

Essex Pension Fund Strategy Board

14:00	Thursday, 15 September 2016	Committee Room 2, County Hall, Chelmsford, Essex
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Quorum: 4

Membership

Councillor R Bass
Councillor S Barker
Councillor S Canning
Councillor K Clempner
Councillor N Hume
Councillor N Le Gresley
Councillor J Whitehouse
Councillor C Riley
Councillor A Moring
Ms S Child
Ms J Moore

Representing

Essex County Council (Chairman)
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Castle Point Borough Council
Southend-on-Sea Borough Council
Scheme Members
Smaller Employing Bodies

For information about the meeting please ask for:

Ian Myers, Senior Committee Officer

Telephone: 03330 134575

Email: ian.myers@essex.gov.uk



Essex County Council

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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 Appointment of the Chairman and Vice Chairman To confirm appointments	
2 Board Membership and Terms of Reference To note a report by the Secretary to the Board	7 - 10
3 Apologies for Absence	
4 Declarations of Interest To note any declarations of interest to be made by Members in accordance with the Members' Code of Conduct	
5 Minutes To approve as a correct record the minutes of the Board meeting held on 13 July 2016	11 - 16
6 Funding	
6(i) Triennial Actuarial Valuation To receive a presentation from the Fund Actuary	
6(ii) Draft Funding Strategy Statement To consider a report from the Director for Essex Pension Fund	17 - 46
7 Local Government Pension Scheme Reform - Pooling To consider a presentation from the Director for Essex Pension Fund	
8 Update on Pension Fund Activity A(i) 2016/17 Business Plan A(ii) Three Year Business Plan B Risk Management – Risk Register C Measurement against Fund Objectives – Scorecard To note a report by the Director for Essex Pension Fund and the Head of Essex Pension Fund.	47 - 88

9	Review of the Essex Pension Fund Advisory Board To receive a report by the Head of Essex Pension Fund and the Independent Governance & Administration Advisor	89 - 92
10	Investment Steering Committee (ISC) Quarterly Report To note a report by the Director for Essex Pension Fund	93 - 96
11	Draft External Audit - Annual Governance Report To note a report by the external auditor	97 - 118
12	Pension Fund Accounts To note a report by the Executive Director for Corporate and Customer Services	119 - 168
13	Date of Next Meeting To note that the next meeting will take place on Tuesday 13 December 2016 at 2.00pm, 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.

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|-----------|--|
| 15 | Cessation Payment Plan <ul style="list-style-type: none"> Information relating to the financial or business affairs of any particular person (including the authority holding that information); |
|-----------|--|

16 Employer Analysis

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

17 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.

Essex Pension Fund Strategy Board	EPB/21/16
date: 15 September 2016	

Membership and Terms of Reference

Report by Secretary to the Board

Enquiries to Ian Myers, 033301 34575

1. Purpose of the Report

1.1 To note the Board's membership and terms of reference.

2. Recommendation

2.1 That the Board note the report.

3. Background

- 3.1 In accordance with usual practice the Pension Strategy Board's (PSB's) membership and Terms of Reference are attached as Appendices A and B respectively for Members' information.

4. Link to Essex Pension Fund Objectives

- 4.1 This information will assist the Board in achieving the following Fund objective:
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise

5. Risk Implications

- 5.1 An uninformed membership may offer inadequate leadership and make decisions which do not take account of relevant factors.

6. Communication Implications

- 6.1 None

7. Finance and Resources Implications

- 7.1 None

8. Background Papers

- 8.1 None

**Essex Pension Fund Strategy Board
Membership (as at 1 September 2015)**

Representing		Term of Office
Essex County Council (4:1:1:1)		
Councillor R L Bass (Chairman)	Conservative	Until 2017 CC elections
Councillor S Barker	Conservative	"
Councillor S Canning	Conservative	"
Councillor K Clempner	Labour	"
Councillor N Le Gresley	UKIP	"
Councillor N J Hume (Deputy Chairman)	Conservative	"
Councillor J Whitehouse	Liberal Democrat	"
<u>Named substitutes:</u>		
Councillor K Bobbin	Labour	"
Councillor J Huntman	UKIP	"
Councillor M Mackrory	Liberal Democrat	"
Councillor J Spence	Conservative	"
District/Borough Councils in Essex (1)		
(nominated by Essex Borough and District Leaders' Group)		
Councillor C Riley	Castle Point Council	Until 2019 District/Borough Council elections)
Unitary Councils in Essex (1)		
Councillor A Moring	Southend-on-Sea Borough Council	
Smaller Employing Bodies (1)		
Mrs Jenny Moore	The Billericay School	4 years, from Employer Forum 2015 until Employer Forum 2019
Scheme Members (1)		
(nominated by UNISON)		
Mrs Sandra Child		Appointed January 2016 until 25/9/19
Total	11	

EXTRACT FROM ESSEX COUNTY COUNCIL CONSTITUTION:

8.1.6 Essex Pension Fund Strategy Board

Membership: 11 members consisting of seven Members of the Council, one member representing Borough, City and District Councils in Essex, one member representing Southend-on-Sea and Thurrock Unitary Councils, one member representing other Employing Bodies nominated by the Employer Forum and one member representing Scheme Members nominated by Unison.

To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund except where they have been specifically delegated by the Council to another Committee or to an officer; this will include the following specific functions:

- (i) to monitor and oversee the work of the Essex Pension Fund Investment Steering Committee through its quarterly reports;
- (ii) to monitor the administration of the Pension Scheme, including the benefit regulations and payment of pensions and their day-to-day administration including the Internal Disputes Resolution Procedures, and ensure that it delivers best value and complies with best practice guidance where considered appropriate;
- (iii) to exercise Pension Fund discretions on behalf of the Administering Authority;
- (iv) to determine Pension Fund policy in regard to employer admission arrangements;
- (v) to determine the Pension Fund's Funding Strategy and approve its Funding Strategy Statement;
- (vi) to receive periodic actuarial valuation reports from the Actuary;
- (vii) to co-ordinate Administering Authority responses to consultations by Central Government, professional and other bodies; and
- (viii) to consider any views expressed by employing organisations and staff representatives.

**Minutes of a meeting of the Essex Pension Strategy Board held at 2.00 pm
at County Hall, Chelmsford on 13 July 2016**

Present:

**Member
Essex County Council**

Cllr R Bass (Chairman)
Cllr S Barker
Cllr S Canning
Cllr K Clempner
Cllr N Hume
Cllr N LeGresley
Cllr J Whitehouse

Also in attendance
Cllr K Bobbin

District/Borough Councils in Essex

Cllr C Riley

Unitary Councils

Scheme Members

S Child

**Smaller Employing
Bodies**

J Moore

Also in attendance were the following Members of the Pension Advisory Board:

Keith Flowers
Paul Hewitt
Cllr Simon Walsh

The following officers and advisers were also present in support:

Jody Evans	Head of Essex Pension Fund
Kevin McDonald	Director for Essex Pension Fund
Ian Colvin	Independent Governance and Administration Adviser (Hymans Robertson LLP)
David Tucker	Employer Liaison Manager
Ian Myers	Secretary to the Board
Samantha Andrews	Investment Manager
Sara Maxey	Employer Relationship Manager
Peter Tanton	Head of Internal Audit and Counter Fraud
Mark Stevens	Independent Investment Advisor
Mark Norquay	Barnett Waddingham
Matt Mott	Communications Manager
Sophie Campion	Committee Officer
Dan Cooke	E Y

1. Apologies for Absence

It was noted that Nicola Mark (Independent Chairman of the Pension Advisory Board) was unable to observe the meeting

2. 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.

3. Reminder of schedule of meetings for remainder of municipal year

The schedule of meetings were noted.

4. Minutes**Resolved:**

That the minutes of the Essex Pension Fund Board held on 16 March 2016 be approved as a correct record and signed by the Chairman subject to the inclusion of Cllr Colin Riley having declared he was in receipt of an Essex LGPS pension.

5. Local Government Pension scheme Reform - Pooling

Members received report EPB/07/16 and presentation from the Director for Essex Pension Fund which presented an outline of the draft July submission to Government of the ACCESS pool.

Members noted and were informed in particular:

- That the July submission was a key reporting stage that complies with the Government's deadline. criteria .
- The criteria for size and scale of the pool have been met.
- Meetings of ACCESS Chairmen and an operating group of officers take place on a regular basis
- The development of a Collective Investment Vehicle (CIV) is being pursued and consideration of rent versus build options will continue over the summer.
- The timetable of the transition of assets into the pool was noted.
- The estimated set up, transition and ongoing costs were also noted.

The Chairman concluded that work to monitor the impact of pooling arrangements on Essex is ongoing and that it was unlikely he would be able to present a recommendation to Council until December 2016

Resolved:

That the Board agreed to be a signatory in the July submission.

6. Actuarial Valuation

Members received report EPB/08/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund which:

- Updated the Board on the 2015/16 year-end data submissions exercise.
- Informed the Board of plans for the 2016 triennial valuation of the Fund.
- Informed the Board of national and local developments concerning the treatment of Academies within the LGPS

Resolved:

That the report be noted.

7. 7a Report from the Pension Advisory Board

Members received report EPB/09/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund and also received a verbal update on the Board activity.

Resolved:

That the report be noted.

7b Governance Policy and Compliance Statement

Members received report EPB/10/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund which provided an update on the PAB review of the Fund's Governance Policy and Compliance Statement and in particular the claiming of travel and subsistence allowances.

It was agreed that an amendment to the policy was required and would be finalised with Officers and agreed by the Chairman after the meeting.

Resolved:

That the report be noted and the revised Governance and Compliance Statement agreed in line with authorisation from the Chairman.

7c Communications Policy

Members received report EPB/11/16 from the Communications Manager which provided an update on the PAB review of the Fund's Communication Policy with no suggested changes being requested.

Resolved:

That the report be noted and the Communications Policy be published.

8. Update on Pension Fund Activity

Members received report EPB/12/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund which provided an update on the 2016/17 Business Plan, three year Business Plan, Risk Management and Scorecard.

Members were appraised of the objectives, the risks and progress against made against the objectives, noting in particular any areas of concern.

Resolved:

That the report be noted.

9. Investment Steering Committee (ISC) Quarterly Report

Members received report EPB/13/16 from the Director for Essex Pension Fund noting in particular:

- A post Brexit briefing note has been sent to all Members
- Investments are long term
- The fund does not need to sell assets to pay benefits
- Fund assets were approximately £5.3bn

Resolved:

That the report be noted.

10. External Audit programme of work and fees

Members received report EPB/14/16 from Andrew Crewer, partner Ernst & Young LLP, and verbal update from Dan Cooke, assistant manager EY, which outlined the External Audit Plan in relation to the 2015/16 financial statements of the Essex Pension Fund.

Members were informed the report had previously been received by the Audit Committee.

Resolved:

That the report be noted.

11. Internal Audit annual report of pension fund reviews

Members received report EPB/15/16 from Peter Tanton, Head of Internal Audit, which provided a summary of Internal Audit's 2015/16 activity in relation to the pension fund and proposals for 2016/17.

Members noted in particular that two reviews had taken place in line with the agreed Audit plan, both of which received a 'good assurance' opinion.

Resolved:

That the report be noted.

12. Draft Pension Fund Accounts

Members received report EPB/16/16 from the Executive Director for Corporate and Customer Services which provided Members with the draft Pension Fund financial statements for 2015/16 and advised on the content and timescale for the production of the Pension Fund Annual Report.

Resolved:

That the report be noted.

13. Essex Pension Fund Board – Annual Report

Members received report EPB/17/16 from the Secretary to the Board on the Board's 2014/15 Annual Report which was considered by the Council on 12 July 2016. No issues or comments were raised at Council. It was noted that a report on asset pooling was expected to be taken to the December Council meeting.

Resolved:

That the report be noted.

14. Annual Review of Member Attendance

Members received report EPB/18/16 from the Secretary to the Board which detailed Members' attendance at Board meetings for the period 1 July 2015 to 30 June 2016.

Members agreed that clarification be sought by the Secretary to the Board from Southend Borough Council regarding re- nomination.

Resolved:

That the report be noted.

15. Date of Next Meeting

Members noted the next meeting of the Board would be held at 2.00pm on Thursday 15 September 2016.

16. Urgent Business

There was no urgent business

17. Exclusion of the Press and Public**Resolved:**

That, having reached the view that, in each case, the public interest in maintaining the exemption (and discussing the matter in private) outweighed the public interest in disclosing the information, the public (including the press) be excluded from the meeting during consideration of the following item of business

on the grounds that they involved the likely disclosure of exempt information as specified in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

18. Cessation Payment Plan

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

Members received report EPB/19/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund.

Resolved:

That the report be noted.

19. Year End Returns

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

Members received report EPB/20/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund detailing employers who had not returned their end of year data by the required deadline. The Board instructed officers to apply the policy and implement relevant charges. An updated draft policy will be brought to the board for its December meeting.

Resolved:

That the report be noted.

There being no further business, the meeting closed at 3.20pm.

Chairman

Essex Pension Fund Strategy Board	EPB/22/16
date: 15 September 2016	

Draft Funding Strategy Statement

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

Enquiries to Jody Evans on 0333 0138 489 Kevin McDonald on 0333 0138 488

1. Purpose of the Report

- 1.1 To highlight to the PSB the context in which the 2016/17 LGPS triennial Actuarial Valuations take place.
- 1.2 To provide the Essex Pension Fund Strategy Board (PSB) with an updated draft Funding Strategy Statement. The FSS has been reviewed and updated in preparation for the results of the 2016 triennial Fund Valuation. The full draft FSS is attached at Annex A.
- 1.3 To seek the PSB's approval of the draft FSS for issue for consultation to participating Fund employers and other stakeholders in accordance with statutory guidance.

2. Recommendations

- 2.1 That the PSB note the context in which the 2016/17 Actuarial Valuations take place.
- 2.2 That the PSB approve the draft FSS which will be the basis for consultation with Fund employers in accordance with the timescales outlined in paragraph 6.1.
- 2.3 That the consultation on the draft FSS includes the Pension Advisory Board (PAB).

3. National context to the 2016/17 LGPS Triennial Valuations

- 3.1 All LGPS Funds in England & Wales are required to commission an independent actuarial valuation as at 31 March 2016. Given the scale of the work invoiced, which includes the consultation with employing bodies around contribution rates, the process takes around one year to complete.
- 3.2 Set out below are a number of features within the national context. These will be covered further in the presentation of this report to the meeting.
- 3.3 This is the first Actuarial Valuation to take place since the introduction of:
- the Career Average benefit structure on 1 April 2014; and
 - cost control mechanisms.
- 3.4 The Government Actuaries Department (GAD) has recently completed a review of the 2013 Valuations. Under section 13 of the Public Services Pension Act 2013, GAD are required to analyse the valuations on four criteria:
- compliance
 - consistency
 - solvency
 - long term cost efficiency
- 3.5 A summary of the GAD's s13 analysis will be presented at the meeting.
- 3.6 GAD's work and the current valuation process featured in the remarks made by Local Government Minister earlier this year. In his May 2016 address to the Local Authority conference of the Pensions & Lifetime Savings Association Marcus Jones MP said:
- "...we must recognise that achieving solvency and long term cost efficiency takes precedence, in regulatory terms, over stability of costs to employers".*
- 3.7 In August, a Government consultation closed on an insolvency regime for Further Education & Sixth Form Colleges. Whilst these establishments have their origins (and therefore LGPS membership) in local government, they are now deemed to be in the private sector. The Fund's response based on the views of Officers and discussions with Cllr Bass, PSB Chairman and Margaret Lee, s151 officer, is attached at Annex B to this report and included the following:
- "The Essex Fund supports calls for the appointed education administrator (in the event of an insolvency) to have an explicit stated responsibility to carry out their function in a way that achieves the best*

interests of the tax payer. This would include doing everything to avoid the pension liability falling onto other public sector employers.”

- 3.8 Since the 2013 Valuation the Fund’s governance structure has been expanded to include the establishment of the Pension Advisory Board (PAB) as Local Pension Board under the requirements of the Public Service Pension Act 2013 and revised LGPS Regulations. The PAB consists of nine people including four employer and four scheme member representatives.

4. Background

- 4.1 Essex County Council, as administering authority of the Essex Pension Fund (the Fund), is required under the Local Government Pension Scheme (LGPS) Regulations to prepare and publish a FSS and keep the statement under review; making appropriate revisions following any material change in its policy on the matters set out in the statement, or in its statement of investment principles/investment strategy statement. If revisions are made to the FSS it has to publish the statement as revised. In reviewing and making revisions to the statement, the authority must have regard to the guidance produced by the Chartered Institute of Public Finance & Accountancy and consult with relevant interested parties.
- 4.2 The current FSS was produced in 2013/14, following a review in conjunction with the triennial valuation of the Fund as at 31 March 2013. The strategy set out in the FSS has been kept under review in the years since its publication. In both September 2014 and September 2015, in the light of the Actuary’s annual Interim Reviews, the PSB considered whether changes were required to the FSS. On both occasions the PSB agreed that no changes were required.
- 4.3 A further triennial valuation of the Fund, as at 31 March 2016, is currently underway, with new employer contribution rates effective from 1 April 2017.

5. Draft 2016/17 FSS

- 5.1 As part of the 2016/17 Valuation process an updated FSS has now been drafted. This draft FSS is attached at Annex A for Members’ review and consideration.
- 5.2 In producing this draft, Fund officers have consulted with the Fund Actuary and have had of the sight of the CIPFA Pension Panel Guidance “Preparing and *Maintaining a Funding Strategy Statement in the LGPS*” (draft 2016 edition).
- 5.3 A presentation on the draft FSS will be made at the September Board meeting and will explain key changes.

- 5.4 At the Board meeting, Members will be asked to consider and approve the draft FSS for issue for consultation.
- 5.5 Following consideration of responses to the consultation and matters emerging from the valuation as it progresses, a further draft will be bought to the March 2017 meeting of the Pension Board.
- 5.6 The FSS should be completed and approved by the Pension Board prior to completion of the Fund Valuation by 31 March 2017.

6. Future Actions

- 6.1 A timetable of the remaining necessary actions to complete the revision of the FSS and the Fund Valuation is summarised below:

Timescale	Action
September 2016	Draft Funding Strategy considered by PSB
October 2016	Issue draft FSS for consultation together with draft valuation results to tax raising bodies
November – December 2016	Issue draft FSS for consultation together with draft valuation results to remaining employers and any other consultees
Mid October - December 2016	Employer forums and meetings held to discuss valuation results
January 2017	Response deadline for employers and other consultees on FSS
February 2017	Review consultation responses and consider any further amendments required to the FSS
8 March 2017	Essex Pension Board to consider and agree final FSS for subsequent publication
By mid-March 2017	Final FSS published
Mid to end March 2017	Final valuation results issued to employers and other relevant bodies
April 2017	New employer contribution rates commence

7. Recommendations

- 7.1 That the PSB note the context in which the 2016/17 Actuarial Valuations take place.
- 7.2 That the PSB consider and agree the draft FSS for consultation with Fund employers in accordance with the timescales outlined in paragraph 6.1.
- 7.3 That the draft FSS is passed to the Pension Advisory Board (PAB) for comment.

8. Link to Essex Pension Fund Objectives

- 8.1 There is a strong link to the Essex Pension Fund Objectives. They have been reviewed as part of the revision of the FSS and are considered to remain appropriate.

9. Risk Implications

- 9.1 Revision of the FSS to incorporate management information emerging from the employer analysis and engagement work and in preparation for the Fund Valuation will reduce the risk of an inappropriate funding strategy being in place, which could result in the setting of inappropriate employer contribution rates and irrecoverable deficits.
- 9.2 The FSS contains a risk analysis covering funding and investment risks.
- 9.3 The Pension Fund Score Card also contains measures which relate directly to the funding strategy and are reported to each Board

10. Communication Implications

- 10.1 Following Board approval, a consultation will take place with participating employers and other interested parties.

11. Finance and Resource Implications

- 11.1 None directly as a result of this report. It is a requirement to complete the triennial valuation and to keep the FSS under review. Resources are planned accordingly.
- 11.2 There will be financial implications for employers in the Fund emerging from the 2013 Fund Valuation and from changes made to the FSS. Changes to the FSS should assist the Essex Pension Fund and the participating employers to manage and understand their financial responsibilities to the Fund.

12. Background Papers

- 12.1 2013/14 Funding Strategy Statement
- 12.2 CIPFA Pension Panel Guidance “Preparing and *Maintaining a Funding Strategy Statement in the LGPS*” (draft 2016 edition).

Essex County Council Pension Fund

Funding Strategy Statement

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This Statement has been prepared by Essex County Council (the Administering Authority) to set out the funding strategy for the Essex County Council Pension Fund (the Fund), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and the guidance paper issued in August 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:-
 - the guidance issued by CIPFA for this purpose; and
 - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;
 - the Public Services Pensions Act 2013 section 13
- The FSS must be revised and published whenever there is a material change in the policy on the matters set out in either the FSS or the SIP.

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

The Scheme is a defined benefit scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme Regulations 2013). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 62) which require that an actuarial valuation is completed every three years by the Actuary appointed by the Fund, including a rates and adjustments certificate. Contributions to the Fund should be set so as to “secure its solvency”, whilst the Actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The Actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

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

The purpose of this FSS is:

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

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain with its focus at all times on those actions which are in the best long-term interests of the Fund.

3. Funding Objectives and purpose of the Fund

The funding objectives of the Fund are:

- within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the Funding Strategy Statement;
- to recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible;
- to manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives;
- to maintain liquidity in order to meet projected net cash-flow

outgoings;

- to minimise unrecoverable debt on termination of employer participation; and
- to have consistency between the investment strategy and funding strategy ; and
- to maximise returns within reasonable risk parameters.

The purpose of the Fund is to:

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

as defined in the Local Government Pension Scheme Regulations 2013(as amended) the Local Government Pension Scheme and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4. Responsibilities of the key parties

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

The Administering Authority is required to:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the LGPS Regulations;
- invest surplus monies in accordance with the LGPS Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund Actuary;
- prepare and maintain an FSS and a Statement of Investment Principles (SIP) / Investment Strategy Statement (ISS), both after consultation with interested parties;
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP(ISS) when necessary;
- take measures as set out in the regulations to safeguard the Fund against the consequences of employer default; and

- effectively manage any potential conflicts of interests arising from its dual role as both fund administrator and scheme employer.

Each Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate in accordance with the LGPS regulations (Regulation 9)
- pay over all contributions, including their own as determined by the Fund Actuary, promptly by the due date;
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain; and
- notify the Administering Authority promptly of all changes to active membership or, other changes proposed, which affect future funding.

The Fund Actuary should:

- prepare valuations, including the setting of employers' contribution rates at a level to ensure solvency, after agreeing assumptions with the Administering Authority and having regard to the FSS and the LGPS Regulations;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs;
- provide advice and valuations on the termination of admission agreements;
- provide advice to the administering authority on bonds or other forms of security against the financial effect on the fund of employer default;
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as required by the regulations; and
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund.

5. Solvency issues and target funding levels

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

Under Section 13(4) (c) of the Public Service Pensions Act 2013 The Government Actuary's Department (GAD) (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund are set at an appropriate level to ensure the solvency of the pension fund and long term cost efficiency of the scheme so far as relating to the pension fund. Section 13 requires Funds to be compared with other Funds within the Scheme.

The key elements of the funding strategy include:

- the long-term aim is to achieve 100% funding of pension liabilities;
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term;
- to ensure the appropriate level of contributions are received to ensure solvency of the Fund;
- to minimise fluctuations in employers' contributions in order to assist them with their financial planning and to meet their financial responsibilities to the Fund where it is prudentially appropriate ;
- although the membership profile has matured slightly since the last valuation in 2013 the Fund can still take a long term perspective in setting the investment strategy;
- the Fund has a large number of employing bodies with different characteristics including size and strength of covenant.

The effective date of the current actuarial valuation of the Fund is 31 March 2016. The results of the valuation indicate that overall the assets of the Fund represented X% of projected accrued liabilities at the valuation date.

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

- set employers' contribution rates to achieve 100% funding of liabilities in the long term;
- employer contribution rates will be made up of two separate elements:
 - an ongoing rate, as a percentage of pensionable pay, to meet the costs of future service (payable no later than the 19th day of the month following the month of relevant payroll run); and
 - a deficit recovery contribution, expressed in most instances as a cash sum, to recover any shortfall revealed by the actuarial valuation (payable as detailed in this Funding Strategy Statement);

- the Fund will for the purpose of administration, the calculation of contribution rates and for the setting of maximum deficit recovery periods, continue to deal with town and parish councils (T&PC) as a group.
 - the Fund will set deficit recovery periods for the T&PC that as far as possible are likely to reduce the level of deficit during the inter-valuation period if all of the Actuary's assumptions prove correct.
- the administering authority may by written notice ('a suspension notice') to an exiting employer suspend that employer's liability to pay an exit payment for a period of up to 3 years subject to conditions in Local Government Pension Scheme regulation 64(2a-c)
- schools, including former grant maintained schools (but excluding Academies), will be treated as part of the local authority within whose area of responsibility they fall for the purpose of setting contribution rates and deficit recovery periods; any discretions in respect of these matters will fall to the local authority;
 - schools that opt to convert to Academies become stand-alone employers in their own right and inherit responsibility for the share of scheme deficit attributable to the former school(s) from which they were formed and that share of scheme deficit will then be taken into account in calculating their contribution rate taking account of the Department of Communities and Local Government (DCLG) guidance on setting academies' contribution rates.
- we will set objective and maximum deficit recovery periods for the remaining employers
 - the agreed deficit recovery periods will be set at levels that safeguard the interests of the Fund by having regard to the Fund's judgement of the strength of covenant and the financial stability of individual employers;
 - individual employers will, at the discretion of the Fund and the Fund's Actuary, be able to increase their deficit recovery period up to the maximum deficit recovery period subject to providing assurance of greater strength of covenant and financial stability. (e.g. guarantor employer consent, provision of a bond, a deposit, a parent company guarantee or other surety);
 - where a deficit recovery period greater than that of "average future working life" was applied at the 2013 valuation; the starting point for the deficit recovery period to be applied at the 2016 valuation is three years less than that previously applied. The Fund may, at its discretion, allow this three year period to be reapplied.

Whilst a deficit exists, annual contributions will not normally be reduced. This may result in a shorter deficit recovery period than described above.

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

Category	Employer	Example	Objective	Draft Maximum
A	Scheduled - major tax raising bodies	District Council, Fire Authority	2010 2013 deficit recovery period less three years	30 27 years
B	Scheduled - Academies	Academies	2010 2013 deficit recovery period less three years or deficit recovery period at post 2010 commencement	Recovery period of Essex CC/Southend BC/ Thurrock Council, as appropriate, according to the location of the Academy.
C	Scheduled - other. 2	Further & Higher education corporations	average remaining working life	12 years
D	Scheduled - other. 1	Further & Higher education corporations providing evidence of financial security to the satisfaction of the Essex Pension Fund	2010 2013 deficit recovery period less three years	30 24 years
D E	Resolution	Town / Parish Councils	2010 2013 deficit recovery period less three years	30 24 years
E F	Transferee admission	Contractor	contract length	contract length
F G	Community admission .1	Voluntary, not for profit, charities, housing associations	average remaining working life	average remaining working life
G H	Community admission . 2	Employer providing evidence of financial security to the satisfaction of the Essex Pension Fund	average remaining working life	20 12 years

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

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

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

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

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

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

- The Town & Parish Council employers' contributions will be phased over the 3 year period 2017/18 to 2019/20.
- The 2017/18, 2018/19 and 2019/20 deficit amounts certified for each employer will reflect one of the following:

- i. the actuarially assessed value of the annual deficit paid in twelve equal instalments monthly in arrears with each payment being due by the 19th day of the following month; or
 - ii. the actuarially assessed value of the annual deficit paid in one lump sum payment prior to 30 April of the specified year; or
 - iii. the actuarially assessed value of i) or ii) for all three years paid in 36 or 3, respectively, equal instalments; or.
 - iv. the actuarially assessed value of paying the deficit for three years in one lump sum payment prior to 30 April 2017.
- Individual employers retain the freedom to
 - make a lump sum payment prior to 1 April 2017, following agreement with the administering authority. The annual deficit amounts certified for financial years 2017/18, 2018/19 and 2019/20 will reflect the actuarially assessed value of making this payment, either utilising the payment over the three years or over the deficit recovery period;
 - decide to repay their share of the deficit over a shorter period should they so choose;
 - make additional payments to the Fund over and above the minimum employer contribution rates certified.

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

- the responses made to the consultation with employers on the FSS principles;
 - the need to balance a desire to attain the target as soon as possible against the major increases in the level of employers' contributions which a shorter period would require; and
 - section 13 of the Public Service Pensions Act 2013 to ensure employer contributions are set at an appropriate level to ensure the solvency of the Fund.
 - the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.
- Where a category A employer allows an early retirement, for any reason other than ill health, that produces a strain cost, payment of the strain cost may be met either in the form of an immediate lump sum to the Fund, or by payment over two years to the Fund including interest;

Where a category B-H employer allows an early retirement, for any reason other than ill health, that produces a strain cost, payment of the strain is to be met in the form of an immediate lump sum to the Fund.

- Where an existing payment plan exists and the employer is ceasing full settlement will be required of any outstanding amounts before the final cessation date.
- Levels of ill health will be monitored and will normally be reflected in assumptions at triennial valuations or sooner if deemed necessary
- Employers that are able to and have closed the Scheme to new members, or have had no new members in the previous two years to 31 March 2016, will have their employer contribution rate assessed on a closed basis at the triennial valuation.
- Where an employer is able to and closes the Scheme to new members, between valuations, the employer contribution rate may be reassessed on a closed basis and a revised certificate issued.
- In preparation for the cessation of an employer's participation in the Scheme:
 - the future service rate and deficit recovery contribution may be reviewed by the Fund Actuary and amended if required.
 - all community admission bodies will be allowed flexibility to elect to adopt a funding approach prior to termination in line with the "least risk" exit debt basis, if that is their preference.
 - in certain circumstances, subject to satisfactory surety, a formal plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer to manage payment of deficit up to and beyond the termination date.
 - in the case of charities the Fund and the Fund Actuary will work to achieve the best approach available without any detrimental impact to the running of the charity, but ensuring an agreed payment plan is reached to recover any deficit – prudentially appropriate.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer would be due to the Scheme as a termination contribution, unless it was agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer would be transferred within the Scheme to another participating employer. The basis of the termination valuation will be determined in consultation with the Fund Actuary.
 - In certain circumstances, subject to satisfactory surety, a formal payment plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer.

- All transferee admission bodies (i.e. “best value” contractors delivering services to scheme employers) will be accepted for admission into the Fund so long as all the necessary regulatory requirements for admission are satisfied, including those covering the assessment of the requirement for and provision of security to the satisfaction of the administering authority.
- In the case of a transferee admission body, or any participating employer acting as guarantor in the case of non-transferee admission bodies, implementation of an alternative funding basis or approach (including on termination) will be subject to agreement from the relevant guarantor body/scheme employer. Any special funding arrangements between the scheme employer and transferee admission body should be covered by the commercial arrangements, i.e. outside the Fund and not part of the admission agreement.
- Community admission bodies will be accepted for participation in the Fund, or otherwise, on a case by case consideration of the merits of admission and the associated risks to the Fund. In accordance, with regulatory requirements, a bond, indemnity, guarantee will be required for all community admission body cases, to the satisfaction of the administering authority.

For community admission bodies the Fund will consider application of special conditions or requirements as deemed appropriate.

- In the case where a contractor wishes to offer a broadly comparable scheme, rather than apply to become an admission body of the Fund, standardised bulk transfer terms will be offered via the Actuary’s Letter. The letter will be structured so as to target an asset transfer to the contractor’s Broadly Comparable scheme such that it is equivalent to 100% of the past service liabilities reserved for by the Fund in respect of the transferring members’ accrued service as at the date of transfer. The Fund will only agree to any variations in the standard in exceptional circumstances and with the prior agreement of the transferring scheme employer.

6. Link to investment policy

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

Investment Strategy

The investment strategy is set out in the Fund’s Statement of Investment Principles. This is available from www.essexpensionfund.org.uk.

In setting the investment strategy the ISC takes account of both the current funding level and the relative maturity profile of the Fund (the relative proportion of liabilities in respect of active, deferred and pensioner members). The asset allocation determined by the ISC sets the proportion of assets to be invested in equities, bonds and alternative assets. The resulting

structure reflects the ISC's views on the appropriate balance between maximising the long term return on investments and minimising risk. The strategy is set for the long term, but reviewed regularly

The Fund's current investment strategy is as follows.

Equities			Bonds			Alternatives		
	Manager	Target %		Manager	Target %		Manager	Target %
UK	LGIM	5.0	Index-linked gilts	LGIM	2.0	Property	Aviva	12.0
Regional	LGIM	15.0	Active Cash plus	GSAM	5.5	Private equity	Hamilton Lane	4.0
	Marathon	35.0		M&G	5.5	Infrastructure	M&G	6.0
	M&G		-	-	-		Partners Group	
Global	Longview		-	-	-	Timber	Stafford	2.0
	Baillie Gifford		-	-	-	Loans	M&G	0.5
	RAFI		-	-	-	Direct Lending	Alcentra	-2.5
Emerging	First State	5.0	-	-	-	-	-	-
Total		60.0	Total		13.0	Total		27.0

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.

Asset Split

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

Consistency with Funding Basis

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

As at 31 March 2016 the discount rate used, in order to calculate the current value of future pension benefits payable is **x% (to be confirmed by Fund Actuary).**

7. Identification of risks and counter-measures

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

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

Impact of investment strategy

The impact will be added to the FSS on completion of the asset liability study.

8. Monitoring and Review

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

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

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

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

**Essex Pension Fund
Employer Risk Analysis**

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Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 05/09/2016								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	4	2	8	Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. At each triennial valuation assess funding position and progress made to full funding. Full annual interim reviews to enable consideration of the position. A specific scorecard measure is in place on this matter.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	4	3	12	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.	3	3	9
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and increases required in employers' contributions	3	3	9	Diversified investment structure and frequent monitoring against targets with potential for a change of managers where considered appropriate.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F4	Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	3	3	9	Monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions	3	3	9	Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	2	2	4

Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 05/09/2016								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F6	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant	4	3	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	4	3	12	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	3	2	6
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F8	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	3	2	6	At each triennial actuarial valuation an analysis is carried out to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in the short and long term.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F9	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	3	3	9	Risk profile analysis performed with a view on the strength of individual employer's covenant being formed when setting terms of admission agreement (including bonds) and in setting term of deficit recovery whilst attempting to keep employers' contributions as stable and affordable as possible. Pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F10	Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cash flow requirements.	4	2	8	Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	3	1	3

Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 05/09/2016								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F11	Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions	3	2	6	Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	3	1	3
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F12	Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase	3	3	9	Ensure that employers are reminded of their responsibilities, monitor and send reminders of employers responsibilities re this where appropriate, investigate the adoption of an administration strategy to clarify employer responsibilities. Employer analysis work and officer dialogue with employers concerned (including guarantors as appropriate)	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F13	Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)	3	3	9	At each triennial valuation pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F14	Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer	3	4	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F15	Failure to ensure appropriate transfer is paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.	2	3	6	Follow the standardised approach to bulk transfers of liabilities as part of admission policy framework, complying with any statutory requirements and protecting the interests of the Fund's employers by measuring the solvency of the Fund and relevant employers before and after transfer.	2	1	2

Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 05/09/2016								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding	To have consistency between the investment strategy and funding strategy	F16	Over or under cautious determination of employer funding requirements due to the impact of the investment strategy on funding	3	3	9	Measurement will look at expected return projections vs actuarial assumptions in order to test the continued appropriateness and consistency between the funding and investment strategy.	2	2	4
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F17	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements	2	1	2
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F18	Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements. In Spring 2015 the ISC agreed to divert a portion of UK equity dividend income (L&G) & property rental income (AVIVA) to supplement contribution income in order to meet pension benefit expenditure.	2	1	2
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	4	3	12	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible. Same mitigations for both risks F19 & F20	3	2	6

Essex Pension Fund Risk Register										
Risk Area: Essex Pension Fund		Date: 05/09/2016								
Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	4	3	12	Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible	3	2	6
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F21	Employee participation in the Essex LGPS reduces (possibly in response to changes in contribution rate / benefit structure or changes in patterns of service delivery)	4	3	12	Communications with both Employers and Employees over the benefits of the LGPS, both before and after any structural change. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.	3	2	6

Detailed assumptions used in calculating the funding target

Detailed assumptions will be added following the completion of the Valuation.

DRAFT



Essex Pension Fund

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Essex, CM1 1JZ

Benjamin Dance,
Department of Business Innovation & Skills
Vocational Education Directorate
Orchard 1, 2nd Floor
1 Victoria Street
London
SW1H 0ET

5 August 2016

Dear Sir,

FE & Sixth Form Insolvency Regime

The Essex Pension Fund welcomes the opportunity to respond to the Department's consultation on developing an insolvency regime for Further Education and Sixth Form Colleges.

The Essex Pension Fund is one of the larger Local Government Pension Scheme (LGPS) Funds in the country with over £5bn of assets. Its 600 scheme employers include 7 Further Education and 2 Sixth Form Colleges.

This response is based on the views of Fund officers. Discussions have also been had with the Chairman of the Essex Pension Fund Strategy Board and the s151 Officer of Essex County Council.

Background to the LGPS

The LGPS is a locally managed pension scheme administered by 91 funds in England and Wales. As well as being locally managed, the LGPS is a funded, defined benefit scheme. Paragraph 111 of your consultation states that the LGPS is a scheme *"with benefits payable from the scheme based on the amount of money paid in, the returns achieved on that investment and the market conditions at force"*. This is incorrect as it describes a defined contribution scheme. As a defined benefit scheme the LGPS pays benefits based on the salary and length of service of each member.

The operation of employer participation in the LGPS is on a "last man standing" basis. If an employer becomes insolvent and the Fund is unable to recover the deficit that the employer owed to the Fund at the point of insolvency, the resulting liability falls on the remaining employers. As the LGPS is a public sector scheme whose largest employers are local authorities that will often mean that ultimately the burden falls on the local taxpayer.

Local context of the Consultation

The Essex Fund has not yet had any Colleges fail. We have however seen, over the last decade the merger of some Colleges (our total of 9 is based on what had been 12 separate Colleges). We are also aware of the Area Review process, that is currently underway and that Essex is in the final cohort due to commence later this year.

The Status of Colleges and its implications

Further education colleges and sixth form colleges that are respectively, further education corporations and sixth form corporations under the Further & Higher Education Act 1992, must provide access to the LGPS for their employees and do so as “scheduled bodies” in each Fund. This status prevails from a time when Colleges were in the public sector, however at this time, Colleges are now deemed private sector.

Typically new employers joining the LGPS are from the private or voluntary sector. When a new employer applies to enter the LGPS it is possible for a Fund to require a form of security as a condition of admission. This approach is not available to Funds given that the (now) private sector Colleges are already in the LGPS as scheduled bodies. The situation can be addressed by Government providing the guarantee security Funds require.

Observations on the Consultation

Paragraph 112 of the consultation states:

“If the college either transferred to another employer outside of the scheme or was to ultimately be liquidated and wound up, then the pension deficit would crystallise. In this event (when an LGPS employer loses its last active member it then becomes an exiting employer and an exit payment is calculated) the employees’ accrued and deferred benefits would be protected. Any pension deficit to the fund would have to be met through a claim against the assets of the exiting college as an unsecured creditor, or through an increase in contributions from the remaining scheme members (where a claim against the assets was not sufficient to meet the deficit)”.

In light of the comments made earlier in this letter, the Essex Fund is concerned that all steps are taken to prevent any risk arising that the pension liability of a College falls on other LGPS employers, and ultimately the local taxpayer.

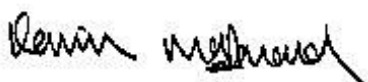
One of the stated aims of introducing an insolvency regime is to establish a “*clear and well understood framework for the benefit of colleges, learners, creditors and taxpayers*”.

The Essex Fund supports calls for the appointed education administrator (in the event of an insolvency) to have an explicit stated responsibility to carry out their function in a way that achieves the best interests of the tax payer. This would include doing everything to avoid the pension liability falling onto other public sector employers.

Specific circumstances to be avoided include structuring an insolvency regime that allows for a 'pre-packed' option enabling Colleges to dispose of liabilities then start up as a 'new' college but leaving the burden with the LGPS Funds and ultimately the tax payer.

The Consultation does not provide full detail on what would be covered by Secretary of State's funding of "learn out". Whilst we understand this would assist students to complete courses, there is no explicit reference to pension contributions.

Yours sincerely,



Kevin McDonald
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Public Sector
Scheme of the
Year
2014



Essex Pension Fund Strategy Board	EPB/23/16
Date: 15 September 2016	

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:

- 2016/17 business plan
- three year business plan
- risk management
- scorecard

2. Recommendations

2.1 That the Board notes:

- progress against the 2016/17 business plan
- the 3 year 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 2016/17 business plan at Annex A(i);
- the 3 year business plan at Annex A(ii);
- risks with a residual score of six or above are detailed at Annex B;
- the full scorecard is attached at Annex C.

4. Related matters subject to separate agenda items

4.1 Matters subject to separate agenda items include:

- LGPS asset pooling
- Actuarial valuation
- Report from Investment Steering Committee
- External audit report

5. Business Plan 2016/17

5.1 Progress is on track with the business plan shown at Annex A (i). Of the 23 actions for 2016/17:

- 5 (22%) have been completed;
- 13 (56%) are in progress; and
- 5 (22%) are scheduled to commence later in the year.

6. 3 year Business Plan

6.1 The 3 year Business Plan, providing a high level summary of key work streams is shown at Annex A (ii).

7. Risk Register

7.1 There are currently 83 risks in the Fund's risk register of which 14 have a residual score of six or more and are shown at Annex B. There are no changes since the last meeting.

8. Scorecard

8.1 The scorecard is set out in Annex C and matters of particular note are highlighted below:

8.2 Measure **3.6** covers deficit recovery. This matter is subject to a separate report elsewhere on the Board's September agenda.

- 8.3 Annual Benefits Statements were issued to all of the Fund's active members detailing the breakdown of benefits including (CARE) Career Average Revalued Earnings prior to the 31 August 2016 deadline. This is reflected within measure **4.1.12**.

9. Link to Essex Pension Fund Objectives

- 9.1 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

10. Risk Implications

- 10.1 Key risks are identified at Annex B

11. Communication Implications

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

12. Finance and Resources Implications

- 12.1 The business plan for 2016/17 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.

13. Background Papers

- 13.1 None.

Essex Pension Fund Business Plan 2016/17

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 2016
1. Annual business plan will be put in place.	Proposed business plan actions will be presented to 16 March 2016 Board for approval	DfEPF & HoEPF	Complete
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2016/17. Specific provision will be made for any new Board Members.	IGAA	Training & training needs assessments will continue in 2016/17

Action	How will this be achieved?	Officer managing action*	Progress as at September 2016
3. Board members' knowledge centre	A web based facility for Members is in place.	HoEPF	Further infoBOARD training will take place during 2016/17 specifically aimed at new members.
4. Annual review of governance policy	Review governance policy to ensure it is relevant and up to date, including the governance compliance statement.	DfEPF, HoEPF & IGAA	Complete. The Governance Policy & Compliance Statement was agreed in July 2016.
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it	SCO & IGAA	In progress. A separate report in this matter appears elsewhere on the September 2016 PSB agenda.

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 2016
6. Review of asset allocation	Review of asset allocation as part of the strategy & structure deliberations at the ISC strategy meetings.	DfEPF	In progress. A strategy review took place in June 2016. A strategy review is scheduled for February 2017.
7. Implement any review of investment allocation arrangement.	Implement the decisions taken at the July 2015 ISC strategy meeting.	DfEPF	Any asset allocation decisions made by the ISC will be implemented as required.
8. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.	DfEPF	A review will take place at the February 2017 ISC strategy meeting

Action	How will this be achieved?	Officer managing action*	Progress as at September 2016
9. Review the Statement of Investment Principles (SIP)/Investment Strategy Statement (ISS)	<p>An annual review will take place.</p> <p>The SIP is expected to be replaced by an ISS during 2016/2017, with a 1 April 2017 deadline expect for the publication of the first ISS.</p>	DfEPF	<p>The Fund's first ISS will be considered by the ISC later in 2016/17.</p> <p>(It is expected that new LGPS Regulations will require the publication of the first ISS by 31 March 2017).</p>
10. Procurement of Institutional Investment Consultants(IIC)	The current arrangement ceases in December 2016. The ISC will consider its approach to this matter in 2016	IM	In progress.
11. Respond to the requirements of LGPS structural reform process	Developments in relation to LGPS structural reform will be monitored	DfEPF	<p>In progress –</p> <p>A separate report on this matter appears elsewhere on the 15 September 2016 PSB agenda</p>
12. Review of Global Custodian	A review of the global custody arrangements has been commissioned.	DfEPF	<p>Complete.</p> <p>This matter was considered by the ISC at its meeting on 21 June 2016.</p>

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 2016
13. Actuarial Valuation as at 31 March 2016	A triennial valuation will be commissioned from the Fund Actuary.	HoEPF & DfEPF	In progress. A separate report on this matter appears elsewhere on the 15 September 2016 PSB agenda.
14. Review Funding Strategy Statement	A revised Funding Strategy Statement will be drafted, consulted upon and finalised in conjunction with the triennial valuation.	HoEPF & DfEPF	In progress. A separate report on this matter appears elsewhere on the 15 September 2016 PSB agenda.
15. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis.	HoEPF & DfEPF	Employer participation will be reviewed in line with the 2016 triennial valuation.

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 2016
16. 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	Completed Annual Benefits Statements were issued during August 2016.
17. Administration Strategy	The Administration Strategy will be monitored during annually.	HoEPF	The Administration Strategy will continue to be monitored during 2016/17.
18. Auto Enrolment – Work based Pensions	Monitor developments and maintain dialogue with Pension Fund employers throughout the process of auto enrolment implementation. (Staggered staging dates apply to all employers – depending on size – between 2012 and 2017)	HoEPF	Auto- enrolment will continue to be monitored during 2016/17. Larger Employers are commencing the 3 year re-enrolment process during 2016/17

Action	How will this be achieved	Officer managing action*	Progress as at September 2016
19. Implementation of new administration system	The second phase including “ <i>employer online</i> ” is scheduled to commence in 2016/17	HoEPF	<p>Phase 2 modules implemented during this year are the newly required GMP module, barcoding to enable streamlined scanning of documents and bulk data importing.</p> <p><i>Employer online</i> is currently live at two employer test sites. More Employers are scheduled during the remainder of the financial year.</p>
20. Review of staffing structure	A review is scheduled for 2016/17.	DfEPF & HoEPF	In progress
21. 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	<p>This project will continue throughout 2016/17.</p> <p>The current deadline for the completion of this project is 31 March 2018.</p>

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 2016
22. Monitor Communications Policy	The communications policy will be reviewed during 2016/2017	HoEPF & CM	Completed This matter was finalised by the PSB at its July 2016 meeting.
23. Communication GMP entitlement	A communication will be sent to all affected scheme members confirming the GMP (Guaranteed Minimum Pension) element of their Pension entitlement.	HoEPF & CM	In progress: The current deadline for the completion of this project is 31 March 2018

Key:

DfEPF: Director for Essex Pension Fund

HoEPF: Head of Essex Pension Fund

SCO: Senior Committee Officer

IGAA: Independent Governance & Administration Adviser

CM: Communications Manager

IM: Investment Manager

Essex Pension Fund

3 Year Business Plan

April 2016 to March 2019

Area of activity	2016/17	2017/18	2018/19
Governance			
Business plan	March for the following year	March for the following year	March for the following year
Members' knowledge and understanding <ul style="list-style-type: none"> Prepare & implement training strategy Training needs assessment (TNA) 	September Ongoing	September Ongoing	September Ongoing
Governance review	September (onwards)	September	September
Annual Statement of Accounts	July (draft) September (Final)	July (draft) September (Final)	July (draft) September (Final)
Employer Forum(s)	October (onwards)	May / June	May / June
Review scorecard & risk register	Quarterly	Quarterly	Quarterly
Administering Authority discretions and delegations review		September (review)	
Employing Authority discretions and delegations review		September (review)	
Communications policy review	July	December	December
Investment			
Strategic asset allocation review	July & February	July & February	July & February
Asset/Liability study	February		
Investment Strategy Statement of review	March	March	March
Review investment management fees	February	February	February
Individual manager review	Quarterly	Quarterly	Quarterly

Area of activity	2016/17	2017/18	2018/19
Funding			
Funding Strategy Statement review	July - March	September	September
Actuarial Valuation 2016	April - March	Implementation	Preparation
Interim funding review		September	September
Admission/employer participation/bulk transfer policy		Ongoing	Ongoing
Administration			
LGPS reform – planning for administration changes	Ongoing	Ongoing	Ongoing
Review/Procurement of IT System	Ongoing (Phased installation)	Ongoing (Phased installation)	Review of effectiveness & development
End of year data exercise	April – August	April – August	April – August
Auto-enrolment / workbased pensions	Rolling Employer staging dates	Rolling Employer staging dates	Rolling Employer staging dates
Communications			
LGPS reform	Ongoing	Ongoing	Ongoing
Implement communications policy	Ongoing	Ongoing	Ongoing
infoBOARD and usage	Ongoing	Ongoing	Ongoing

ANNEX B

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous Risk Score	Risk Owner	Comments, Actions and Recommendations
Governance	Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G7	Failure of succession planning for key roles on PFB	3	2	6	6	Ian Myers	The Board's approach to training, where members are working toward compliance with the CIPFA Knowledge & Skills Framework, should help minimise any adverse impacts of failure in succession planning because there should be a greater number of candidates for any position with appropriate knowledge and skills in depth.
Governance	Evolve and look for new opportunities that may be beneficial for our stakeholders, ensuring efficiency at all times	G12	Insufficient staff causes failure to free up time to look for other best practice areas then opportunities may be missed	2	3	6	6	Kevin McDonald /Jody Evans	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	1. Representations at national level aimed towards LGPS retaining professional client status. 2. Fund Officers working with Fund Managers & Investment Advisers aimed towards the Essex Fund retaining professional client status. Developments continue to be monitored.
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	3	3	9	9	Kevin McDonald	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.

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 to strengthening employer covenants wherever possible. Same mitigations for both risks F19 & F20
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	3	9	9	Kevin McDonald / Jody Evans	Phase one of the new UPM Civica system was implemented in January 2015 and monitoring continues. Phase two is anticipated later in 2016. A General Ledger package migration is scheduled for later in 2016. A Pension Fund project team has been established to liaise with colleagues working on ECC's TCS project. Testing & training continues.

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	2	6	6	Jody Evans	In the event of revised LGPS Regulations on nomination arrangements for surviving co-habiting partners' pensions, a case by case review will be conducted.
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	For 2015/16 exercise communicate timetable and requirements to employers in advance, and encourage employers to engage with Fund Officers.
Communication	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 the April 2015 introduction of Freedoms & Flexibilities (for DC schemes) has now reduced, a number of detailed discussions on individual cases remain and represent a significant workload.

Essex Pension Fund Scorecard - 15 September 2016

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	4
1.5 - Understand and monitor risk and compliance	1 4

2. INVESTMENTS

2.1 - Maximise returns from investments within reasonable risk parameters	5
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	1 4

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.	1 4 17
4.2 - Data is protected to ensure security and authorised use only	2
4.3 - Ensure proper administration of financial affairs	1 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.	2 5
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	
1.1.1 Cost per scheme member	2nd	quartile	G	G	2nd/3rd quartile	2nd/3rd quartile	Low	(Dec)
1.1.2 Number of scheme member complaints	3		G	G	5 or under	20 or under	Low	Quarterly
1.1.3 Number of scheme member compliments	31		G	G	15 or more	60 or more	High	Quarterly
1.1.4 Scheme member survey - % of positive answers	97.8%	%	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 £16.61 in 2014/15 (£17.81 in 2013/14) compared to the CIPFA Benchmarking average of £19.17 (£20.75 in 2013/14). This Fund remains in the second quartile.

1.1.2. The number of complaints received in the 3 months to 30 June 2016 was 3.

1.1.3. The number of compliments received in the 3 months to 30 June 2016 was 31.

1.1.4. 500 scheme members (employees) were invited to participate in a five question survey conducted in October 2015. 119 members returned completed survey's resulting in a total of 896 answers, of which 20 were negative responses. The remaining 876 (97.8%) were positive. The previous survey has a 96.4% 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.

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	81%	%	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 objectives are in place for all staff working on the Essex Pension Fund.

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	22% Complete 56% 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 23 actions or projects for the year:

5 (22%) complete

13 (56%) in progress

5 (22%) scheduled to commence later in the year

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		G	G	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 January 2016.
Yes = green; No = red.

1.4.4 In June 2016 Thurrock Council notified the Fund that Cllr Shaun Hebb would succeed Cllr Barry Johnson on the PAB.
In July 2016 Southend on Sea Borough Council notified the Fund that Cllr Andrew Moring succeeded Cllr Ron Woodley on the PSB.
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	On-going
1.5.2 Number of internal audit recommendations outstanding	3		A	A	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	17	%	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 contained one moderate recommendation and two low recommendations respectively. All recommendations have agreed deadlines for completion by 31 March 2017.

1.5.3 The Fund currently has 83 risks in its register, of which 14 have a residual score that is classified as amber. (14 in December). 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 2015/16 Annual Results Report from EY.

2.1 - Maximise returns from investments within reasonable risk parameters

Data as at: 31 March 2016

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	G	1st	1st	High
2.1.2 Annual Return compared to Benchmark	2.2	%	G	G	-0.1%	-0.1%	High
2.1.3 Five year (annualised) return compared to Benchmark	8.0	%	G	G	6.5%	6.5%	High
2.1.4 Five year (annualised) return compared to central expected return of current investment strategy	8.0	%	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	8.0	%	G	G	7.2%	7.2%	High

Rationale for performance status and trend

2.1.1. Based on the Local Authority performance data released by State Street in June 2016, the Essex Pension Fund with 2.2% had the highest annual return of the peer group which consists of Kent, Suffolk, Norfolk, Cambridgeshire & Bedfordshire. The lowest return within the group was -2.4%. Essex also had the highest return of this group of Funds in 2015/16.

2.1.2 The annual return of 2.2% was above the benchmark.

2.1.3 The five year return of 8.0% was above the benchmark.

2.1.4 The five year return of 8.0% was above the central expected return of the current investment strategy.

2.1.5 The five year return of 8.0% was above the expected return of the current investment strategy including investment manager outperformance.

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	82	%	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 over the last 12 months.
- 2.2.2 In the measurement period, ISC Members' training credits exceeded the 90% target.

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	%	G	G	100%	High	Quarterly
2.3.5 Number of communication and governance arrangements for the ISC not in place	0		G	R	0	High	On-going

Rationale for performance status and trend

Measures **2.3.1 - 2.3.2** cover the quarter ending 30 June 2016, during which all arrangements in respect of the ISC on 21 June met the target. Arrangements for the ISC on 20 July 2016 will be included when the September quarter's arrangements are reported in the next scorecard.

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 with the exception of the ISC Terms of reference which were noted at the July meeting rather than the June meeting.

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

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 2016 Valuation is currently underway

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

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

The 2016 Valuation is currently underway

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.

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 2016 Valuation is currently underway

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

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

Measure Purpose: Maintain liquidity in order to meet projected net cash-flow outgoings
Measure Owner: Kevin McDonald **Data lead:** 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)	0.040	%	R	A	0.00%	0.00%	Low	Quarterly
3.6.2 Deficit unrecoverable due to employers leaving scheme (as a proportion of Total Fund deficit)	0.000	%	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

A report on this Amber measure is included on part 2 of the 15 September 2016 Strategy Board meeting.

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.

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

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	Value AXISe	Value UPM	Previous status	Current status	AXISe Apr - Dec 2014	UPM Jan - Mar 2015	Target	CIPFA Average
4.1.1 Letter detailing transfer in quote issued within 10 working days (202 AXISe cases & 44 UPM cases) (375 2013/14 cases)	96.0%	86.0%	G		G	A	95.0%	89.6%
4.1.2 Letter detailing transfer out quote issued within 10 working days (558 AXISe cases & 107 UPM) (494 2013/14 cases)	96.5%	88.8%	G		G	A	95.0%	88.3%
4.1.3 Letter detailing process of refund and payment made within 5 working days (524 AXISe cases & 150 UPM) (237 2013/14 cases)	94.9%	95.3%	G		A	G	95.0%	91.5%
4.1.4 Letter notifying estimated retirement benefit amount within 10 working days (3,313 AXISe cases & 1,792 UPM) (2,760 2013/14 cases)	96.7%	97.9%	G		G	G	95.0%	89.2%
4.1.5 Letter notifying actual retirement benefits and payment made of lump sum retirement grant within 5 working days (2,314 AXISe case & 731 UPM) (1,887 2013/14 cases)	97.1%	99.3%	G		G	G	95.0%	90.5%
4.1.6 Letter acknowledging death of active /deferred / pensioner member within 5 working days (1,138 AXISe cases & 515 UPM) (962	99.6%	98.8%	G		G	G	95.0%	94.1%
4.1.7 Letter notifying the amount of dependent's benefits within 5 working days (1,138 AXISe cases & 515 UPM) (962 2013/14 cases)	95.9%	95.3%	G		G	G	95.0%	86.7%
4.1.8 Calculate and notify deferred benefits within 10 working days (1,571 AXISe cases & 310 UPM) (5,860 2013/14 cases)	97.2%	36.1%	G		G	R	95.0%	75.8%
4.1.9 Annual benefit statements issued to active members of LGPS (Career Average) by 31 August.	100.0%		A	G			95.0%	95.0%
4.1.10 Annual benefit statements issued to deferred members by 30 June.	Yes		G	G			Yes	N/A
4.1.11 New IDRPs appeals during the year (per one thousand members)	0.02		G	G			Below CIPFA average	0.12
4.1.12 IDRPs appeals - number of lost cases	0.00		G	G			Below CIPFA average	0.04

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. These are updated annually in December.

The release of data by CIPFA will feature in the December 2016 scorecard.

4.1.9 Annual Benefit Statements were issued to all active members by 31 August 2016.

4.1.10 Deferred members statements were issued in June 2016.

4.1.11 The CIPFA benchmarking statistics disclose the average number of stage 1 IDRPs appeals per one thousand LGPS members. With one completed, and one in progress appeal the Fund was below the average for 2014/15. The Fund had no stage 2 IDRPs appeals.

4.1.12 The CIPFA benchmarking statistics disclose the average successful stage 1 IDRPs appeals per one thousand LGPS members. With no successful appeals the Fund remained below the average for 2014/15.

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	CIPFA Average	Polarity	Frequency
4.1.13 Number of payments errors	0	number	G	G	<9	N/A	Low	Quarterly
4.1.14 Payment of death grant not made in line with nomination or next of kin.	0		G	G	0	N/A	High	Quarterly

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

Details of the payment of death grants are set out below:

Payment of Death Grants detailed analysis	Mar '15 quarter	Jun '16 quarter
A: Notifications of Scheme Member deaths received	58	64
B: Number within A with death grant nomination	34	42
C: Number within B paid in line with nomination held	29	36
D: Number within A paid to next of kin (in instances of predeceased nominee)	3	6
E: Number within A paid to the Estate (in instances of predeceased nominee)	2	0
F: Number within A without death grant nomination	24	22
G: Number within D paid to next of kin	24	22
H: Other	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	6	%	G	G	0%	100%	High	Quarterly
4.3.2 % of contributing employers submitting timely payments	97.5	%	A	A	100%	100%	High	Quarterly

Rationale for performance status and trend

4.3.1 In the quarter up to June 2016 **6%** of reconciliations were completed on time compared to the target of **0%**.

4.3.2 For the quarter ending June 2016 **97.5%** of employers submitted timely payments. In cash terms this equated to **99.9%** of a total employer contribution of £59.8m.

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	%	R	G	100%	100%	High	Quarterly
4.4.4 % of Board minutes uploaded to internet 12 working days after meetings	0	%	R	R	100%	100%	High	Quarterly
4.4.5 Compliance with governance arrangements - number of governance arrangements not in place	1	number	G	R	0	0	High	On-going

Rationale for performance status and trend

4.4.3 & 4.4.4 The red measure is due to delay in uploading of the minutes of the July 2016 Board 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

All arrangements are in place with the exception of the PSB Terms of reference which are being brought to the September 2016 meeting rather than the July 2016 meeting.

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 stakeholders equally.

Scope: All scheme members and employers

Measure Owner: David Tucker

Data lead: Matt Mott

Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.1.1. % of positive responses from the scheme member survey. - <i>Helpfulness of the Pensions Teams.</i>	99.1	%	G	G	95%	95%	High	Annual (Dec)
5.1.2. % of positive responses from the Employer Survey. - <i>Expertise of Pensions Teams.</i>	99.3	%	G	G	95%	95%	High	Annual (Dec)
5.1.3. % of positive responses from the Employer Survey. - <i>Pensions Teams are friendly and Informative.</i>	98.6	%	G	G	95%	95%	High	Annual (Dec)
5.1.4. A Communication Policy is in place for the current year.	Yes		A	G	Yes	Yes	High	Annual (July)

Rationale for performance status and trend

5.1.1 In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 116 responses were received to the question to 'How would you rate the Essex Pension Fund on helpfulness of staff?'. Only one negative response was received resulting in a 99.1% positive response. 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.

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 - <i>Clarity of website information.</i>	93.7%	%	G	A	95.0%	95.0%	High	Annual (Dec)
5.2.2. % of positive responses from the Scheme Member Survey - <i>Understandable Annual Benefit Statements.</i>	92.0%	%	A	A	95.0%	95.0%	High	Annual (Dec)
5.2.3. % of positive responses from the Scheme Member Survey - <i>Communications that suit needs, easy to understand and relevant.</i>	99.2%	%	G	G	95.0%	95.0%	High	Annual (Dec)
5.2.4. % of positive responses from the Employer Survey - <i>Clarity of Website information.</i>	95.2%	%	A	G	95.0%	95.0%	High	Annual (Dec)
5.2.5. Increase in response of the Scheme Member Survey compared to last year.	0.8%	%	G	G	Increase	Increase	High	Annual (Dec)
5.2.6. Increase in response rate of the Employer Survey compared to last year.	24.6%	%	G	G	Increase	Increase	High	Annual (Dec)
5.2.7 Employer survey - feedback on training and educational materials - % of positive responses	96.6%	%	G	G	95.0%	95.0%	Low	Annual (Dec)

5.2.1 - In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 95 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Seven negative response were received resulting in a 93.7% positive response. The response to this question in the previous survey was 97.1%.

5.2.2 - In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 113 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% positive response. The response to this question in the previous survey was 82% positive.

5.2.3 - In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 122 responses were received. Only one negative response was received resulting in a 99.2% positive response. The response to this question in the previous survey was 99.1%.

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 were received resulting in a **95.2%** positive response. The previous survey result for this question was 92.4% positive.

5.2.5 - In October 2015 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 119 responses were received. In 2013 118 responses were received. This is an increase in respondents of 1 (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 - <i>Information available is helpful in employers understanding their responsibilities</i>	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%.

Essex Pension Fund Strategy Board	EPB/24/16
date: 15 September 2016	

Review of Pension Advisory Board

Report by the Head of Essex Pension Fund and the Independent Governance & Administration Adviser

Enquiries to Jody Evans on: 0333 0138 489

1. Purpose of the Report

- 1.1 To highlight for the PSB the timescales for the review of the Pension Advisory Board (PAB) required under the PAB's Terms of Reference.

2. Recommendations

- 2.1 That the timescales outlined in paragraph 4.1 be noted.

3. Background

3.1 In accordance with the requirements of the Public Service Pension Act 2013 and revised LGPS Regulations, at its February 2015 meeting Essex County Council established the Essex Pension Fund Advisory Board as its Local Pension Board.

3.2 Section 6 of the PAB's Terms of Reference is set out below:

The Board will undertake an annual review process to assess its performance with a view to seeking continuous improvement in the Board's performance. The first review will take place no later than 1 October 2016.

The Board will commence a review of its efficacy after the first 18 months to determine whether it is meeting the needs of EPF's stakeholders and in time for any changes to be made in May 2017.

3.3 The IGAA will outline proposals for the effectiveness reviews.

4. Timescale

4.1 The timescale for the PAB review is set out below:

Meeting Dates	Board	Action to be taken
15 Sept 2016	PSB	For information
21 Sept 2016	PAB	Initial consideration
13 Dec 2016	PSB	To receive the PAB's feedback
25 Jan 2017	PAB	Further & final consideration
8 Mar 2017	PSB	To agree a recommendation
16 May 2017	Council	Formal decision and agreement of revised Terms of Reference

5. Recommendations

5.1 That the timescales outlined in paragraph 4.1 be noted.

6. Link to Essex Pension Fund Objectives

6.1 Reviewing the Fund's governance arrangements with the regard to the PAB assists in achieving the following Fund objectives:

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

- act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- understand and monitor risk and compliance
- to ensure the Fund is properly managed

7. Risk Implications

7.1 The Fund's risk register includes the following risk (Ref G1): *"Failure of governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and /or need to make major changes at short notice"*.

7.2 The current rating for this risk is as follows:

	Residual Impact	Residual Probability	Residual Risk score	Above key risk threshold (residual risk score of 6)
Current rating	3	1	3	No

8. Communication Implications

8.1 Communication will be required between the PAB and the PSB.

9. Finance and Resources Implications

9.1 The cost of revised any revised arrangements will be required to be met from the Fund.

10. Background Papers

10.1 PAB Terms of Reference.

Essex Pension Fund Strategy Board	EPB/25/16
date: 15 September 2016	

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 That the Board should note the report.

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 one occasion on 20 July 2016.

4. Report of the meeting of ISC on 20 July 2016

- 4.1 The Committee noted its new membership, its Terms of Reference, and the appointment of Cllr Bass as Chairman following the 10 May 2016 annual meeting of Essex County Council. Cllr Barker was appointed as Vice Chairman.
- 4.2 The Committee received a brief update outlining the latest developments in respect of the structural reform of the LGPS. Kevin McDonald informed the Committee that, as agreed at the previous week's Pension Strategy Board meeting, the Essex Pension Fund, as a member of the ACCESS participating group, signed the July Submission that formally responded to the Government.
- 4.3 Kevin highlighted at the next ACCESS Chairman's meeting the matter of building or renting the Collective Investment Vehicle would be considered.
- 4.4 The Committee noted the press release of 7 July highlighting the setup of an all Party Parliamentary Group for Local Pension Funds to be chaired by Clive Betts MP.
- 4.5 The main focus of the meeting's business was the yearly review of the Fund's investment managers.
- 4.6 The Committee received a presentation from Hymans Robertson on the Fund's investment performance to 31 March 2016. This was followed by a presentation which summarised their current views on the capability of each of the Fund's managers relative to their peer group universe.
- 4.7 A presentation was received from Aviva Investors on the property portfolio. The presentation covered the background to, implications of and subsequent actions taken in the light of a reporting error within the September 2015 quarterly valuation. This, and the opportunity cost to the Fund was discussed in detail. AVIVA made a proposal designed to address the matter.

Following discussions the Committee agreed:

- that the proposal be accepted without prejudice;
- that Officers and Advisers liaise with Aviva to make the necessary arrangements;
- that Aviva be invited to attend the next Officers and Advisers meeting to follow up on the action points raised; and
- that the presentation be noted.

- 4.8 The Committee received a report on the Institutional Investment Consultant contractual arrangements. It was agreed that Officers will commence the process for re-tendering for Institutional Investment Consultant contract, using the National LGPS Framework. Officers along with Mark Stevens, Independent Investment Adviser will establish a short list of candidates to be interviewed.

5. Link to Essex Pension Fund Objectives

- 5.1 Investments
- To maximise the returns from investments within reasonable risk parameters.
 - To ensure the Fund is properly managed.

6. Risk Implications

- 6.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Statement of Investment Principles.
- 6.2 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.

7. Communication Implications

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

8. Finance and Resources Implications

- 8.1 In addition to the work undertaken by Officers, the costs of participating in ACCESS were approximately £30,000 per Fund for the period between February and July 2016.
- 8.2 Further costs, of a significant nature, will be incurred in the development and establishment of pools.

9. Background Papers

- 9.1 ISC meeting of 20 July 2016 – agenda and draft minutes.
- 9.2 DCLG consultation "Opportunities for collaboration, cost saving and efficiencies" – May 2014
- 9.3 Fund response agreed 9 July 2014
- 9.4 PricewaterhouseCoopers report on establishing Collective Investment Vehicles
- 9.5 25 November 2015 publications released with the Chancellor's Autumn Statement documents :

- (i) criteria for LGPS investment reform
- (ii) a consultation on revised LGPS Investment Regulations and
- (iii) Government's response to the May 2014 consultation on *"Opportunities for collaboration, cost saving and efficiencies"*

- 9.6 Findings of "Project Pool"
- 9.7 23 February 2016 ACCESS group submission
- 9.8 24 March 2016 Minister's letter of response to February submission
- 9.9 7 April 2016 ACCESS Chairmen's letter to Minister
- 9.10 20 April 2016 Minister's letter of reply
- 9.11 29 April 2016 ACCESS Chairmen's letter of Minister
- 9.12 Government Panel meeting 9 June 2016
- 9.13 15 July 2016 ACCESS group submission

Essex Pension Fund Strategy Board	EPB/26/16
date: 15 September 2016	

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 19 September 2016.

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 2016. This document is attached for Members' information.

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

"We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Pension Fund's financial statements.

We have not identified any unadjusted audit difference within the draft financial statements, which management have chosen not to adjust".

- 4.3 No changes have been made to the main financial statements: the Fund Account and Net Asset Statement. A small number of typographical errors have been picked up and corrected.

5. Pension Fund Annual Report & Accounts 2015-16

- 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 - ISA (UK and Ireland) 260
for the year ended 31 March 2016

06 September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and 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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Essex County Council Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess consistency of the financial statements within the pension fund annual report.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Essex Pension Fund for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix C:</p> <ul style="list-style-type: none"> • review of the final version of the financial statements and completion of audit closing procedures • review the annual report for consistency with the financial statements • completion of the subsequent events procedures to the date of signing the audit report • receipt of the signed management representation letter <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Pension Fund's financial statements.</p>
Audit differences	<p>We have not identified any unadjusted audit difference within the draft financial statements, which management have chosen not to adjust.</p> <p>Our audit identified a small number of minor disclosure related adjustments which our team have highlighted to management for amendment. These have been corrected during the course of our work. We do not consider any of these to be significant and therefore we have not provided further details of these amendments in this report.</p>
Scope and materiality	<p>In our audit plan presented at the 7 March 2016 Essex County Council Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £49,326,230. We have reassessed this based on the actual results for the financial year and we have increased this amount to £50,371,040 due to net assets being higher at the year end. The basis of our assessment is 1% of net assets, which has remained consistent with prior years.</p> <p>The threshold for reporting audit differences which impact the financial statements has also increased from £2,466,311 to £2,518,552.</p> <p>We also identified related party transactions as an area where misstatement at a level lower than our overall materiality level might influence the reader. For this area we developed an audit strategy and no issues were identified from our work.</p> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> • risk of management override of controls. • risk of fraud in revenue recognition.

-
- valuation of unquoted investments and direct property investments

Following our planning phase, and based on our general consideration of the control environment and the detailed consideration of the individual income and expenditure streams present at the Pension Fund, we are satisfied that the presumption of fraud in the recognition of revenue at this pension fund can be rebutted and therefore the significant 'risk of fraud in revenue recognition' is no longer a significant risk for our 2015/16 audit.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

Control observations

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.

Other matters

As with 2014/15 a revised estimation approach has been used for the valuation figures for alternative investments in the accounts. This has resulted in differences between the figures included in the accounts as compared to the final year end valuation provided by the Fund Managers.

Management have explained this is due to the timing of the valuations used. To bring forward the production of the pension fund accounts in preparation for the earlier deadlines in 2017/18, the valuation figures for these investments are included in the accounts based on December 2015 custodian valuations adjusted for known cash movements or drawdowns up to 31 March 2016. This approach has been used as these fund managers often take considerable time to provide their year-end valuation.

While the final year end valuations differ from the figures used, these differences are not material, either individually or in total.

We have no other matters we wish to report

We would like to take this opportunity to thank the Pension Fund's staff for their assistance during the course of our work.

Melissa Hargreaves
Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Fund's responsibilities

The Fund is responsible for preparing and publishing its Statement of Accounts.

The Fund is also responsible for preparing and publishing its Pension Fund Annual Report; incorporating its Statement of Accounts.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements; and
- Report on whether information in the Annual Report is consistent with the financial statements.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Fund's accounting policies and key judgments.

This report is intended solely for the information and use of the Fund. It is not intended to be and should not be used by anyone other than the specified party.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> ▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewed accounting estimates for evidence of management bias; and ▶ evaluated the business rationale for significant unusual transactions. 	<p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement due to fraud or error.</p>
<p>Valuation of unquoted investments and direct property investments</p> <p>The Fund's investments include unquoted investments (such as private equity, infrastructure, timber and illiquid debt) and direct property investments.</p> <p>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.</p> <p>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.</p> <p>As these investments are more complex to value, we have identified the Fund's investments in property and unquoted investments as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ 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 management experts; and ▶ performing analytical procedures and checking the valuation output for reasonableness against our own expectations. 	<p>Our planned procedures in relation to this risk are complete. We concluded that we could rely on management experts and did not identify a need for our internal valuation specialists to support our work in this area. We agreed the management experts valuations to the investment valuations reported in the financial statements.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of Fund's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We have no matters we wish to report.

Control themes and observations

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.

We have tested the controls of the Fund only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of 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.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix D. We are not requesting any specific representations over and above the standard ones.

Appendix A – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 4 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 19 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 4 March 2016.

Appendix B – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	31,266	31,266

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix C – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 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 17. 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 2015/16.

This report is made solely to the members of Essex County Council 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 26, the Executive Director for Corporate and Customer Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2015/16, 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 Statement of Accounts for the year ended 31 March 2016 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.

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 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the 2015/16 Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Melissa Hargreaves (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Manchester
September 2016

Appendix D – Management representation letter

[To be prepared on the Pension Fund's letterhead]

[Date]

Melissa Hargreaves
Ernst & Young
100 Barbirolli Square
Manchester
M2 3EY

Dear Melissa

This letter of representations is provided in connection with your audit of the financial statements of Essex Pension Fund ("the Pension Fund") for the year ended 31 March 2016. 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 position of the Pension Fund as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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 2015/16 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge, as members of management of the Pension 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 the financial performance of the Pension Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. 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 Pension Fund, we believe that the Pension 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 2015/16, that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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 disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Pension Fund (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual 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. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
4. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension 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 as agreed in terms of the audit engagement;
 - 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. You have been informed of all changes to the Pension Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

4. We have made available to you all minutes of the meetings of the Pension Fund Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 19 September 2016.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension 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.
6. We have disclosed to you, and the Pension 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 Pension Fund members or the Pension Fund during the Scheme years 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. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Advisory Reports

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

H. Independence

1. We confirm that no trustee of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the Pension Fund Committee of the limitations in their use imposed by The Occupational Pension Scheme (Investment) Regulations 2005; namely that they contribute to a reduction in scheme risk, facilitate efficient portfolio management, and that any such investment has been made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. The Pension 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 trustees at the scheme year end and the terms and conditions relating thereto.
3. The trustees have duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Pension Fund is holding, and these have been communicated to you.

J. Actuarial valuation

1. The latest report of the actuary Barnet Waddingham as at 31 March 2013 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/her report.

K. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - We confirm that the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - We confirm the significant assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

L. Investment managers' control reports ISAE 3402

1. The latest reports available do not cover the whole of the 2015/16 audit year. We confirm we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours sincerely,

Executive Director for Corporate and Customer Services

I confirm that this letter has been discussed and agreed at the Audit Committee on 19 September 2016

Appendix E – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	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: <ul style="list-style-type: none"> ▶ 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 in aggregate, that indicated there could be doubt about Essex Pension Fund's ability to continue as a going concern for the 12 months from the date of our report.
Misstatements <ul style="list-style-type: none"> ▶ 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 ▶ In writing, corrected misstatements that are significant 	Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. 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 entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	Annual Audit Letter/Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Audit Results Report</p>

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Essex Pension Fund Strategy Board	EPB/27/16
date: 15 September 2016	

Essex Pension Fund Accounts 2015/16

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 2015/16.

2. Recommendation

- 2.1 That the Board should note the report.

3. Draft Accounts 2015/16

- 3.1 The draft Pension Fund financial statements were submitted to the Pension Board on 13 July 2016.
- 3.2 Colleagues from EY commenced the external audit on 11 July 2016. 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 2015/16 is attached at Appendix 1.

4. Background papers

- 4.1 The Local Government Pension Scheme (Administration) Regulations 2008

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.

	Page
Fund Account	141
Net Assets Statement	142
Notes to the Pension Fund Accounts	143

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31 March 2016

2014/15	Note		2015/16	
£000			£000	£000
		Dealing with members and others directly involved in the Fund		
		Income		
		Contributions receivable		
(52,676)	8	Member contributions	(53,964)	
(188,654)	8	Employers' contributions	(168,443)	
(8,181)	8	Transfers in from other Pension Funds	(7,936)	
(149)		Other income	(295)	
(249,660)		Total income		(230,638)
		Expenditure		
		Benefits payable		
170,900	8	Pensions	177,467	
31,876		Commutation of pensions & lump sum retirement benefits	31,935	
4,440		Lump sum death benefits	6,344	
		Payments to and on account of Leavers		
183		Refunds of contributions	544	
91		State scheme premiums	321	
64,563	8	Transfers out to other schemes	5,288	
28,779	10	Management expenses	31,816	
300,832		Total expenditure		253,715
51,172		Net additions from dealings with members		23,077
		Returns on investments		
(75,727)	9	Investment income	(87,752)	
(573,424)	11	Profit and losses on disposal of investments and changes in market value of investments	(43,640)	
2,730	14	Taxes on income	3,834	
(646,421)		Net returns on investments		(127,558)
(595,249)		Net (increase)/decrease in the assets available for benefits during the year		(104,481)
(4,337,374)		Net assets as at 1 April		(4,932,623)
(4,932,623)		Net assets as at 31 March		(5,037,104)

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Net Assets Statement as at 31 March 2016

31 March 2015 £000	Note		31 March 2016 £000	£000
	11	Investments at market value		
		Investment assets		
232,568		Fixed interest securities	235,486	
3,065,508		Equities	3,124,105	
216,532		Index linked securities	144,369	
322,135		Property	358,780	
217,452		Property unit trusts	215,089	
237,979		Private Equity	247,281	
158,975		Infrastructure	162,085	
49,057		Timber	77,675	
63,329		Illiquid Debt	76,705	
253,665		Other managed funds	248,358	
22,902		Derivative contracts	17,300	
109,810		Cash/deposits	116,692	
6,434		Other investment balances	7,632	
4,956,346				5,031,557
		Investment liabilities		
(48,206)		Derivative contracts	(35,744)	
(1,987)		Other investment balances	(353)	
(50,193)				(36,097)
4,906,153		Total Investments		4,995,460
		Long term assets		
6,456		Contributions due from employers		5,196
	13	Current assets and liabilities		
		Current Assets		
13,967		Cash	26,311	
16,144		Contributions due from employers and other current assets	17,669	
4,942,720				5,044,636
		Current liabilities		
(10,097)		Unpaid benefits and other current liabilities		(7,532)
4,932,623		Net assets of the scheme available to fund benefits		5,037,104

Statement of Accounts - Pension Fund Accounts

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 2009.

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 Board. The Fund's 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).

Statement of Accounts - Pension Fund Accounts

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 **640** 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 2016. 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 2013**. 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.

Statement of Accounts - Pension Fund Accounts

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 2015/16 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 2015/16 (SORP). The accounts are prepared on a going concern basis.

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies are available on the Pension Fund website www.essexpensionfund.co.uk.

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2015/16 financial year and its position as at 31 March 2016. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2016 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.3.

3. Actuarial valuation

The contributions payable for 2015/16 were determined by the 2013 Actuarial Valuation.

3.1 Actuarial Valuation 2013

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. 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 **£3,926m** (on a smoothed basis) represented **80%** of the Funding Target liabilities of **£4,878m** at the valuation date. The valuation also showed that a common rate of contribution of **14.3%** of Pensionable Pay per annum was required from employers. The common 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.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit could be eliminated by an average additional contribution rate of **7.2%** of Pensionable Pay for 20 years. This would imply an average employer contribution rate of **21.5%** of Pensionable Pay in total.

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,

Statement of Accounts - Pension Fund Accounts

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:

	Past and Future liabilities Rate per annum
Rate of discount	5.80%
Retail Price Index (RPI)	3.50%
Consumer Price Index (CPI)	2.70%
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	2.70%
Short term pay increase	In line with CPI assumptions for 2 years to 31 March 2015
Long term pay increase	4.50%

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2017.

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).

Statement of Accounts - Pension Fund Accounts

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 2013.

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2016 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 2016 is 18 years which in turn means a discount rate of **3.6%** per annum (31 March 2015: 3.3%). The value of the Fund's promised retirement benefits as at 31 March 2016 was **£7,438m** (31 March 2015: £7,517m).

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 2013, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of **4.3%** per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£6,585m**.

4. Accounting policies

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

Normal 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 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.

Statement of Accounts - Pension Fund Accounts

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 156).

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 156).

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

This 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 171).

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

This income is 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 reporting period is disclosed in the Net Assets Statement under other investment balances.

▪ Property related income

This consists primarily of rental income on property leases, and is recognised on a straight line basis over the term of the leases.

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

Statement of Accounts - Pension Fund Accounts

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 Costs'.

Statement of Accounts - Pension Fund Accounts

4.2.4 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team 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 2015/16 this totalled **£1.065m** (£1.272m in 2014/15).

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 2015/16, this totalled **£1.073m** (£1.306m in 2014/15).

4.2.6 Investment management expenses

All investment management expenses are accounted for on 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.

No performance related fees were payable in 2015/16 (none in 2014/15).

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 Fund in 2015/16 has changed its policy in the treatment of these fees in accordance with CIPFA's guidance.

In prior years management fees were grossed up and offset via investment income. The gross up of management fees are now offset through the change in market value of these investments. The change in policy has a net nil effect.

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 2015/16, **£3.037m** of fees is based on such estimates (2014/15: £2.957m). 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.

Statement of Accounts - Pension Fund Accounts

The cost of obtaining investment advice from external consultants is included in investment management charges.

4.3 Net Assets Statement

4.3.1 Financial Assets

Financial assets are held at fair value, as at each 31 March, and are recognised 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.

4.3.2 Valuation of investments

The value of investments is determined as outlined in the following paragraphs.

- **Market Quoted Investments**

The value of these investments is taken as the bid market price ruling on each 31st March where available.

- **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 2015/16, these are mainly valued as at 31 December 2015, 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 2016 is 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.

Investments in unquoted property, 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.

The valuation of other unquoted securities (typically including pooled investments in property, infrastructure, debt securities and private equity) 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 added to the Fund, net of applicable withholding tax.

Statement of Accounts - Pension Fund Accounts

▪ Value of fixed interest investments

Fixed interest investments 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 11).

▪ Direct Property Investments

Direct property investments have been valued, at open market value as at 31 March 2016, 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.

4.3.3 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.

4.3.4 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.

4.3.5 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.

Statement of Accounts - Pension Fund Accounts

4.3.6 Financial Liabilities

Financial liabilities are recognised at fair value 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.

4.3.7 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.

4.3.8 Other financial Instruments

Financial assets are recognised 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.

Statement of Accounts - Pension Fund Accounts

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 2016 was **£247.3m** (31 March 2015: £238m).

- **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 2016 was **£162.1m** (31 March 2015: £159.0m).

- **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 2016 was **£77.7m** (31 March 2015: £49.1m).

- **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. 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.

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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 2016 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
<p>Actuarial present value of promised retirement benefits</p> <p><i>Note: Results are taken from the 2013 Actuarial valuation)</i></p>	<p>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.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £415m.</p> <p>An increase of the CPI assumption by 0.5% per annum increases the value of liabilities by approximately £354m.</p> <p>A 0.5% increase in the long-term rate of salary increase would increase the value of liabilities by approximately £46m.</p> <p>Increasing the long-term rate of improvement used in the mortality projection from 1.5% to 1.75% per annual would increase the liability by approximately £45m.</p>
<p>Private equity / Infrastructure / Timber / Illiquid debt</p>	<p>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.</p>	<p>The total private equity, infrastructure, timber and illiquid debt investments in the financial statements are £563.7m. There is a risk that this investment may be under or overstated in the accounts.</p>

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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 2015		31 March 2016 <i>Estimate</i>
50,965	Contributors	54,584
44,038	Deferred pensioners	54,795
35,455	Pensioners	37,791

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

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8.2 Pension benefits payable

2014/15 £000		2015/16 £000
63,322	Administering Authority	65,215
89,588	Scheduled Bodies	91,145
8,035	Admitted Bodies	8,085
4,587	Community Admission Bodies	7,123
4,849	Transferee Admission Bodies	5,375
519	Resolution Bodies	524
<u>170,900</u>		<u>177,467</u>

8.3 Contributions receivable

8.3.1 By category

Contributions receivable from employers are set out below:

2014/15 £000		2015/16	
		£000	£000
52,676	Employee's normal contributions		53,964
	Employers' normal contributions		
113,458	Normal contributions	114,743	
71,706	Employers' deficit recovery contributions	48,247	
3,490	Employers' augmentation	5,453	
<u>188,654</u>			<u>168,443</u>
<u>241,330</u>			<u>222,407</u>

Employers' augmentation relates to payments for the cost of early retirements.

The change in the employer deficit from 2014/15 is associated with the Valuation 2013 where fourteen employers chose to pay a triennial payment. Ten of these were paid in April 2015 amounting to **£26.709m**.

In 2014/15 Colchester Women's Refuge entered into a three year cessation plan, paying the second instalment of **£21,000** in 2015/16. One final payment of **£21,000** is due in 2016/17.

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

In 2015/16 final termination amounts were received from Home Group **£23,000**.

8.3.2 By type

2014/15			2015/16		
Member £000	Employer £000		Member £000	Employer £000	
16,457	50,185	Administering Authority	16,741	50,956	
31,284	121,559	Scheduled Bodies	32,540	101,047	
949	5,179	Admitted Bodies	949	5,499	
1,342	4,747	Community Admission Bodies	1,286	4,526	
2,389	6,259	Transferee Admission Bodies	2,177	5,611	
255	725	Resolution Bodies	271	804	
52,676	188,654		53,964	168,443	

Following a review in the year, Anglia Ruskin University has been reclassified from Community Admission Body to Scheduled Body.

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

2014/15			2015/16		
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000	
-	58,484	Group transfers	-	-	
8,181	6,079	Individual transfers	7,936	5,288	
8,181	64,563	Total	7,936	5,288	

No amounts were payable in respect of group transfers to other schemes during 2015/16. In 2014/15, a group transfer to Greater Manchester Pension Fund was paid in respect of Probation Services.

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9. Investment Income

9.1 By Type

2014/15 <i>Restated</i> £000		2015/16 £000
24,767	Dividends from equities	25,865
2,009	Income from index linked securities	1,016
6,722	Private Equity income	4,855
8,349	Infrastructure / timberland income	15,748
7,219	Managed fund income	11,978
6,268	Income from pooled property investments	6,739
17,325	Net rent from properties	19,443
488	Interest from cash deposits	458
875	Other	1,056
74,022	Total investment income showing net property rent	87,158
	Add back:	
1,705	Property operating expenses	594
75,727	Total investment income showing gross property rent	87,752

For 2015/16 the breakout of investment income has been expanded. The 2014/15 dividend income figure has been restated. Some of the dividend income has been re-categorised to the new categories, private equity income, infrastructure/timberland income and managed funds income. This has resulted in a net nil effect to the bottom line.

The above table shows rent from properties net of related expenses, but the Fund Account shows rent from properties on a 'gross' basis.

9.2 Investment property net rental

2014/15 £000		2015/16 £000
17,056	Rental Income from investment property	19,486
(1,696)	Direct operating expenses arising from investment property	(290)
15,360	Total	19,196

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9.3 Contractual rental receivable

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

2014/15 £000		2015/16 £000
16,861	Within one year	17,445
53,752	Between one and five years	51,547
45,024	Beyond five years	41,141
115,637	Total	110,133

9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2014	174,330	62,970	237,300
Additions	44,827	13,604	58,431
Disposals	-	-	-
Net gain/loss on fair value	21,588	4,816	26,404
Fair value at 31 March 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

10. Management expenses

10.1 By type

2014/15 £000		2015/16 £000
1,272	Administration costs	1,065
26,201	Investment management expenses	29,678
1,306	Oversight and governance	1,073
28,779	Total	31,816

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The direct running costs recharged back to the Fund are apportioned out as per the CIPFA guidance on LGPS Management Costs. Investment transaction costs incurred during the year are included within Investment Management expenses. These were **£768,000** for 2015/16 (2014/15: £791,000).

10.2 Investment management expenses

2014/15 £000		2015/16 £000
25,909	Management fees	29,384
292	Custody fees	294
26,201	Total	29,678

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:

2015			2016		
£m	%		£m	%	
64	1.3	Alcentra Ltd	79	1.6	
586	11.9	Aviva Investors	619	12.4	
489	10.0	Baillie Gifford and Co	398	8.0	
250	5.1	Stewart Investors (formerly First State)	243	4.9	
233	4.7	Goldman Sachs Asset Management International	235	4.7	
247	5.0	Hamilton Lane	257	5.1	
1,551	31.6	Legal and General Investment Management	1,558	31.2	
(26)	-0.5	Legal and General Investment Management (Currency)	(18)	-0.4	
370	7.6	Longview Partners	384	7.7	
379	7.7	Marathon Asset Management Ltd	393	7.9	
299	6.1	M&G Investments	347	6.9	
238	4.9	M&G Investments Alpha Opportunities	238	4.8	
84	1.7	M&G Investments Infracapital	61	1.2	
12	0.2	M&G Investments Financing Fund	9	0.2	
75	1.5	Partners Group Management II S.à r.l	107	2.1	
3	0.1	RWC Specialist UK Focus Fund (formerly Hermes)	1	-	
49	1.0	Stafford Timberland Limited	78	1.6	
3	0.1	Other	6	0.1	
4,906	100.0		4,995	100.0	

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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:

2014/15	Value at 1 April 2014	2014/15 Movement					Value at 31 March 2015
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	186,598	50,000	-	-	(4,030)	-	232,568
Equities							
UK quoted	128,633	17,534	-	(10,837)	18,643	-	153,973
Overseas quoted	1,053,329	221,346	-	(234,093)	237,906	-	1,278,488
UK unit trusts	228,767	11,890	(14,376)	(76)	17,565	-	243,770
Overseas unit trusts	685,980	14,285	(44,334)	(639)	124,840	-	780,132
Global unit trusts	547,585	933	-	(526)	61,153	-	609,145
Index linked securities (UK public sector quoted)	344,996	21,762	78	(200,833)	50,529	-	216,532
Property							
UK properties (freehold)	174,330	44,827	-	-	21,588	-	240,745
UK properties (leasehold)	62,970	13,604	-	-	4,816	-	81,390
Property unit trusts	231,664	5,038	-	(41,840)	22,590	-	217,452
Private equity							
UK unquoted	422	54	-	(17)	(295)	-	164
Overseas unquoted	211,611	50,386	-	(51,924)	27,742	-	237,815
Infrastructure							
UK unquoted	67,760	1,314	-	(284)	15,290	-	84,080
overseas unquoted	59,476	21,117	-	(4,711)	(987)	-	74,895
Timber (Overseas unquoted)	34,705	12,767	-	(521)	2,106	-	49,057
Illiquid Debt							
UK unquoted	-	24,000	-	-	442	-	24,442
Overseas unquoted	-	54,424	-	(11,419)	(4,118)	-	38,887
Active currency (UK unquoted)	-	-	-	-	-	-	-
Other managed funds							
UK unquoted	185,029	74,799	-	(3,174)	(2,989)	-	253,665
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	44,712	-	-	-	-	26,630	71,342
Foreign currency	48,796	-	-	25,006	(25,006)	(10,328)	38,468
	4,297,363	640,080	(58,632)	(535,888)	567,785	16,302	4,927,010
Adjustments for							
Transaction costs	-	(488)	-	(303)	791	-	-
Capitalised alternative asset management fees	-	(4,848)	-	-	4,848	-	-
	4,297,363	634,744	(58,632)	(536,191)	573,424	16,302	4,927,010
Other investment balances							
Assets							
Amounts receivable for sales of investments	3,787						1,232
Investment income due	6,737						5,202
Liabilities							
Amounts payable for purchase of investments	(1,428)						(1,873)
Investment withholding tax payable	(113)						(114)
Derivative pending foreign currency contracts							
Assets	4,282						22,902
Liabilities	(390)						(48,206)
	4,310,238						4,906,153

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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 trusts	609,145	20,826	77,296	(3,281)	(1,588)	-	702,398
Index linked securities (UK public sector quoted)	216,532	45,558	111	(119,397)	1,565	-	144,369
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
Active currency (UK unquoted)	-	-	-	-	-	-	-
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

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31 March 2015 £000		31 March 2016 £000
	Fixed interest securities	
232,568	UK quoted	235,486
	Equities	
153,973	UK quoted	120,027
1,278,488	Overseas quoted	1,243,844
243,770	UK unit trusts	263,814
780,132	Overseas unit trusts	794,022
609,145	Global Unit trusts	702,398
216,532	Index linked securities: UK public sector quoted	144,369
	Property	
240,745	UK properties (freehold)	284,570
81,390	UK properties (leasehold)	74,210
217,452	Property unit trusts	215,089
	Private equity	
164	UK unquoted	39
237,815	Overseas unquoted	247,242
	Infrastructure	
84,080	UK unquoted	60,724
74,895	Overseas unquoted	101,361
49,057	Timber: Overseas unquoted	77,675
	Illiquid Debt	
24,442	UK unquoted	25,294
38,887	Overseas unquoted	51,411
253,665	Other managed funds: UK unquoted	248,358
	Derivative contracts	
22,902	Assets: Derivative pending foreign currency contracts	17,300
(48,206)	Liabilities: Derivative pending foreign currency contracts	(35,744)
	Cash deposits	
	Cash deposits held at custodian/other	
71,342	Sterling	76,543
38,468	Foreign currency	40,149
4,901,706		4,988,181
	Other investment balances	
	Assets	
1,232	Amounts receivable for sales of investments	1,720
5,202	Investment income due	5,912
	Liabilities	
(1,873)	Amounts payable for purchase of investments	(203)
(114)	Investment withholding tax payable	(150)
4,906,153	Value at 31 March	4,995,460

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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 2015			31 March 2016		
£000	%		£000	%	
309,953	6.3	Legal & General FTSE RAFI AW 3000 Index	355,774	7.1%	
299,192	6.1	M&G Global Dividend Fund	346,624	6.9%	
342,702	6.9	Legal & General North America Equity Index	344,396	6.8%	
248,438	5.0	Legal & General Europe (Ex UK) Equity Index	257,839	5.1%	

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 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
UK QUOTED EQUITIES				
18,194	11.8%	Unilever plc Ord GBP0.031	20,188	16.8%
16,197	10.5%	WPP Plc Ord GBP0.10	16,255	13.5%
13,580	8.8%	Compass Group Ord GBP0.10	14,038	11.7%
12,829	8.3%	Lloyds Banking GP Ord GBP0.1	13,263	11.1%
7,169	4.7%	Sabmiller plc Ord050.10	7,592	6.3%
9,821	6.4%	Arm Holdings Ord GBP0.0005	7,224	6.0%
6,243	4.1%	Reckitt Benck GBP Ord GBP0.10	6,020	5.0%
12,650	8.2%	Imperial Tobacco GBP0.10	-	-
12,229	7.9%	Pearson Ord GBP0.25	-	-
8,186	5.3%	Burberry Group Ord GBP0.0005	-	-
UK INDEX LINKED BONDS				
11,088	5.1%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	5,782	4.0%
PROPERTY				
23,950	7.4%	Canning Town Business Park, London	26,900	7.5%
20,000	6.2%	48-49 Chancery Lane, London	21,950	6.1%

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31 March 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
34,217	15.7%	Aviva Investors Property Fund	34,388	16.0%
16,034	7.4%	Industrial Property Investment Fund	19,616	9.1%
17,791	8.2%	Blackrock UK Property Fund	18,846	8.8%
14,754	6.8%	Standard Life Property Fund Closed	16,174	7.5%
8,291	3.8%	Airport Industrial Fund	14,756	6.9%
14,708	6.8%	Lothbury Property Fund	14,726	6.8%
13,559	6.2%	Standard Life UK Shopping Centre	13,986	6.5%
12,187	5.6%	Unite UK Student Accomodation Fund	13,679	6.4%
11,734	5.4%	Henderson UK Retail Warehouse Fund	12,020	5.6%
INFRASTRUCTURE				
84,080	52.9%	Infracapital Partners	60,724	37.5%
46,182	29.1%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	50,068	30.9%
18,634	11.7%	Partners Group Global Infrastructure 2012 LP	31,948	19.7%
10,079	6.3%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	14,513	9.0%
TIMBER				
38,814	79.1%	Stafford International Timberland VI Fund LP	47,405	61.0%
10,243	20.9%	Stafford International Timberland VII Fund (No 2) LP	30,270	39.0%
IILLIQUID DEBT				
38,887	61.4%	Clareant (formerly Alcentra) European DLF Investor Feeder (No.2) LP	51,412	67.0%
24,443	38.6%	Clareant (formerly Alcentra) Global Multi-Credit Solutions Class IV A GBP	25,294	33.0%
OTHER MANAGED FUNDS				
238,436	94.0%	M&G Alpha Opportunities Fund	237,654	95.7%
CASH				
44,256	40.3%	BNP Paribas Investment Partners GBP	36,360	31.2%
24,347	22.2%	Northern Trust Liquidity Fund GBP	29,730	25.5%
25,934	23.6%	Northern Trust Liquidity Fund US\$	22,334	19.1%
6,355	5.8%	BNP Paribas Investment Partners EURO	-	-

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.

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11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2016 and 31 March 2015.

11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **63.9%** of the Fund's NAS is in overseas assets as at 31 March 2016 (31 March 2015: 62.2%).

To reduce the volatility associated with fluctuating currency rates 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)

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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

2014/15 £000		2015/16 £000
5,655	Value of AVC fund at beginning of year	6,178
662	Employees contributions	655
592	Investment income and change in market value	(27)
(731)	Benefits paid and transfers out	(969)
<u>6,178</u>		<u>5,837</u>

12.2 Analysis of AVC investments by Provider

2014/15 £000		2015/16 £000
160	Equitable Life	131
389	Prudential	718
5,629	Standard Life	4,988
<u>6,178</u>		<u>5,837</u>

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13. Current assets and liabilities

13.1 Analysis of current assets

31 March 2015		31 March 2016	
£000		£000	£000
Cash Balances			
2,457	Cash at bank	788	
11,510	Cash on short term deposits within 3 months	25,523	
13,967			26,311
Debtors and payments in advance			
3,774	Contributions due – employees	3,784	
11,823	Contributions due – employers	13,398	
547	Sundry debtors	487	
16,144			17,669
30,111	Total		43,980

13.2 Analysis of debtors

31 March 2015			31 March 2016		
Short term	Long term		Short term	Long term	
£000	£000		£000	£000	
3,243	6,309	Central Government	3,505	5,058	
11,274	77	Other Local Authorities	11,412	24	
42	-	NHS Bodies	29	-	
860	70	Public Funded Bodies	2,033	114	
725	-	Other	690	-	
16,144	6,456	Total	17,669	5,196	

13.3 Analysis of long term debtors

31 March 2015		31 March 2016
£000		£000
157	Financial strain instalments due	83
6,299	Other employer contributions due	5,113
6,456	Total	5,196

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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 2015 £000		31 March 2016 £000
	Unpaid benefits and other current liabilities	
(715)	Contributions due – employers	(193)
(3,168)	Investment manager fees payable	(3,037)
(4,572)	Benefits payable	(4,091)
(1,642)	Other	(211)
<u>(10,097)</u>	Total	<u>(7,532)</u>

13.6 Analysis of creditors

31 March 2015 £000		31 March 2016 £000
	Creditors and receipts in advance	
(261)	Central Government	(111)
(3,932)	Other Local Authorities	(1,399)
(109)	NHS Bodies	(2)
(590)	Public Funded Bodies	(851)
(5,205)	Other	(5,169)
<u>(10,097)</u>	Total	<u>(7,532)</u>

13.7 Contingent liabilities and contractual commitments

As at 31 March 2016, the Fund had a commitment to contribute a further **£479.2m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2015: £300.7m). 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.

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14. Taxes on income

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

2014/15 £000		2015/16 £000
551	UK withholding tax	560
2,077	Overseas withholding tax	3,157
102	Payment to HMRC in respect of returned contributions	117
<u>2,730</u>		<u>3,834</u>

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 costs of **£1.214m** in 2015/16 (2014/15: £1.702m) 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 **£50.956m** to the Fund in 2015/16 (2014/15: **£50.185m**). 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 Strategy Board on **23 March 2016**. This service is provided to the Fund at a cost of **£26,000** (2014/15: £26,000).

During the year to 31 March 2016, the Pension Fund had an average investment balance of **£27.089m** (2014/15: £20.096m) earning **£143,000** interest (2014/15: £108,000).

15.2 Governance

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

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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 2014, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2015/16, 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 service.*

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 2015/16, were also members of the LGPS are listed below:

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

As at 31 March 2016 Keith Neale, independent investment adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year. Keith Neale ceased his role as independent investment adviser at the end of July 2015.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2015/16 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2015/16 approximately 2% (2014/15: 2%) of the Executive Director for Corporate and Customer Services time was spent on the Pension Fund. Other officers spending 100% of their time in

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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 2015/16 was **£164,000** (2014/15: £161,000). The 2015/16 current service cost in respect of these personnel was **£75,000** (2014/15: £63,000). 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:

2014/15 £000		2015/16 £000
1,604	Administering Authority	1,554
5,616	Scheduled Bodies	5,509
-	Admitted Bodies	-
150	Community Admission Bodies	152
1	Transferree Admission Bodies	1
2	Resolution Bodies	2
29	Former employers	22
<hr/> 7,402	Total	<hr/> 7,240

17. Financial Instruments

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.

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31 March 2015			Asset type	31 March 2016		
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			
232,568	-	-	Fixed interest securities	235,486	-	-
3,065,508	-	-	Equities	3,124,105	-	-
216,532	-	-	Index linked securities	144,369	-	-
217,452	-	-	Pooled unit trusts	215,089	-	-
237,979	-	-	Private equity	247,281	-	-
148,896	-	-	Infrastructure	143,049	-	-
49,057	-	-	Timber	77,675	-	-
24,442	-	-	Illiquid debt	25,293	-	-
253,665	-	-	Other managed funds	248,358	-	-
22,902	-	-	Derivative contracts	17,300	-	-
-	123,777	-	Cash deposits	-	143,003	-
6,434	-	-	Other investment balances	7,632	-	-
-	-	-	Debtors	-	-	-
4,475,435	123,777	-		4,485,637	143,003	-
			Financial liabilities			
(48,206)	-	-	Derivative contracts	(35,744)	-	-
(1,987)	-	-	Other investments balances	(353)	-	-
-	-	(3,168)	Creditors	-	-	(3,037)
(50,193)	-	(3,168)		(36,097)	-	(3,037)
4,425,242	123,777	(3,168)	Balance at the end of the year	4,449,540	143,003	(3,037)
		4,545,851	Total			4,589,506

17.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2015 £000		Asset value as at 31 Mar 2016 £000
	Financial assets	
576,632	Fair value through profit and loss	75,863
(25,006)	Loans and receivables	(62,688)
<hr/> 551,626	Total	<hr/> 13,175

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17.3 Fair value of financial instruments and liabilities

31 March 2015		31 March 2016	
Carry value	Fair value	Carry value	Fair value
£000	£000	£000	£000
		Financial assets	
4,475,435	4,475,435	4,485,637	4,485,637
123,777	123,777	143,003	143,003
4,599,212	4,599,212	4,628,640	4,628,640
		Financial liabilities	
(50,193)	(50,193)	(36,097)	(36,097)
(3,168)	(3,168)	(3,037)	(3,037)
(53,361)	(53,361)	(39,134)	(39,134)
4,545,851	4,545,851	4,589,506	4,589,506
Total net financial assets			

17.4 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.

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

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 2015				Values as at 31 March 2016			
Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Quoted	Using	Significant		Quoted	Using	Significant	
market	observable	unobservable		market	observable	unobservable	
prices	inputs	inputs		prices	inputs	inputs	
£000	£000	£000		£000	£000	£000	
Financial assets							
3,543,944	471,117	460,374	Fair value through profit and loss	3,528,892	463,447	493,298	
123,777	-	-	Loans and receivables	143,003	-	-	
3,667,721	471,117	460,374		3,671,895	463,447	493,298	
Financial liabilities							
(50,193)	-	-	Fair value through profit and loss	(36,097)	-	-	
(3,168)	-	-	Financial liabilities measured at amortised cost	(3,037)	-	-	
(53,361)	-	-		(39,134)	-	-	
3,614,360	471,117	460,374	Total net assets per level	3,632,761	463,447	493,298	
		4,545,851	Total Net Assets			4,589,506	

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.

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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 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 2015/16.

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.

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31st March 2015 Potential Market movement %	Asset type	31st March 2016 Potential Market movement %
9.2%	UK bonds	9.2%
17.0%	UK equities	18.0%
21.0%	Overseas equities	21.0%
7.0%	UK index linked bonds	7.0%
15.0%	Pooled property unit trusts	15.0%
29.0%	Private equity	29.0%
15.0%	Infrastructure funds	15.0%
15.0%	Timber	15.0%
14.0%	Illiquid debt	14.0%
15.0%	Property	15.0%
1.0%	Cash	1.0%

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 2015 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2016 £000	Percentage change %	Value increase £000	Value decrease £000
109,810	1.0%	110,908	108,712	Cash and equivalents	116,692	1.0%	117,859	115,525
				Investment portfolio assets				
232,568	9.2%	253,964	211,172	UK bonds	235,486	9.2%	257,151	213,821
153,973	17.0%	180,148	127,798	UK equities	120,027	18.0%	141,632	98,422
1,278,488	21.0%	1,546,970	1,010,006	Overseas equities	1,243,844	21.0%	1,505,051	982,637
243,770	17.0%	285,211	202,329	UK equities unit trusts	263,814	18.0%	311,301	216,327
780,132	21.0%	943,960	616,304	Overseas equities unit trusts	794,022	21.0%	960,767	627,277
609,145	21.0%	737,065	481,225	Global unit trusts	702,398	21.0%	849,902	554,894
216,532	7.0%	231,689	201,375	UK index linked bonds	144,369	7.0%	154,475	134,263
217,452	15.0%	250,070	184,834	Pooled property unit trusts	215,089	15.0%	247,352	182,826
237,979	29.0%	306,993	168,965	Private equity	247,281	29.0%	318,992	175,570
158,975	15.0%	182,821	135,129	Infrastructure	162,085	15.0%	186,398	137,772
49,057	15.0%	56,416	41,698	Timber	77,675	15.0%	89,326	66,024
63,329	14.0%	72,195	54,463	Illiquid Debt	76,705	14.0%	87,444	65,966
253,665	15.0%	291,715	215,615	Other managed funds	248,358	15.0%	285,612	211,104
322,135	15.0%	370,455	273,815	Property	358,780	15.0%	412,597	304,963
(25,304)	-	(25,304)	(25,304)	Net derivative assets	(18,444)	-	(18,444)	(18,444)
5,202	-	5,202	5,202	Investment income due	5,912	-	5,912	5,912
(114)	-	(114)	(114)	WHT payable	(150)	-	(150)	(150)
1,232	-	1,232	1,232	Amounts receivable for sales	1,720	-	1,720	1,720
(1,873)	-	(1,873)	(1,873)	Amounts payable for purchases	(203)	-	(203)	(203)
4,906,153		5,799,723	4,012,583	Total assets available to pay benefits	4,995,460		5,914,694	4,076,226

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.

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Barnett Waddingham's approach adopted at the 2013 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 2013 to 30 June 2013. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31 March 2013 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's investments are subject to interest rate risk (i.e. to the risk that the fair value or 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. During 2015/16, the Fund commenced 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 2015 £000	Asset type	Asset value as at 31 Mar 2016 £000
109,810	Cash and cash equivalents	116,692
13,967	Cash balances	26,311
232,568	Fixed interest securities	235,486
216,532	Index-linked securities	144,369
63,329	Illiquid debt	76,705
636,206	Total assets	599,563

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.

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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 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
109,810	1,098	(1,098)	Cash and cash equivalents	116,692	1,167	(1,167)
13,967	140	(140)	Cash balances	26,311	263	(263)
232,568	2,326	(2,326)	Fixed interest securities	235,486	2,355	(2,355)
216,532	2,165	(2,165)	Index-linked securities	144,369	1,444	(1,444)
63,329	633	(633)	Illiquid debt	76,705	767	(767)
636,206	6,362	(6,362)	Total change in assets available	599,563	5,996	(5,996)

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 2016 and prior year:

31 Mar 2015 £000	Asset type	31 Mar 2016 £000
1,278,488	Overseas equities quoted	1,243,844
780,132	Overseas unit trusts	794,022
609,145	Global unit trusts	702,398
237,815	Overseas private equity	247,242
74,895	Overseas infrastructure	101,361
49,057	Overseas timber	77,675
38,887	Overseas illiquid debt	51,411
3,068,419	Total overseas assets	3,217,953

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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%** (2014/15: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2014/15: 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 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,278,488	1,444,691	1,112,285	Overseas equities quoted	1,243,844	1,405,544	1,082,144
780,132	881,549	678,715	Overseas unit trusts	794,022	897,245	690,799
609,145	688,334	529,956	Global unit trusts	702,398	793,710	611,086
237,815	268,731	206,899	Overseas private equity	247,242	279,383	215,101
74,895	84,631	65,159	Overseas infrastructure	101,361	114,538	88,184
49,057	55,434	42,680	Overseas timber	77,675	87,773	67,577
38,887	43,942	33,832	Overseas illiquid debt	51,411	58,094	44,728
3,068,419	3,467,312	2,669,526	Total change in assets available	3,217,953	3,636,287	2,799,619

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.

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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 2016 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 2016 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 2015		Counterparty	Exposure at 31 March 2016	
£000	%		£000	%
30,230	1.3%	Barclays Capital	-	-
-	-	BNP Paribas Capital Markets	40,156	1.8%
269,359	11.6%	Citigroup	123,342	5.4%
42,407	1.8%	Australian Commonwealth Bank	-	-
81,717	3.5%	Deutsche Bank AG	136,249	6.0%
273,907	11.8%	HSBC	301,887	13.2%
177,445	7.6%	J P Morgan Securities	137,876	6.1%
118,496	5.1%	Lloyds	406,036	17.8%
203,107	8.7%	Merrill Lynch	177,099	7.8%
258,906	11.2%	Morgan Stanley	128,820	5.6%
100,383	4.3%	RBC Europe	844	0.0%
203,380	8.8%	RBS	168,668	7.4%
26,538	1.1%	SEB	-	-
273,547	11.8%	SG Securities	-	-
12,769	0.6%	Standard Chartered	259,625	11.4%
120,580	5.2%	UBS	137,649	6.0%
129,012	5.6%	Westpac Bank Corp	261,879	11.5%
2,321,783	100.0%	Total	2,280,130	100.0%

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18.13 Futures

There were no open future contracts as at 31st March 2015 or 31st March 2016.

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 2016, the average credit quality of the MandG bond mandate was **BBB+** rated (**A-** rated as at 31 March 2015). The portfolio had suffered five defaults since inception, one of which was experienced in the financial year ended 31 March 2015. The average credit rating of the financing fund was **BB+** rated as at 31 March 2016 (**BB+** rated as at 31 March 2015), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2016 had an average credit quality of **AA+** (**A-** rated as at 31 March 2015) and has suffered five defaults since inception, 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** in 2014/15) 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 Essex Pension Board. The Board 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 2016 **£26.311m** (31 March 2015: £13.967m) 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 2016, the total balance held in the Sterling and US dollar AAA money market funds was **£88.424m** with a smaller balance of **£28.268m** held in the custodian current account (31 March 2015: £103.584m and £6.226m respectively). The use of a money market fund provides an underlying

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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 2015			31 March 2016		
Rating	£000		Rating	£000	
		Cash managed externally			
		Cash held on deposit (GLF)			
AAA	53,303	BNP Paribas	AAA	36,360	
AAA	50,281	Northern Trust	AAA	52,064	
		Cash held in Current Account			
AA-	6,226	Northern Trust	AA-	28,268	
	109,810	Total cash managed externally		116,692	
		Cash managed internally			
		Cash held on deposit			
AAA	-	Blackrock	AAA	3,002	
AA-	7,508	HSBC	AA-	7,508	
AAA	2	Standard Life (formerly IGNIS)	AAA	10,004	
AA-	4,000	Svenska Handelsbanken	AA-	5,009	
		Cash held in Current Account			
A	2,457	Lloyds Bank plc	A	788	
	13,967	Total cash managed internally		26,311	
	123,777	Total		143,003	

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

31 March 2015		31 March 2016	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					
103,584	AAA Rated	88,424	80,000	0.0370%	33
6,226	AA Rated	28,268	N/A	0.0320%	9
109,810	Total cash managed externally	116,692			42
Cash managed internally					
Deposit with bank and other financial institutions					
2	AAA Rated	13,006	10,000	0.0370%	5
11,508	AA Rated	12,517	7,500	0.0320%	4
2,457	A Rated	788	5,000	0.0810%	1
13,967	Total cash managed internally	26,311			10
123,777	Total cash	143,003			52

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 fall 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 **22 February 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 2016 had immediate access to its pension fund cash holdings held internally and externally of **£143.003m** (31 March 2015: £123.777m). These monies are primarily invested on an overnight basis on the money market.

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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 2016 Northern Trust had **\$6.20 trillion** of assets under custody (31 March 2015: \$6.09 trillion) and had a credit rating of **AA-** (31 March 2015: 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 2009. 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:

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