	(9,855)	(19,204)
Net gain/loss on fair value	20,008	2,651	22,659
Fair value at 31 March 2016	284,570	74,210	358,780
Additions	34,088	23	34,111
Disposals	(17,519)	(4,968)	(22,487)
Net gain/loss on fair value	(3,724)	(495)	(4,219)
Fair value at 31 March 2017	297,415	68,770	366,185

10. Management expenses

10.1 By type

2015/16 £000		2016/17 £000
2,346	Administration costs	1,955
29,678	Investment management expenses	33,441
1,073	Oversight and governance	1,249
33,097	Total	36,645

The direct running costs recharged back to the Fund are apportioned out as per the CIPFA guidance on LGPS Management Costs.

Administrative costs are now shown gross of administration income received from employers. Administration income received from employers totalled **£1.306m** for 2016/17 (£2015/16: £1.281m) and is now shown within 'Other Income' on the face of the Fund Account.

Investment transaction costs incurred during the year are included within Investment Management expenses. These were **£723,000** for 2016/17 (2015/16: £768,000).

10.2 Investment management expenses

2015/16 Restated £000		2016/17 £000
28,616	Management fees	32,325
294	Custody fees	393
768	Transaction costs	723
29,678	**Total**	33,441

11. Investments

11.1 Value of investments held by managers

The value of investments held by each fund manager on 31 March was as follows:

2016 £m	2016 %		2017 £m	2017 %
79	1.6	Alcentra Ltd	110	1.8
619	12.4	Aviva Investors	614	10.3
398	8.0	Baillie Gifford and Co	545	9.1
243	4.9	Stewart Investors (formerly First State)	310	5.2
235	4.7	Goldman Sachs Asset Management International	242	4.0
257	5.1	Hamilton Lane	315	5.3
1,558	31.2	Legal and General Investment Management	1,785	29.8
(18)	-0.4	Legal and General Investment Management (Currency)	(2)	-
384	7.7	Longview Partners	496	8.3
393	7.9	Marathon Asset Management Ltd	515	8.6
347	6.9	M&G Investments	474	7.9
238	4.8	M&G Investments Alpha Opportunities	255	4.3
61	1.2	M&G Investments Infracapital	38	0.6
9	0.2	M&G Investments Financing Fund	6	0.1
107	2.1	Partners Group Management II S.à r.l	161	2.7
1	-	RWC Specialist UK Focus Fund (formerly Hermes)	3	-
78	1.6	Stafford Timberland Limited	105	1.8
6	0.1	Other	13	0.2
4,995	100.0		5,985	100.0

11.2 Investments by asset type

The tables below provide an analysis of investment assets by type and show the movements in the market value of the investments, including profits and losses realised on the sales of investments:

2015/16	Value at 1 April 2015	2015/16 Movement					Value at 31 March 2016
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	232,568	-	-	-	2,918	-	235,486
Equities							
UK quoted	153,973	9,641	(1,694)	(36,200)	(5,693)	-	120,027
Overseas quoted	1,278,488	254,675	(98,301)	(209,200)	18,182	-	1,243,844
UK unit trusts	243,770	37,379	(3,388)	(9,603)	(4,344)	-	263,814
Overseas unit trusts	780,132	137,901	26,087	(142,342)	(7,756)	-	794,022
Global unit life assurance policies	309,953	585	47,975	(540)	(2,199)	-	355,774
Global unit trusts	299,192	20,241	29,321	(2,741)	611	-	346,624
Index linked securities							
Index unit linked life assurance policies	40,702	26,366	75,001	(92,361)	1,062	-	50,770
UK public sector quoted	175,830	19,192	(74,890)	(27,036)	503	-	93,599
Property							
UK properties (freehold)	240,745	33,166	-	(9,349)	20,008	-	284,570
UK properties (leasehold)	81,390	24	-	(9,855)	2,651	-	74,210
Property unit trusts	217,452	6,452	5,608	(25,845)	11,422	-	215,089
Private equity							
UK unquoted	164	-	-	(125)	-	-	39
Overseas unquoted	237,815	46,354	-	(69,855)	32,928	-	247,242
Infrastructure							
UK unquoted	84,080	1,330	-	(38,671)	13,985	-	60,724
overseas unquoted	74,895	23,204	-	(10,439)	13,701	-	101,361
Timber (Overseas unquoted)	49,057	19,134	-	(1,074)	10,558	-	77,675
Illiquid Debt							
UK unquoted	24,442	-	-	(69)	921	-	25,294
Overseas unquoted	38,887	12,564	-	(3,784)	3,744	-	51,411
Other managed funds							
UK unquoted	253,665	5,648	-	(4,081)	(6,874)	-	248,358
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	71,342	-	-	-	-	5,201	76,543
Foreign currency	38,468	-	-	62,688	(62,688)	1,681	40,149
	4,927,010	653,856	5,719	(630,482)	43,640	6,882	5,006,625
Other investment balances							
Assets							
Amounts receivable for sales of investments	1,232						1,720
Investment income due	5,202						5,912
Liabilities							
Amounts payable for purchase of investments	(1,873)						(203)
Investment withholding tax payable	(114)						(150)
Derivative pending foreign currency contracts							
Assets	22,902						17,300
Liabilities	(48,206)						(35,744)
	4,906,153						4,995,460

The change in market value includes all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments since 1 April.

For 2016/17, the total transaction costs were **£723,000** (2015/16: £768,000). These are included within investment management expenses (see note 10).

2016/17	Value at 1 April 2016	2016/17 Movement					Value at 31 March 2017
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	235,486	-	-	-	6,399		241,885
Equities							
UK quoted	120,027	42,803	-	(36,939)	24,471		150,362
Overseas quoted	1,243,844	244,753	-	(251,333)	403,677		1,640,941
UK unit trusts	263,814	-	-	(44,720)	46,475		265,569
Overseas unit trusts	794,022	-	-	(236,832)	225,271		782,461
Global unit life assurance policies	355,774	-	-	(699)	129,024		484,099
Global unit trusts	346,624	1,512	-	(3,682)	129,313		473,767
Index linked securities (UK public sector quoted)							
Index linked unit life assurance policies	50,770	99,700	-	(29,706)	17,232		137,996
UK public sector quoted	93,599	6,575	-	(6,004)	20,043		114,213
Property							
UK properties (freehold)	284,570	34,088	-	(17,519)	(3,724)		297,415
UK properties (leasehold)	74,210	23	-	(4,968)	(495)		68,770
Property unit trusts	215,089	12,163	1	(15,200)	(212)		211,841
Private equity							
UK unquoted	39	-	-	(13)	(5)		21
Overseas unquoted	247,242	51,049	-	(77,129)	76,369		297,531
Infrastructure							
UK unquoted	60,724	-	-	(45,744)	16,316		31,296
overseas unquoted	101,361	59,354	-	(19,272)	19,080		160,523
Timber (Overseas unquoted)	77,675	15,991	-	(1,003)	9,320		101,983
Illiquid Debt							
UK unquoted	25,294	-	-	(126)	3,084		28,252
Overseas unquoted	51,411	35,028	-	(11,928)	(1,396)		73,115
Other managed funds							
UK unquoted	248,358	6,721	-	(6,983)	13,740		261,836
Cash							
Cash deposits held at the custodian/other							
Sterling	76,543	-	-	-	-	25,531	102,074
Foreign currency	40,149	-	-	186,425	(186,425)	14,003	54,152
	5,006,625	609,760	1	(623,375)	947,557	39,534	5,980,102
Other investment balances							
Assets							
Amounts receivable for sales of investments	1,720						2,663
Investment income due	5,912						6,421
Liabilities							
Amounts payable for purchase of investments	(203)						(2,619)
Investment withholding tax payable	(150)						(255)
Amounts payable in respect of the GLF purchases	-						(103)
Derivative pending foreign currency contracts							
Assets	17,300						20,544
Liabilities	(35,744)						(21,941)
	4,995,460						5,984,812

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31 March 2016 £000		31 March 2017 £000
	Fixed interest securities	
235,486	UK quoted	**241,885**
	Equities	
120,027	UK quoted	**150,362**
1,243,844	Overseas quoted	**1,640,941**
263,814	UK unit trusts	**265,569**
794,022	Overseas unit trusts	**782,461**
355,774	Global unit life assurance policies	**484,099**
346,624	Global unit trusts	**473,767**
	Index linked securities: UK public sector quoted	
50,770	UK unit linked life assurance policies	**137,996**
93,599	UK public sector quoted	**114,213**
	Property	
284,570	UK properties (freehold)	**297,415**
74,210	UK properties (leasehold)	**68,770**
215,089	Property unit trusts	**211,841**
	Private equity	
39	UK unquoted	**21**
247,242	Overseas unquoted	**297,531**
	Infrastructure	
60,724	UK unquoted	**31,296**
101,361	Overseas unquoted	**160,523**
77,675	**Timber**: Overseas unquoted	**101,983**
	Illiquid Debt	
25,294	UK unquoted	**28,252**
51,411	Overseas unquoted	**73,115**
248,358	**Other managed funds**: UK unquoted	**261,836**
	Derivative contracts	
17,300	**Assets**: Derivative pending foreign currency contracts	**20,544**
(35,744)	**Liabilities**: Derivative pending foreign currency contracts	**(21,941)**
	Cash deposits	
	Cash deposits held at custodian/other	
76,543	Sterling	**102,074**
40,149	Foreign currency	**54,152**
4,988,181		**5,978,705**
	Other investment balances	
	Assets	
1,720	Amounts receivable for sales of investments	**2,663**
5,912	Investment income due	**6,421**
	Liabilities	
(203)	Amounts payable for purchase of investments	**(2,619)**
(150)	Investment withholding tax payable	**(255)**
-	Amounts payable re. GLF	**(103)**
4,995,460	**Value at 31 March**	**5,984,812**

11.3 Pooled investments representing 5% or more of net assets

The Fund holds the following investments in unit trusts/pooled vehicles which are in excess of 5% of the value of the Fund:

31 March 2016 £000	31 March 2016 %		31 March 2017 £000	31 March 2017 %
355,774	7.1%	Legal & General FTSE RAFI AW 3000 Index	**484,099**	**8.0%**
346,624	6.9%	M&G Global Dividend Fund	**473,767**	**7.9%**
344,396	6.8%	Legal & General North America Equity Index	**340,024**	**5.6%**
257,839	5.1%	Legal & General Europe (Ex UK) Equity Index	**258,444**	**4.3%**

11.4 Single investments in excess of 5% of any asset types

The Fund holds the following single investments at 31 March which are in excess of 5% of any asset class or type of security:

31 March 2016 £000	31 March 2016 %	Asset type / Asset name	31 March 2017 £000	31 March 2017 %
		UK QUOTED EQUITIES		
20,188	*16.8%*	Unilever plc Ord GBP0.031	**25,396**	***16.9%***
16,255	*13.5%*	WPP Plc Ord GBP0.10	**18,933**	***12.6%***
-	-	Whitbread Ord GBP0.76	**16,428**	***10.9%***
14,038	*11.7%*	Compass Group Ord GBP0.10	**16,096**	***10.7%***
13,263	*11.1%*	Lloyds Banking GP Ord GBP0.1	**12,932**	***8.6%***
7,592	*6.3%*	Sabmiller plc Ord050.10	**-**	**-**
7,224	*6.0%*	Arm Holdings Ord GBP0.0005	**-**	**-**
6,020	*5.0%*	Reckitt Benck GBP Ord GBP0.10	**6,135**	***4.1%***
		PROPERTY		
26,900	*7.5%*	Canning Town Business Park, London	**30,140**	***8.2%***
-	-	201 Deansgate, Manchester	**29,150**	***8.0%***
21,950	*6.1%*	48-49 Chancery Lane, London	**20,800**	***5.7%***

31 March 2016 £000	31 March 2016 %	Asset type / Asset name	31 March 2017 £000	31 March 2017 %
		PROPERTY UNIT TRUSTS		
34,388	16.0%	Aviva Investors Property Fund	25,711	12.1%
19,616	9.1%	Industrial Property Investment Fund	20,958	9.9%
13,679	6.4%	Unite UK Student Accomodation Fund	19,081	9.0%
18,846	8.8%	Blackrock UK Property Fund	18,855	8.9%
16,174	7.5%	Standard Life Property Fund Closed	16,456	7.8%
14,726	6.8%	Lothbury Property Fund	15,495	7.3%
14,756	6.9%	Airport Industrial Fund	15,353	7.2%
13,986	6.5%	Standard Life UK Shopping Centre	13,639	6.4%
12,020	5.6%	Henderson UK Retail Warehouse Fund	10,900	5.1%
		PRIVATE EQUITY		
10,683	4.3%	American Securities Partners VI LP	16,088	5.4%
		INFRASTRUCTURE		
50,068	30.9%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	52,777	27.5%
31,948	19.7%	Partners Group Global Infrastructure 2012 LP	47,252	24.6%
-	-	Partners Group Global Infrastructure 2015 (USD) SCA SICAR	34,967	18.2%
60,724	37.5%	Infracapital Partners	31,296	16.3%
14,513	9.0%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	16,586	8.6%
		TIMBER		
47,405	61.0%	Stafford International Timberland VI Fund LP	52,523	51.5%
30,270	39.0%	Stafford International Timberland VII Fund (No 2) LP	49,460	48.5%
		IILIQUID DEBT		
51,412	67.0%	Clareant (formerly Alcentra) European DLF Investor Feeder (No.2)	47,225	46.6%
25,294	33.0%	Alcentra Global Multi-Credit Solutions Class IV A GBP	28,252	27.9%
-	-	Clareant European Direct Lending Fund II (GBP) LP	25,890	25.5%
		OTHER MANAGED FUNDS		
237,654	95.7%	M&G Alpha Opportunities Fund	255,159	97.4%
		CASH		
36,360	31.2%	BNP Paribas Investment Partners GBP	50,057	32.0%
29,730	25.5%	Northern Trust Liquidity Fund GBP	40,861	26.2%
22,334	19.1%	Northern Trust Liquidity Fund US$	29,906	19.1%
-	-	BNP Paribas Investment Partners US$	10,106	6.5%

11.5 Derivative contracts

11.5.1 Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment agreement agreed between the Fund and the various investment managers.

11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2017 and 31 March 2016.

11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **66.6%** of the Fund's NAS is in overseas assets as at 31 March 2017 (31 March 2016: 63.9%).

To reduce the volatility associated with fluctuating currency rates (currency risk) the Fund has a passive currency programme in place which is managed by Legal and General Investment Management. The Fund hedges **50%** of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

11.5.4 Open forward currency contracts

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000	Net value £000
Up to one month	AUD	28,380	GBP	15,073	116	-	116
Up to one month	CAD	24,175	GBP	12,880	123	-	123
Up to one month	CHF	28,689	GBP	20,793	50	-	50
Up to one month	EUR	81,608	GBP	64,460	242	-	242
Up to one month	GBP	13,491	AUD	28,388	-	(1,702)	(1,702)
Up to one month	GBP	11,605	CAD	24,175	-	(1,398)	(1,398)
Up to one month	GBP	19,408	CHF	28,689	-	(1,435)	(1,435)
Up to one month	GBP	76,654	EUR	104,265	-	(6,018)	(6,018)
Up to one month	GBP	33,840	JPY	6,104,120	-	(3,946)	(3,946)
Up to one month	GBP	6,075	SEK	77,074	-	(540)	(540)
Up to one month	GBP	282,414	USD	421,526	-	(10,863)	(10,863)
Up to one month	GBP	-	ZAR	9	-	-	-
Up to one month	JPY	6,104,120	GBP	38,380	-	(594)	(594)
Up to one month	SEK	77,074	GBP	6,568	47	-	47
Up to one month	USD	421,526	GBP	298,081	-	(4,805)	(4,805)
One to six months	GBP	39,775	AUD	(77,717)	-	(1,684)	(1,684)
One to six months	GBP	34,466	CAD	(66,568)	-	(1,335)	(1,335)
One to six months	GBP	53,427	CHF	(74,174)	-	(615)	(615)
One to six months	GBP	203,578	EUR	(260,131)	-	(3,028)	(3,028)
One to six months	GBP	142,753	JPY	(22,848,727)	1,081	-	1,081
One to six months	GBP	21,505	SEK	(256,012)	-	(512)	(512)
One to six months	GBP	902,202	USD	(1,270,596)	18,372	-	18,372
Open forward currency contracts at 31 March 2016					**20,031**	**(38,475)**	**(18,444)**
Open forward currency contracts at 31 March 2015					**11,970**	**(37,274)**	**(25,304)**

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000	Net value £000
Up to one month	AUD	27,196	GBP	16,918	-	(327)	(327)
Up to one month	CAD	25,990	GBP	15,683	-	(98)	(98)
Up to one month	CHF	25,253	GBP	20,392	-	(216)	(216)
Up to one month	EUR	83,857	GBP	72,700	-	(974)	(974)
Up to one month	GBP	15,885	AUD	27,247	-	(738)	(738)
Up to one month	GBP	15,620	CAD	25,990	36	-	36
Up to one month	GBP	19,898	CHF	25,253	-	(278)	(278)
Up to one month	GBP	88,527	EUR	104,232	-	(631)	(631)
Up to one month	GBP	54,176	JPY	7,901,132	-	(2,529)	(2,529)
Up to one month	GBP	9,085	SEK	104,857	-	(307)	(307)
Up to one month	GBP	367,192	USD	455,626	2,822	-	2,822
Up to one month	GBP	38	ZAR	632	-	-	-
Up to one month	GBP	17	BRL	68	-	-	-
Up to one month	GBP	29	HKD	279	-	-	-
Up to one month	JPY	7,901,132	GBP	56,478	227	-	227
Up to one month	JPY	62,384	USD	561	-	(1)	(1)
Up to one month	SEK	101,405	GBP	9,261	-	(179)	(179)
Up to one month	USD	454,155	GBP	365,872	-	(2,679)	(2,679)
Up to one month	USD	4	JPY	484	-	-	-
Up to one month	ZAR	14	GBP	1	-	-	-
One to six months	GBP	49,574	AUD	81,078	244	-	244
One to six months	GBP	47,470	CAD	78,129	651	-	651
One to six months	GBP	61,391	CHF	76,328	270	-	270
One to six months	GBP	239,024	EUR	278,444	508	-	508
One to six months	GBP	169,580	JPY	23,826,145	-	(1,584)	(1,584)
One to six months	GBP	25,707	SEK	284,145	215	-	215
One to six months	GBP	1,134,218	USD	1,415,236	4,171	-	4,171
Open forward currency contracts at 31 March 2017					**9,144**	**(10,541)**	**(1,397)**
Open forward currency contracts at 31 March 2016					**20,031**	**(38,475)**	**(18,444)**

12. Additional Voluntary Contributions (AVC) Investments

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only.

The AVC providers to the Fund are the Equitable Life Assurance Society, Prudential 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, Prudential and Standard Life to the Fund is shown in the table below.

12.1 Reconciliation of movements in AVC investments

2015/16 £000		2016/17 £000
6,178	Value of AVC fund at beginning of year	5,837
655	Employees contributions	703
(27)	Investment income and change in market value	669
(969)	Benefits paid and transfers out	(873)
5,837		6,336

12.2 Analysis of AVC investments by Provider

2015/16 £000		2016/17 £000
131	Equitable Life	112
718	Prudential	1,031
4,988	Standard Life	5,193
5,837		6,336

13. Current assets and liabilities

13.1 Analysis of current assets

31 March 2016 £000		31 March 2017 £000	£000
	Cash Balances		
788	Cash at bank	1,560	
25,523	Cash on short term deposits within 3 months	34,032	
26,311			35,592
	Debtors and payments in advance		
3,784	Contributions due – employees	4,091	
13,398	Contributions due – employers	12,410	
487	Sundry debtors	756	
17,669			17,257
43,980	**Total**		52,849

13.2 Analysis of debtors

31 March 2016			31 March 2017	
Short term £000	Long term £000		Short term £000	Long term £000
3,505	5,058	Central Government	4,513	3,810
11,412	24	Other Local Authorities	10,107	17
29	-	NHS Bodies	19	-
2,033	114	Public Funded Bodies	1,968	467
690	-	Other	650	-
17,669	5,196	**Total**	17,257	4,294

13.3 Analysis of long term debtors

31 March 2016 £000		31 March 2017 £000
83	Financial strain instalments due	160
5,113	Other employer contributions due	4,134
5,196	**Total**	4,294

13.4 Contingent assets

To protect the Fund from employer default the Funding Strategy sets out safeguards to be in place on all new admission agreements. These can include a guarantee from another Fund employer with sufficient covenant strength, and a surety bond or other contingent asset.

13.5 Analysis of current liabilities

31 March 2016 £000		31 March 2017 £000
	Unpaid benefits and other current liabililities	
(193)	Contributions due – employers	(316)
(3,037)	Investment manager fees payable	(4,186)
(4,091)	Benefits payable	(4,246)
(211)	Other	(2,154)
(7,532)	**Total**	(10,902)

13.6 Analysis of creditors

31 March 2016 £000		31 March 2017 £000
	Creditors and receipts in advance	
(111)	Central Government	**(282)**
(1,399)	Other Local Authorities	**(3,668)**
(2)	NHS Bodies	**-**
(851)	Public Funded Bodies	**(296)**
(5,169)	Other	**(6,656)**
(7,532)	**Total**	**(10,902)**

13.7 Contingent liabilities and contractual commitments

As at 31 March 2017, the Fund had a commitment to contribute a further **£654.7m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2016: £479.2m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

14. Taxes on income

The table below provides a breakdown of the taxes paid by the Fund in the UK and overseas.

2015/16 £000		2016/17 £000
560	UK withholding tax	**206**
3,157	Overseas withholding tax	**2,130**
117	Payment to HMRC in respect of returned contributions	**235**
3,834		**2,571**

15. Related party transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention in making this disclosure is to make explicit the extent to which the Fund might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to negotiate freely with the Fund.

15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred gross costs of **£2.516m** in 2016/17 (2015/16: £2.495m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£49.942m** to the Fund in 2016/17 (2015/16: **£50.956m**). No significant amounts were owing to and due to be paid from the Fund in the year.

Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Investment Steering Committee **23 March 2016**. This service is provided to the Fund at a cost of **£27,000** (2015/16: £26,000).

During the year to 31 March 2017, the Pension Fund had an average investment balance of **£30.618m** (2015/16: £27.089m) earning **£117,000** interest (2015/16: £143,000).

15.2 Governance

Under IFRS 8 '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, each member of the Essex Pension Board and Investment Steering Committee is required to declare their interests at each meeting. None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2015, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2016/17, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ S. Child	▪ Cllr N. J. Hume
Representative of scheme employers	▪ Cllr S. Barker
▪ C. Riley	▪ Cllr J. Whitehouse *
Representatives of small employing bodies	▪ Cllr K. Bobbin *
▪ J. Moore	▪ Cllr M. Mackrory *

** Membership relates to non councillor serving*

From 1 April 2015 pension funds were required to establish a local Pensions Board under section 5 of the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations 2013. Members of this Board, (Essex Pension Fund Advisory Board) who, during 2016/17, were also members of the LGPS are listed below:

Representative of scheme employers	Representative of scheme members
▪ J. Durrant	▪ K. Flowers **
▪ Cllr S. Walsh	▪ P. Hewitt
	▪ J. Hunt
	▪ M. Paget

*** PAB membership ceased in January 2017*

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2016/17 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2016/17 approximately **2%** (2015/16: 2%) of the Executive Director for Corporate and Customer Services time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2016/17 was **£156,000** (2015/16: £164,000). The 2016/17 current service cost in respect of these personnel was **£68,000** (2015/16: £75,000). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

16. Agency Services

The Essex Pension Fund pays discretionary awards to former employees of both current and former employers' of the Fund. The amounts paid are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

The sums are disclosed below:

2015/16 £000		2016/17 £000
1,554	Adminstering Authority	**1,514**
5,509	Scheduled Bodies	**5,356**
152	Community Admission Bodies	**137**
1	Transferree Admission Bodies	**-**
2	Resolution Bodies	**2**
22	Former employers	**22**
7,240	**Total**	**7,031**

17. Financial Instruments

Accounting policies describe how different asset classes of financial instrument are measured and how income and expenditure, including fair value gains and losses, are recognised.

17.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement headings. No financial assets were reclassified during the accounting period.

Statutory debtors and creditors are excluded from the financial instrument note and only contractual debtors and creditors are shown.

The debtor figure of **£21.551m** as at 31 March 2017 (£2015/16: £22.865m) has been classified as statutory debtors and therefore been excluded from the below note.

The creditor figure of **£10.902m** as at 31 March 2017 (2015/16: £7.532m) excludes statutory creditors of **£6.716m** (2015/16: £4.495m).

In addition, financial assets held by the Fund on a direct basis, for example direct property, have also been excluded from the below note.

31 March 2016			Asset type	31 March 2017		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets			
235,486	-	-	Fixed interest securities	241,885	-	-
3,124,105	-	-	Equities	3,797,199	-	-
144,369	-	-	Index linked securities	252,209	-	-
215,089	-	-	Pooled unit trusts	211,841	-	-
247,281	-	-	Private equity	297,552	-	-
143,049	-	-	Infrastructure	140,266	-	-
77,675	-	-	Timber	101,983	-	-
25,293	-	-	Illiquid debt	28,252	-	-
248,358	-	-	Other managed funds	261,836	-	-
17,300	-	-	Derivative contracts	20,544	-	-
-	143,003	-	Cash deposits	-	191,818	-
7,632	-	-	Other investment balances	9,084	-	-
-	-	-	Debtors	-	-	-
4,485,637	143,003	-		5,362,651	191,818	-
			Financial liabilities			
(35,744)	-	-	Derivative contracts	(21,941)	-	-
(353)	-	-	Other investments balances	(2,977)	-	-
-	-	(3,037)	Creditors	-	-	(4,186)
(36,097)	-	(3,037)		(24,918)	-	(4,186)
4,449,540	143,003	(3,037)	**Balance at the end of the year**	5,337,733	191,818	(4,186)
		4,589,506	**Total**			5,525,365

17.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2016 £000		Asset value as at 31 Mar 2017 £000
	Financial assets	
75,863	Fair value through profit and loss	**1,133,174**
(62,688)	Loans and receivables	**(186,425)**
13,175	**Total**	**946,749**

Financial assets held by the Fund on a direct basis (e.g. direct property) have also been excluded from the above note.

The net gains and losses differ from the Fund Account by gains and losses of financial assets held directly. These gains and losses totalled **£808,000** as at 31st March 2017 (31st March 2016: £30.465m).

17.3 Valuation of financial instruments carried at fair value

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

- **Level 1** – Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Financial instruments where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Financial instruments where at least one input that could have significant effect on the instruments valuation is not based on observable market data.

  Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

  The value of the investment in private equity is based on valuations provided by the general partners to the private equity funds in which the Essex Pension Fund has invested.

  These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IRRS and US

GAAP. Valuations are usually undertaken annually at the end of December, with unaudited valuations provided by the general partner as at 31 March.

The valuations of infrastructure and timber are based on net asset value provided by the fund manager.

The table that follows shows the hierarchy level as per different asset types:

Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
Market Quoted Equities Unit Trusts Money Market Funds Absolute Returns	Level 1	Published Bid Market Price	N/A	N/A
Unit Linked Life Assurance Policies	Level 2	Valuation technique with quoted prices of a similar asset	Price of recent transactions for identical instrument	Significant change in economic circumstances or time lapse since the transaction took place
Fixed Income	Level 2	The prices are published reflecting the NAV at each dealing point but are not exchange traded	Price of recent transactions for identical instrument	Significant change in economic circumstances or time lapse since the transaction took place
Forward Foreign Exchange Derivatives	Level 2	Market exchange rates at the year end	Price of recent transactions for identical instrument	Risk of an exchange rate changing between the transaction date and the subsequent settlement date volatility of the exchange rates during the hedge period
Property	Level 3	Assets are based on valuations received from the Managers which are determined in accordance with the last known NAV and adjusted for subsequent capital calls and distributions and other relevant information provided by the real estate fund	Pricing inputs are unobservable and include situations where there is little market activity Estimated rental growth Covenant strength for existing tendencies Discount rate Land/building valuation surveys	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices and volume of sales and purchases
Distressed Debt	Level 3	The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the	These techniques may include a number of assumptions relating to variables such as credit risk and interest rates	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting

Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
		same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation		date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis
Infrastructure	Level 3	The valuation of the investment assets is determined in accordance with generally accepted valuation principles in compliance with article 5(3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows and fair value adjustments
Private Equity	Level 3	The valuation of the investment are carried at fair value as determined in good faith by the General Partner in accordance with the terms of the Partnership Agreement and US GAAP	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis
Timberlands	Level 3	Valuation technique is based on accepted valuation techniques that include discounted cashflow and multiple earnings	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis

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

Values as at 31 March 2016 (Restated)				Values as at 31 March 2017		
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
			Financial assets			
2,047,211	1,730,039	708,387	Fair value through profit and loss	**2,630,251**	**1,952,506**	**779,894**
143,003	-	-	Loans and receivables	**191,818**	**-**	**-**
2,190,214	1,730,039	708,387		**2,822,069**	**1,952,506**	**779,894**
			Non financial assets			
-	-	429,228	Fair value through profit and loss	**-**	**-**	**490,853**
			Financial liabilities			
(353)	(35,744)	-	Fair value through profit and loss	**(2,977)**	**(21,941)**	**-**
(3,037)	-	-	Financial liabilities measured at amortised cost	**(4,186)**	**-**	**-**
(3,390)	(35,744)	-		**(7,163)**	**(21,941)**	**-**
2,186,824	1,694,295	1,137,615	**Total net assets per level**	**2,814,906**	**1,930,565**	**1,270,747**
		5,018,734	**Total Net Assets**			**6,016,218**

17.4 Transfers between hierarchy levels

The Pensions Research Accountants Group (PRAG) published a practical guidance for investment disclosures during 2016, in response to FRS102 amendments in respect of the fair value hierarchy disclosures alignment with IFRS. The paper states that pooled fund holdings should not just be analysed in terms of their underlying investments but should also be dependent on the nature and the investors' ability to exit the holding. Taking this into account, the following movements have been made and are reflect in the previous table.

Values as at 31 March 2016 Movement to/(from)				Values as at 31 March 2017 Movement to/(from)		
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
			Financial assets			
			Fair value through profit and loss			
(1,413,610)	1,413,610	-	L&G equity unit assurance policies	(1,532,129)	1,532,129	-
(50,770)	50,770	-	L&G index linked unit assurance policies	(137,996)	137,996	-
(17,300)	17,300	-	Derivative Contracts	(20,544)	20,544	-
-	(215,089)	215,089	Pooled property unit trusts	-	(211,841)	211,841
(1,481,680)	1,266,591	215,089		(1,690,669)	1,478,828	211,841
			Financial liabilites			
			Fair value through profit and loss			
35,744	(35,744)	-	Derivative Contracts	21,941	(21,941)	-
35,744	(35,744)	-		21,941	(21,941)	-
(1,445,936)	**1,230,847**	**215,089**	**Movement between levels**	**(1,668,728)**	**1,456,887**	**211,841**

17.5 Reconciliation of fair value measurements within Level 3

2016/17	Value at 1 April 2016	2016/17 Movement						Value at 31 March 2017
		Transfer to Level 3	Purchases	Net Transfers	Sale Proceeds	Unrealised profit/ loss	Realised profit/ loss	
	£000	£000	£000	£000	£000	£000	£000	£000
Properties								
UK properties (freehold)	284,570		34,088		(17,519)	111	(3,835)	297,415
UK properties (leasehold)	74,210		23		(4,968)	(2,195)	1,700	68,770
Property unit trusts	-	215,089	12,163	1	(15,200)	10,699	(10,911)	211,841
Private equity								
UK unquoted	39		-		(13)	(18)	13	21
Overseas unquoted	247,242		51,049		(77,129)	43,170	33,199	297,531
Infrastructure								
UK unquoted	60,724		-		(45,744)	(7,065)	23,381	31,296
Overseas unquoted	101,361		59,354		(19,272)	17,205	1,875	160,523
Timber (Overseas unquoted)	77,675		15,991		(1,003)	9,281	39	101,983
Illiquid Debt								
UK unquoted	25,294		-		(126)	3,084	-	28,252
Overseas unquoted	51,411		35,028		(11,928)	(3,887)	2,491	73,115
	922,526	215,089	207,696	1	(192,902)	70,385	47,952	1,270,747

18. Nature and extent of risks arising

18.1 Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Investment Steering Committee (ISC). Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

18.2 Market risk

Market risk is the possibility that financial loss might occur as a result of fluctuations in equity and commodity prices, interest rates and foreign exchange. The level of risk exposure depends on market conditions, expectation of future price and yield movements and the asset mix.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its institutional investment consultant, Hymans Robertson LLP, along with the Fund's independent adviser and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Investment Strategy Statement (formerly referred to as the Statement of Investment Principles) which is available from the website www.essexpensionfund.co.uk. Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

18.3 Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The LGPS investment regulations also contain prescribed limits to avoid over-concentration in specific areas.

18.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2016/17.

The percentages shown in the following table are broadly consistent with a movement of one standard deviation in the value of the Fund's assets, and assumes that all other variables in particular foreign exchange rates and interest rates remain unchanged.

31st March 2016 Potential Market movement %	Asset type	31st March 2017 Potential Market movement %
9.2%	UK bonds	8.7%
18.0%	UK equities	15.8%
21.0%	Overseas equities	18.4%
7.0%	UK index linked bonds	7.1%
15.0%	Pooled property unit trusts	14.2%
29.0%	Private equity	28.5%
15.0%	Infrastructure funds	11.3%
15.0%	Timber	11.3%
14.0%	Illiquid debt	12.3%
15.0%	Property	14.2%
1.0%	Cash	0.0%

Had the market price of the Fund investments increased/ (decreased) in line with the above assumptions the change in the net assets available to pay benefits would have been as follows:

31st March 2016 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2017 £000	Percentage change %	Value increase £000	Value decrease £000
116,692	1.0%	117,859	115,525	Cash and equivalents	156,226	-	156,226	156,226
				Investment portfolio assets				
235,486	9.2%	257,151	213,821	UK bonds	241,885	8.7%	262,929	220,841
120,027	18.0%	141,632	98,422	UK equities	150,362	15.8%	174,119	126,605
1,243,844	21.0%	1,505,051	982,637	Overseas equities	1,640,941	18.4%	1,942,874	1,339,008
263,814	18.0%	311,301	216,327	UK equities unit insurance policies	265,569	15.8%	307,529	223,609
794,022	21.0%	960,767	627,277	Overseas equities insurance policies	782,461	18.4%	926,434	638,488
355,774	21.0%	430,487	281,061	Global equities insurance policies	484,099	18.4%	573,173	395,025
346,624	21.0%	419,415	273,833	Global unit trusts	473,767	18.4%	560,940	386,594
144,369	7.0%	154,475	134,263	UK index linked bonds	252,209	7.1%	270,116	234,302
215,089	15.0%	247,352	182,826	Pooled property unit trusts	211,841	14.2%	241,922	181,760
247,281	29.0%	318,992	175,570	Private equity	297,552	28.5%	382,354	212,750
162,085	15.0%	186,398	137,772	Infrastructure	191,819	11.3%	213,495	170,143
77,675	15.0%	89,326	66,024	Timber	101,983	11.3%	113,507	90,459
76,705	14.0%	87,444	65,966	Illiquid Debt	101,367	12.3%	113,835	88,899
248,358	15.0%	285,612	211,104	Other managed funds	261,836	11.3%	291,423	232,249
358,780	15.0%	412,597	304,963	Property	366,185	14.2%	418,183	314,187
(18,444)	-	(18,444)	(18,444)	Net derivative assets	(1,397)	-	(1,397)	(1,397)
5,912	-	5,912	5,912	Investment income due	6,421	-	6,421	6,421
(150)	-	(150)	(150)	WHT payable	(255)	-	(255)	(255)
1,720	-	1,720	1,720	Amounts receivable for sales	2,663	-	2,663	2,663
(203)	-	(203)	(203)	Amounts payable for purchases	(2,619)	-	(2,619)	(2,619)
-	-	-	-	Amounts payable for GLF	(103)	-	(103)	(103)
4,995,460		5,914,694	4,076,226	Total assets available to pay benefits	5,984,812		6,953,769	5,015,855

18.5 Sensitivity of funding position

Market conditions and the underlying investment performance of the Fund's assets will have a direct impact on the funding position, albeit that a smoothed rather than spot rate methodology is used by the Fund's Actuary.

Barnett Waddingham's approach adopted at the 2016 Actuarial Valuation includes the following features:

- Financial assumptions such as inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six month period from 1 January 2017 to 30 June 2017. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31 March 2017 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the liabilities.

18.6 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal and General and bond mandates with MandG Investments (MandG) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. In addition the Fund has an investment in an illiquid debt mandate.

The Fund's direct exposure to interest rate movements is shown below. The underlying assets are shown at their fair value.

Asset value as at 31 Mar 2016 £000	Asset type	Asset value as at 31 Mar 2017 £000
116,692	Cash and cash equivalents	**156,226**
26,311	Cash balances	**35,593**
235,486	Fixed interest securities	**241,885**
144,369	Index-linked securities	**252,209**
76,705	Illiquid debt	**101,367**
599,563	**Total assets**	**787,280**

18.7 Interest rate risk sensitivity analysis

Interest rates have remained constant but this is not always the case and can vary. As a result, any variation in interest rates affects the level of income achievable and the value of the net assets of the Fund to pay benefits. The Fund's institutional consultants, Hymans Robertson, have undertaken a sensitivity analysis and advised that it is reasonable in today's climate that a movement increase/(decrease) of not more than 100 basis points on a year to year basis is possible based on past experience.

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 100 basis points change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits +100 BPS £000	-100 BPS £000	Asset type	Asset value as at 31 Mar 2017 £000	Change in year in the net assets to pay benefits +100 BPS £000	-100 BPS £000
116,692	1,167	(1,167)	Cash and cash equivalents	**156,226**	**1,562**	**(1,562)**
26,311	263	(263)	Cash balances	**35,593**	**356**	**(356)**
235,486	2,355	(2,355)	Fixed interest securities	**241,885**	**2,419**	**(2,419)**
144,369	1,444	(1,444)	Index-linked securities	**252,209**	**2,522**	**(2,522)**
76,705	767	(767)	Iliquid debt	**101,367**	**1,014**	**(1,014)**
599,563	5,996	(5,996)	**Total change in assets available**	**787,280**	**7,873**	**(7,873)**

18.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To reduce the volatility associated with fluctuating currency rates the ISC has for the Fund put in place a passive currency overlay programme which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

The following table summarises the Fund's currency exposure as at 31 March 2017 and prior year:

31 Mar 2016 £000	Asset type	31 Mar 2017 £000
1,243,844	Overseas equities quoted	1,640,941
794,022	Overseas unit life assurance policies	782,461
355,774	Global unit life assurance policies	484,099
346,624	Global unit trusts	473,767
247,242	Overseas private equity	297,531
101,361	Overseas infrastructure	160,523
77,675	Overseas timber	101,983
51,411	Overseas illiquid debt	73,115
3,217,953	**Total oversea assets**	4,014,420

18.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **13%** (2015/16: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2015/16: 13%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits +13% £000	-13% £000	Asset type	Asset value as at 31 Mar 2017 £000	Change in year in the net assets to pay benefits +13% £000	-13% £000
1,243,844	1,405,544	1,082,144	Overseas equities quoted	1,640,941	1,854,263	1,427,619
794,022	897,245	690,799	Overseas unit trusts	782,461	884,181	680,741
355,774	402,025	309,523	Global unit life assurance policies	484,099	547,032	421,166
346,624	391,685	301,563	Global unit trusts	473,767	535,357	412,177
247,242	279,383	215,101	Overseas private equity	297,531	336,210	258,852
101,361	114,538	88,184	Overseas infrastructure	160,523	181,391	139,655
77,675	87,773	67,577	Overseas timber	101,983	115,241	88,725
51,411	58,094	44,728	Overseas illiquid debt	73,115	82,620	63,610
3,217,953	3,636,287	2,799,619	Total change in assets available	4,014,420	4,536,295	3,492,545

18.10 Credit Risk

Credit risk is the possibility that the counterparty to a transaction or a financial instrument might fail in its obligation to pay amounts due to the Pension Fund resulting in a financial loss. The market value of investments reflects an assessment of credit in their pricing and consequently

the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk in all its operational activities through forward currency contracts, derivative positions (futures) where applicable and treasury management activities. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

18.11 Commercial

Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made.

Monthly receipt of contributions is closely monitored by the Employer team. In addition, member records are updated throughout the year with any new information provided to them. At the end of the financial year employers are required to provide an annual return which is used to reconcile both member information and the contributions paid over in the year by both the employee and the employer.

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2017 is provided in Note 13.

18.12 Forward currency contracts

Forward currency contracts are undertaken by Legal and General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2017 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management and Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

Exposure at 31 March 2016		Counterparty	Exposure at 31 March 2017	
£000	%		£000	%
-	-	Barclays Capital	58,779	2.1%
40,156	1.8%	BNP Paribas Capital Markets	140,525	5.0%
123,342	5.4%	Citigroup	357,393	12.6%
-	-	Goldman Sachs	338,690	11.9%
136,249	6.0%	Deutsche Bank AG	-	-
301,887	13.2%	HSBC	416,105	14.7%
137,876	6.1%	J P Morgan Securities	115,216	4.1%
406,036	17.8%	Lloyds	236,434	8.3%
177,099	7.8%	Merrill Lynch	171,317	6.0%
128,820	5.6%	Morgan Stanley	-	-
844	0.0%	RBC Europe	147,062	5.2%
168,668	7.4%	RBS	240,276	8.5%
-	-	SEB	-	-
-	-	SG Securities	117,330	4.1%
259,625	11.4%	Standard Chartered	396,013	14.0%
137,649	6.0%	UBS	19,614	0.7%
261,879	11.5%	Westpac Bank Corp	79,886	2.8%
2,280,130	100.0%	**Total**	2,834,640	100.0%

18.13 Futures

There were no open future contracts as at 31st March 2016 or 31st March 2017.

18.14 Bonds

Credit risk will also be considered by the Fund's bond managers in their portfolio construction. A bond is a saleable debt instrument issued by a corporation, government or other entity, the instrument may be purchased direct from the issuer or in the secondary market.

In addition to the passive manager, Legal and General, the Fund has two active bond managers MandG and GSAM. The former also manage a financing fund.

Both MandG and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2017, the average credit quality of the MandG bond mandate was **A-** rated (**BBB+** rated as at 31 March 2016). The portfolio had suffered five defaults since inception, one of which was experienced in the financial year ended 31 March 2016. The average credit rating of the financing fund was **BB+** rated as at 31 March 2017 (BB+ rated as at 31 March 2016), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2017 had an average credit quality of **AA+** (AA+ rated as at 31 March 2016) and has

suffered six defaults since inception, one occurring in 2016/17, three occurring in 2015/16 and two occurring 2011/12.

18.15 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (A as at 31st March 2016) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the ISC. The ISC have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2017 **£35.592m** (31 March 2016: £26.311m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

Cash managed externally – The majority of the cash held by the Fund's custodian, the Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31 March 2017, the total balance held in the Sterling and US dollar AAA money market funds was **£130.930m** with a smaller balance of **£25.296m** held in the custodian current account (31 March 2016: £88.424m and £28.268m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

The table below provides a breakdown of where the Pension Fund cash is managed:

31 March 2016			31 March 2017	
Rating	£000		*Rating*	£000
		Cash managed externally		
		Cash held on deposit (GLF)		
AAA	36,360	BNP Paribas	*AAA*	50,967
AAA	52,064	Northern Trust	*AAA*	79,963
		Cash held in Current Account		
AA-	28,268	Northern Trust	*AA-*	25,296
	116,692	**Total cash managed externally**		156,226
		Cash managed internally		
		Cash held on deposit		
AAA	3,002	Blackrock	*AAA*	7,502
AA-	7,508	HSBC	*AA-*	7,500
A	-	Santander UK	*A*	4,001
AAA	10,004	Standard Life (formerly IGNIS)	*AAA*	10,002
AA-	5,009	Svenska Handelsbanken	*AA-*	5,027
		Cash held in Current Account		
A	788	Lloyds Bank plc	*A*	1,560
	26,311	**Total cash managed internally**		35,592
	143,003	**Total**		191,818

The following table summarises the maximum exposure to credit risk of the cash held with Northern Trust and other financial institutions.

31 March 2016		31 March 2017	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
	Cash managed externally				
	Deposit with bank and other financial institutions				
88,424	AAA Rated	130,930	80,000	0.0367%	48
28,268	AA Rated	25,296	N/A	0.0067%	2
116,692	**Total cash managed externally**	156,226			50
	Cash managed internally				
	Deposit with bank and other financial institutions				
13,006	AAA Rated	17,504	10,000	0.0367%	6
12,517	AA Rated	12,527	7,500	0.0067%	1
788	A Rated	5,561	5,000	0.0620%	3
26,311	**Total cash managed internally**	35,592			10
143,003	**Total cash**	191,818			60

18.16 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they full due.

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **21 June 2016**, **27%** of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions and investment income received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2017 had immediate access to its pension fund cash holdings held internally and externally of **£191.818m** (31 March 2016: £143.003m). These monies are primarily invested on an overnight basis on the money market.

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Statement of Investment Principles outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts.

18.17 Refinancing Risk

Refinancing risk is the risk of the Fund replenishing a significant proportion of its financial assets at a time of unfavourable interest rates. The Fund is not subject to this particular risk as it does not hold any assets that would require refinancing in the future.

18.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2017 Northern Trust had **$7.1 trillion** of assets under custody (31 March 2016: $6.20 trillion) and had a credit rating of **AA** (31 March 2016: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

18.19 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All

appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of the custodian's performance measurement service to monitor performance. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

19. Further information

The Council publishes a separate Pension Fund Annual Report and Accounts. Copies may be obtained from the website www.essexpensionfund.co.uk or by contacting:

Director for Essex Pension Fund
County Hall
Chelmsford
CM1 1LX

Telephone 03330 138501
E-mail pensions.investments.web@essex.gov.uk

Essex Pension Fund Strategy Board	EPB/22/17
date: 13 September 2017	

External audit results report: ISA (UK and Ireland) 260

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 03330 138488

1. **Purpose of the Report**

1.1 To submit for Members' information the Pension Fund Audit results report: ISA 260 external auditors EY.

2. Recommendation

2.1 That the Board should note the report.

3. Background

3.1 The Audit Commission's Code of Practice requires the Council's external auditor to submit a report to the Council's Audit Committee on various matters relating to the audit work that he has undertaken on the Pension Fund accounts. The Audit Committee is due to consider that report at its meeting on 18 September 2017.

4. Audit results report: ISA 260

4.1 EY have issued an Audit results report for the Pension Fund for the year ended 31 March 2017. This document is attached for Members' information.

4.2 The executive summary of the document contains the following comments:

"We have substantially completed our audit of Essex Pension Fund's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements.

At the time of writing this report we have not identified any audit differences in the draft financial statements which management has chosen not to adjust".

4.3 No changes have been made to the main financial statements: the Fund Account and Net Asset Statement.

5. Pension Fund Annual Report & Accounts 2016-17

5.1 Upon the completion of all required work, a final draft of the Pension Fund Annual Report & Accounts will be submitted to the Chairman of the Board for approval. Subsequently a copy of the approved Annual Report will be made available to all Board Members.

6. Background Papers

6.1 The Local Government Pension Scheme (Administration) Regulations 2008

6.2 The National Audit Office's Code of Audit Practice

Essex Pension Fund
Audit Results Report

Year ended 31 March 2017

Building a better working world

Private and Confidential 18 September 2017

Dear Audit Committee Members

We have completed our audit of Essex Pension Fund (the Fund) for the year ended 31 March 2017 subject to concluding the outstanding matters listed in our report.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

The statutory deadline for 2016/17 is 30 September 2017. However, the Fund are aware of the earlier statutory deadline of 31 July which is relevant for financial years ending on or after 31 March 2018 and have plans in place to ensure they will be able to comply with this deadline.

This report is intended solely for the use of the Essex County Council Audit Committee (as Those Charged with Governance), other members of the Fund, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Melissa Hargreaves
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Audit Committee, other members of the Fund and management of Essex Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Fund and management of Essex Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Fund and management of Essex Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.

01 Executive Summary

Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 27 March 2017 Essex County Council Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

We planned our procedures using a materiality of £50.4 million. We reassessed this using the actual results for the financial year, which has increased this amount to £60.3 million. The threshold for reporting audit differences has increased from £2.5 million to £3 million. The basis of our assessment of materiality has remained consistent with prior years at 1% of Net Assets.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Related Party Transactions - The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.

Status of the audit

We have substantially completed our audit of Essex Pension Fund's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears in section 3. However until work is complete, further amendments may arise, although given the nature of these outstanding items we consider that unlikely. The key outstanding matters are noted below:

- Receipt of bank confirmations;
- Review of the Pension Fund Annual Report;
- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Completion of Final Review Procedures; and
- Receipt of the signed management representation letter.

Executive summary (continued)

Audit differences

At the time of writing this report we have not identified any audit differences in the draft financial statements which management has chosen not to adjust. Areas of our audit work remain in progress at the stage of writing this report and we will update Members within Section 4 of this report should any matters arise in this respect.

We also bring to your attention that during the year the Pensions Research Accountants Group (PRAG) published a practical guidance for investment disclosures during 2016 in respect of the fair value hierarchy disclosures. Following this guidance, certain 2015/2016 figures have been restated which include the reclassification from level 1 to level 2 of the unit linked assurance policies and derivative contracts. In addition, pooled property unit trusts have also been restated from level 2 to level 3 as a result of IFRS and SORP guidelines following evolving industry practice. The Fund made these amendments within the draft financial statements and these can be seen within Note16: Financial Instruments.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Essex Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of the Audit Plan.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive summary (continued)

Other reporting issues

We have yet to review the information presented in the Annual Report for consistency with the audited financial statements as we are awaiting the draft version to be prepared.

We will update Members on this issue at the Audit Committee.

Control observations

We have adopted a fully substantive approach and therefore have not tested the operation of controls.

During the completion of our audit we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to highlight.

02 Areas of Audit Focus

Audit issues and approach: Management Override of Controls

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business

What is the risk?

Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We note that we have rebutted the risk of fraud in revenue recognition as we consider the risk of material error due to fraud to be low.

What did we do?

In order to address this risk we carried out a range of procedures including:

- Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;
- Reviewing accounting estimates (e.g. valuation of investments) for evidence of management bias (see relevant section below where this has been raised as a significant risk);
- Evaluating the business rationale for any significant unusual transactions.

Audit issues and approach: Valuation of unquoted pooled investments and direct property investments

Valuation of unquoted pooled investments and direct property investments

What are our conclusions?

Our planned procedures in relation to this risk are complete.

We concluded that we could rely on the service organisations and did not identify a need for our internal valuation specialists to support our work in this area.

We agreed the service organisations valuations to the investment valuations reported in the financial statements.

What is the risk?

Valuation of unquoted pooled investments and direct property investments

The Fund's investments include unquoted pooled investment vehicles (such as private equity, infrastructure, timber and illiquid debt) and direct property investments.

Judgements are taken when valuing those investments whose prices are not publically available. The material nature of investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

As these investments are more complex to value, we have identified the Fund's investments in property and unquoted pooled investment vehicles as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.

What did we do?

In order to address this risk we carried out a range of procedures including:

- reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- assessing the competence of the service organisations who manage and value these funds; and
- performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

We did not consider it necessary to consult with our internal valuation specialists in this area.

Audit issues and approach: Implementation of New General Ledger System

Implementation of New General Ledger System

What are our conclusions?

In conjunction with our work regarding the Essex County Council audit, our planned procedures in relation to this risk are complete.

Utilising IT specialists we reviewed the migration of data from the old system onto the new system; performed detailed testing over the new system, and performed a high level overview of the controls and data migration. In addition, we completed our review of the reproduction of the 2015-16 financial statements using the new system and assessed the structure of the financial mapping.

We did not identify any significant issues regarding the implementation of the new general ledger system through these audit procedures.

What is the risk?

Implementation of New General Ledger System

The new Oracle financial services system was implemented in November 2016 as part of the transforming corporate systems (TCS) project. The change impacts the financial statements as all transactions are recorded in the general ledger system.

We are aware that there have been teething issues with the system, and particularly producing reports for which financial performance can be monitored.

Any errors in the transfer or input of data or in the calculations performed by the new system could result in a material misstatement in the financial statements.

What did we do?

In order to address this risk we carried out a range of procedures including:

- Reviewing the migration of data from the old system onto the new system, relying on work as completed by internal audit where possible;
- Using IT specialists to perform detailed testing over the new system, and perform a high level overview of the controls and data migration; and
- Reviewing the reproduction of the 2015-16 financial statements using the new system to assess that the structure of the financial mapping is consistent with the old system.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Essex Pension Fund in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director for Corporate and Customer Services and auditor

As explained more fully in the Statement of the Executive Director for Corporate and Customer Services' Responsibilities set out on page 30, the Executive Director for Corporate and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Corporate and Customer Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Essex County Council Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Draft audit report (continued)

Our opinion on the financial statements

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Essex County Council Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Melissa Hargreaves
for and on behalf of Ernst & Young LLP, Appointed Auditor
Manchester

Date: September 2017

04 Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

At the time of writing this report there are no corrected misstatements that we wish to bring to your attention.

In addition, at the time of writing this report we have not identified any audit differences in the draft financial statements which management has chosen not to adjust. Areas of our audit work remain in progress at the stage of writing this report and we will update Members should any matters arise in this respect.

We also bring to your attention that during the year the Pensions Research Accountants Group (PRAG) published a practical guidance for investment disclosures during 2016 in respect of the fair value hierarchy disclosures. Following this guidance, certain 2015/2016 figures have been restated which include the reclassification from level 1 to level 2 of the unit linked assurance policies and derivative contracts. In addition, pooled property unit trusts have also been restated from level 2 to level 3 as a result of IFRS and SORP guidelines following evolving industry practice. The Fund made these amendments within the draft financial statements and these can be seen within Note16: Financial Instruments.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Report

We must give an opinion on the consistency of the financial and non-financial information in the Essex County Council Statement of Accounts 2016/17 with the audited financial statements.

We are also required to provide an opinion on the consistency of the financial statements published in the Essex County Council Statement of Accounts 2016/17 and those in the Essex Pension Fund Annual Report and Accounts 2016/17 document.

At the time of drafting this report we have no matters to report in relation to the above. However, we are yet to receive the draft Annual Report 2016/17 so that we can undertake our required procedures.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Fund to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations

We have no matters to report.

06 Assessment of Control Environment

Assessment of control environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

07 Appendices

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process	September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Essex Pension Fund's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Significant corrected misstatements, in writing	September 2017 Audit Results Report

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Fraud	▸ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Fund ▸ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▸ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	Significant matters arising during the audit in connection with the Fund's related parties including, where applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and/or regulations ▸ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events	▸ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Other information	▸ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	September 2017 Audit Results Report
External confirmations	▸ Management's refusal for us to request confirmations ▸ We were unable to obtain relevant and reliable audit evidence from other procedures.	We have no matters to report.

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Consideration of laws and/or regulations	▸ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▸ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	September 2017 Audit Results Report
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	March 2017 Audit Plan September 2017 Audit Results Report
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	March 2017 Audit Plan September 2017 Audit Results Report

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 27 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 18 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements in relation to the procedures we are requested to undertake by auditors for scheduled bodies for the purposes of IAS 19 requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	31,266	31,266	31,266
Total audit fee – Non code work (see note 1)	5,500	N/A	Nil

Note 1: The fee for non-audit work has been discussed with management and is subject to approval by the PSAA.

Draft management representation letter

Draft management representation letter

[To be prepared on the entity's letterhead]

[Date]

Melissa Hargreaves
Executive Director
Ernst & Young
Manchester

This letter of representation is provided in connection with your audit of the financial statements of Essex Pension Fund ("the Fund") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Draft management representation letter (continued)

Draft management representation letter (continued

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are free from material misstatement, whether due to fraud or error.

6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have therefore not corrected the financial statements to reflect this difference.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Fund.

Draft management representation letter (continued)

Draft management representation letter (continued)

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

3. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   - Additional information that you have requested from us for the purpose of the audit; and

   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Fund and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.

Draft management representation letter (continued)

Draft management representation letter (continued)

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. As described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Draft management representation letter (continued)

Draft management representation letter (continued)

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises The Essex Pension Fund Annual Report and Accounts 2016/17.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Derivative Financial Instruments

1. We confirm the Fund's statement of investment principles has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions.

2. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the Fund at the year end and the terms and conditions relating thereto.

3. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Actuarial valuation

1. The latest report of the actuary Barnett Waddingham as at 31 March 2016 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

J. Ownership of Assets

1. The Fund has satisfactory title to all assets appearing in the Net Asset Statement, and there are no liens or encumbrances on the Fund's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the financial statements. All assets to which the Fund has satisfactory title appear in the Net Asset Statement.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

Draft management representation letter (continued)

Draft management representation letter (continued)

K. Purchase and Sales Commitments

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the financial statements.

2. At the year end, the Fund had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the Fund (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfillment of, or inability to fulfill, sales commitments, etc.).

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investments and the classification of assets under fair value levelling requirements and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates – Valuation of Investments

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context *of* the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

2. We confirm that the significant assumptions used in making the valuation of investments appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Draft management representation letter (continued)

Draft management representation letter (continued)

N. Investment managers' control reports ISAE3402

1. The latest reports available do not cover the whole of the 2016/17 audit year. We confirm we are not aware of any issues with the respective fund managers that indicate a reduction in control procedures.

O. Advisory reports

1. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and schedule of contributions/payment schedule.

Yours faithfully,

Executive Director for Corporate and Customer Services

I confirm that this letter has been discussed and agreed at the Audit Committee on 18 September 2017

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ED None

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Essex Pension Fund Strategy Board	EPB/23/17
date: 13 September 2017	

Investment Steering Committee (ISC) Quarterly Report

Report by the Director for Essex Pension Fund
Enquiries to Kevin McDonald on: 0333 0138 488

1. Purpose of the Report

1.1 To provide a report on ISC activity since the last Board meeting.

2. Recommendations

2.1 The Board **agree**:

- that the report be noted; and
- the basis of the Fund's response to the Scheme Advisory Board's consultation on an Elected Member led Cross Pool Information Forum.

3. Background

3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Strategy Board (the Board).

3.2 Since the Board's last meeting the ISC has met on 19 July 2017.

4. Report of the meeting of ISC on 19 July 2017

4.1 The Committee's Chairman, Cllr Barker confirmed that following the decision taken at the ISC meeting of 14 June 2017, Mr Rodney Bass (former Chairman of the ISC) had been contacted and agreed to accept the role of Specialist Consultant for the six month period up to 31 December 2017. Mr Bass was welcomed to his first meeting in this role.

4.2 The Committee considered the responses to the stakeholder consultation on the Fund's *Investment Strategy Statement* (ISS). It was highlighted that the Fund received 8 responses; 3 from the Fund's investment managers; 3 from scheme employers and 2 from individual scheme members. It was confirmed that minor changes had been made to the ISS to improve clarity and aid understanding. The Committee agreed that changes and that the ISS, as amended by published.

4.3 An update was given on MiFID II developments and the process for LGPS Funds to "opt up" to Elective Professional status w.e.f. January 2018. It was agreed that officers, in consultation with the Chairman, make progress the necessary actions.

4.4 Ahead of the inaugural meeting of the ACCESS Joint Committee on 31 July (at which Cllr Canning represented the Fund) an update on the pooling work-streams was given to the Committee. It was also noted that the National Scheme Advisory Board was consulting upon an Elected Member led Cross Pool Information Forum (see section 5 below) with a deadline of 29 September which is before the Committee's next meeting.

4.5 Independent Investment Adviser, Mark Stevens, took the Committee through the March 2017 investment tables after which Rebecca Craddock-Taylor & Matt Woodman from Institutional Investment Consultants Hymans Robertson, presented the annual review of the performance of each investment managers.

4.6 Following a presentation from Stafford Timberland he Committee considered and agreed a report proposal that a further £40m be committed to Stafford SIT VIII Fund.

4.7 The Committee also received a presentation from Partners Group one of the Fund's infrastructure mandates.

5. Scheme Advisory Board consultation on Cross Pool Information Forum

5.1 At the meeting of the Scheme Advisory Board (SAB) on the 26 June it was agreed in principle an elected member Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS investment management arrangements. The Forum is not proposed to be a decision making body. It was also agreed that the Chairmen of pension committees be consulted on the remit, membership and frequency of the proposed forum.

5.2 The SAB also agreed that the consultation should seek views on whether a one off session on progress towards pooling should be organised with an invitation going to Chairmen of all pension committees and local pension boards.

5.3 The full consultation is set out at annex A to this report.

5.4 **It is recommended** that the Board consider and agree the Fund's response to this consultation.

6. Link to Essex Pension Fund Objectives

6.1 Investments

- To maximise the returns from investments within reasonable risk parameters.

- To ensure the Fund is properly managed.

7. Risk Implications

7.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Investment Strategy Statement.

7.2 Officers and advisers will examine the potential risks associated with pooling once the structures and timescales for the migration of Fund assets are better understood. These will then be brought to a future meeting of the ISC for consideration.

8. Communication Implications

8.1 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.

9. Finance and Resources Implications

9.1 In addition to the work undertaken by Officers, the costs of participating in ACCESS were approximately £95,000 per Fund for the period between February 2016 and March 2017.

9.2 The estimated cost of participation in ACCESS for 2017/18 is £300,000 (as highlighted within the finance schedule of the 2017/18 Treasury Management report agreed by the ISC on 4 April 2017).

10. Background Papers

10.1 ISC meeting of 19 July 2017 – agenda and draft minutes

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme (LGPS) Cross Pool Information Forum
Scope of this consultation:	This consultation seeks responses from Chairs of LGPS pension committees on the remit, membership and frequency of the proposed forum.
Geographical scope:	England & Wales

Basic Information

To:	This consultation is aimed at Chairs of LGPS pension committees.
Body responsible for the consultation:	LGPS Advisory Board
Duration:	17th July 2017 to 29th September 2017 (10 weeks)

Background

Getting to this stage:	At the meeting of the Scheme Advisory Board on the 26th June, it was agreed in principle that an elected member led Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS assets. It was also agreed that the Chairs of LGPS pension committees should be consulted on the remit, membership and frequency of the proposed forum.

Help with queries

Questions about this consultation should be sent to the email addresses given below.

Who this consultation is aimed at?

The following consultation is aimed at **LGPS Chairs of Pension Committees**. The consultation is available via the Scheme Advisory Board's website www.lgpsboard.org.

The Board has issued the consultation to the following contacts directly:

- LGPS Chairs of Pension Committees
- LGPS Fund Investment Contacts

How to respond

You should respond to this consultation by **29th September 2017**.

You can respond by email to Liam.Robson@local.gov.uk and Robert.Holloway@local.gov.uk. Email responses are preferred.

When responding, please ensure you have the words “LGPS Cross Pool Information Forum” in the email subject line.

Alternately you can write to:
Bob Holloway, Pension Secretary
LGPS Cross Pool Information Forum Consultation
Scheme Advisory Board Secretariat
Local Government Association
Layden House, 76-86 Turnmill Street,
London, EC1 M 5LG

When responding, please state whether you are responding as an individual or representing the views of the Pension Committee.

Consultation

Introduction

1.1 At the meeting of the Scheme Advisory Board on the 26th June, it was agreed in principle that an elected member led Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS assets. It was also agreed that the Chairs of LGPS pension committees should be consulted on the remit, membership and frequency of the proposed forum.

1.2 The same consultation should also seek views on whether a one off open session on progress towards pooling should be organised with an invitation going to all chairs of pension committees and local pension boards.

1.3 **The closing date for responses is 29th September 2017**.

Part 1 - Cross Pool Information Forum (CPF)

1.4 It is **not** proposed that the CPF be a decision making body nor would its content be technical in nature. It is proposed that its remit would be to receive, share and disseminate information across the pools as well as providing a platform to exchange best practice and items of cross pool interest.

1.5 Do you agree that the remit of the CPF should be limited to receiving, sharing and disseminating information as described above?
Choose an item. **[Please select your response]**

1.6 **If you answer "no", please describe below what you think the remit of the CPF should be.**

Click here to enter text.

1.7 It is proposed that membership of the CPF would be open to a maximum of three nominations from the member administering authorities of each pool. The nominations may all be elected members or include a mixture of elected members and others.

1.8 In line with the SAB's previously published statement on pool representation the determination of nominees should include the consideration of the provision of direct representation for scheme members.

1.9 Do you agree that membership should be as set out above?
Choose an item.

If you answer "no", please describe below how you think membership should be structured.

Click here to enter text.

1.10 It is proposed that the CPF should meet at least quarterly.

1.11 Do you agree that meetings should be held at least quarterly?

Choose an item.

If you answer "no", please explain below how often you think the CPF should meet.

Click here to enter text.

1.12 It is proposed that the Chair of the CPF should be selected from amongst the forum's membership. Do you agree?

Choose an item.

If you answer "no", please explain below how you think the Chair should be selected.

Click here to enter text.

1.13 Given the proposed remit of the CPF as a non-decision making body, it is not proposed to include in its remit any arrangements with respect to voting.

1.14 Do you agree that voting arrangements should not be included in the remit?

Choose an item.

If you answer "no", please explain below why you think voting arrangements should be included.

Click here to enter text.

1.15 It is further proposed that the Scheme Advisory Board's Secretariat should support the administration of the CPF in terms of arranging meetings, venues, etc.

1.16 Do you agree that the Secretariat should support the CPF in this way?

Choose an item.

If you answer "no", please explain below how you think administration of the CPF should be supported.

Click here to enter text.

Part 2 - Open Session

1.17 In order to better enable the open and wide dissemination of information, it is proposed that a session for all chairs of pension committees and local pension boards on the progress towards pooling should be organised.

1.18 Do you agree that an open session of this type would be helpful?

Choose an item.

Please use the space below if you wish to expand on your response.

Click here to enter text.

1.19 If no, please explain that you would change or add and why.

Click here to enter text.

Part 3 – Respondent details

1.20 Please complete the table below with administrating authority and contact details.

Administering Authority:	Click here to enter text.
Contact name:	Click here to enter text.
Email address:	Click here to enter text.