Essex Pension Fund Strategy Board

14:00	Wednesday, 16 December 2015	Committee Room 2, County Hall, Chelmsford, Essex

Quorum: 4

Membership	**Representing**
Councillor R Bass	Essex County Council (Chairman)
Councillor S Barker	Essex County Council
Councillor S Canning	Essex County Council
Councillor K Clempner	Essex County Council
Councillor N Hume	Essex County Council
Councillor N Le Gresley	Essex County Council
Councillor J Whitehouse	Essex County Council
Councillor C Riley	Castle Point Borough Council
Councillor R Woodley	Southend-on-Sea Borough Council
Vacancy	Scheme Members
Ms J Moore	Smaller Employing Bodies

For information about the meeting please ask for:
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Telephone: 03330 134575
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Essex County Council

Essex County Council and Committees Information

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Part 1

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

10	**Communications Policy** To consider a report from the Director for Essex Pension Fund and Head of Essex Pension Fund	**171 - 182**
11	**Annual Report & Accounts 2014/15** To note the publication in November of the Annual Report. This can be found on the web site (select "About us" then "forms & publications"). The web link is: http://www.essexpensionfund.co.uk/themes/essex/scheme%20documents/Essex%20Pension%20Fund%20Report%20and%20Accounts%202014-15.pdf	
12	**Date of Next Meeting** To note that the next meeting will be held at 2.00pm on Wednesday 9 March 2016 in Committee Room 2	
13	**Proposed dates for 2016/17** To propose the following meeting dates for the municipal year 2016/17: 2.00pm Wednesday 13 July 2016 2.00pm Wednesday 14 September 2016 2.00pm Wednesday 14 December 2016 2.00pm Wednesday 8 March 2017	
14	**Urgent Business** To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.	

Exempt Items

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

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

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

15 **Urgent Exempt Business**

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

Minutes of a meeting of the Essex Pension Strategy Board held at 2.00 pm at County Hall, Chelmsford on 16 September 2015

Present:

Member
Essex County Council
Cllr R Bass (Chairman)
Cllr S Barker
Cllr K Clempner
Cllr N Hume
Cllr N LeGresley

District/Borough Councils in Essex
Cllr C Riley

Unitary Councils

Scheme Members
K Blackburn

Smaller Employing Bodies
J Moore

Also in attendance were Cllr B Johnson, J Durrant, K Flowers, P Hewitt, J Hunt, and M Paget (Members of the Essex Pension Advisory Board)

The following officers and advisers were also present in support:

Jody Evans	Head of Essex Pension Fund
Kevin McDonald	Director for Essex Pension Fund
Barry Mack	Independent Governance and Administration Adviser (IGAA) (Hymans Robertson LLP)
Matt Mott	Communications Manager
Graeme Muir	Barnett Waddingham
Ian Myers	Secretary to the Board
Samantha Andrews	Investment Manager

1. Apologies for Absence

Apologies for absence were received from Councillor Stephen Canning, Councillor Jon Whitehouse and Councillor Ron Woodley. Councillors Spence and Mackrory also sent their apologies.

2. Declarations of Interest

The Chairman requested Members declare any interests as appropriate.
Cllr Colin Riley declared he was in receipt of an Essex pension.

3. Minutes

Resolved:

That the minutes of the Essex Pension Fund Board held on 8 July 2015 be approved as a correct record and signed by the Chairman.

4. Membership of the Pension Advisory Board

Members received report EPB/17/15 from the Director for Essex Pension Fund and also welcomed Members of the Essex Pension Advisory Board to the meeting.

Resolved:

That the report be noted.

5. LGPS Benefit Structure

Members received a presentation from Matt Mott, Communications Manager, on the LGPS 2014 scheme overview on CARE (Career Average Revalued Earnings).

Members noted the arrangements relating to:

- Pensionable pay and contributions
- Additional Pension Contributions (APC)
- Additional Voluntary Contributions (AVC)
- Automatic aggregation and Link to public service schemes
- Transfers in and aggregation
- Vesting
- Ancillary benefits
- Flexible retirement
- Employer responsibilities

Members noted that future training sessions would focus on the Final Salary Scheme and Protections.

The Chairman thanked the officer for his contribution and informative training session.

6. Interim Review: 31 March 2015

Members received a joint report EPB/18/15 from the Fund Actuary and the Director for Essex Pension Fund which presented an update on the interim review and assessment undertaken as at 31 March 2015 which also provided an update on the funding position.

Members discussed a number of key issues and considered the impact on the funding strategy.

The report concluded:

- This was another good intervaluation year
- The Funding level had risen to 87% at 31 March 2015

- No change in the fund strategy is required at this time.

Members were informed the next valuation will take place 31 March 2016.

Resolved:

That the report be noted.

7. LGPS Reform

Members received report EPB/19/15 from the Director for Essex Pension Fund which provided an update on developments regarding potential structural reforms of the Local Government Pension Scheme as a result of the Budget 2015 announcement and gave an update on work currently being undertaken by the national Shadow Scheme Advisory Board (SSAB)

Members were appraised of the latest developments and timeline noting in particular that the Government consultation is likely to be issued in November 2015 with the common criteria expected to be:

- Scale
- Cost
- Governance

Members also noted the SSAB has commissioned KPMG to report on potential options on the degree of separation between the Scheme manager function and the host authority. The options being:

- A stronger role for the Section 151 Officer
- A joint committee of two or more administering authorities
- LGPS complete separation of the pension fund from the host authority.

Resolved:

That the report be noted.

8. HM Treasury consultation on Exit Payment Cap

Members received report EPB/20/15 from the Director for Essex Pension Fund which shared the Fund’s response to the consultation issued by HM Treasury over the summer period on a proposed exit payment cap.

Resolved:

That the report be noted.

9. Update on Pension Fund Activity

A(i) 2015/16 Business Plan
A(ii) Three Year Business Plan
B Risk Management
C Scorecard (measurement against objectives)

The Board considered a joint report EPB/21/15 by the Director for Essex Pension Fund and Head of Essex Pension Fund, which provided an update on the 2015/16 Business Plan, three year Business Plan, Risk Management and Scorecard. Members were appraised of the objectives, the risks and progress made against the objectives, noting in particular any areas of concern.

Cllr Barker thanked the Officers on behalf of the Board for their hard work on achieving the dispatch of 93% of Annual Benefit Statements by the deadline of 31 August 2015.

Resolved:

That the report be noted.

10. Investment Steering Committee (ISC) Quarterly Report

Members received report EPB/22/15 from the Director for Essex Pension Fund on ISC activity since the last Board meeting.

Resolved:

That the report be noted.

11. Knowledge and Skills Training Strategy

Members received report EPB/23/15 from the Independent Governance and Administration Adviser which proposed an updated training strategy for members of the Investment Steering Committee (ISC), Pension Strategy Board (PSB) and the Pension Advisory Board (PAB) giving them the knowledge and skills required for compliance with the CIPFA Knowledge and Skills Framework.

It was proposed to re-set credits to zero with effect from 1 April 2015 with a target of 21 credits over a rolling two year period.

The Chairman considered the recommendations to be reasonable and balanced.

Resolved:

That the report be noted and the training strategy be passed to the PAB for their consideration.

12. Essex Pension Fund 2014/15 Accounts

Members received report EPB/24/15 by the Executive Director for Corporate and Customer Services. Members were informed there were no key changes to report.

Resolved:

That the report be noted.

13. External Auditors Report

Members received report EPB/25/15 by EY, External Auditors of the Essex Pension Fund.

Resolved:

That the report be noted.

14. Date of Next Meeting

Members unanimously agreed to the Chairman's request that the next Board meeting be held at 2.00pm on Wednesday 16 December 2015 in Committee Room 2

15. Urgent Business

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

Chairman

AGENDA ITEM 5

Essex Pension Fund Strategy Board	PSB/26/15
date: 16 December 2015	

LGPS Reform

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

1. Purpose of the Report

1.1 To update the PSB on developments regarding potential structural reforms of the Local Government Pension Scheme as a result of the July 2015 Budget announcement.

1.2 To update the PSB on the publication, on the day of the November 2015 Autumn Statement of:

- criteria for LGPS investment reform (annex A);
- a consultation on revised LGPS Investment Regulations (annex B) and
- Government's response to the May 2014 consultation on *"Opportunities for collaboration, cost saving and efficiencies"* (web-link provided in para 12.3)

2. Recommendations

2.1 That the report be noted.

List of Annexes to this report:
Annex A – DCLG: LGPS investment reform criteria & guidance
Annex B – DCLG consultation: replacing LGPS investment Regulations
Annex C – LGA: pooling briefing note
Annex D – JWG/Project Pool: November 2015 progress update
Annex E – Access Group: Statement

3. Structural Reform

3.1 At its meeting on 18 September 2013, the Essex Pension Board (Board) agreed the basis of its response to the *call for evidence* on the future structure of the LGPS issued jointly by the Local Government Association (LGA) and the Department for Communities & Local Government (DCLG).

3.2 Following receipt of responses to the call for evidence, DCLG commissioned analysis of structural reform options to be led by Hymans Robertson. These options covered:

- merging funds; and
- the use of Collective Investments Vehicles (CIVs).

3.3 On 1 May 2014, DCLG published the consultation document *"Opportunities for collaboration, cost saving and efficiencies"* along with the analysis undertaken by Hymans Robertson.

3.4 The consultation's emphasis centred on the use of CIVs and passive management, at the time removing the option of fund mergers.

3.5 At its meeting on 9 July 2014 the Board agreed its response to the consultation.

4. Budget 2015

4.1 The Chancellor on the 8 July 2015 announced in his budget statement the following:

2.19 Local Government Pension Scheme pooled investments – The *government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.*

5. Developments between the July Budget and the November Autumn Statement

5.1 During August, the Local Government Association arranged a roundtable event and, in conjunction with the Shadow Scheme Advisory Board a seminar to explore this issue. Officials from DCLG were in attendance at both events and the Fund was represented.

5.2 On 16 October 2015 Cllr Bass attended a briefing held by the Local Government Association (LGA) for the Chairmen of LGPS Pension Committees. Annex C is the briefing note produced by the LGA after that event.

5.3 At the meeting of the PSB on 16 September, it was reported that Fund officers were participating in a collaborative Joint Working Group (JWG also known as "*project pool*") with officers of other LGPS Funds aiming to produce a joint draft response to Government for s101 Cttee Members to consider early in 2016. As reported to the ISC on 25 November, work on this project is ongoing and the JWG's November update is attached at Annex D.

5.4 Fund officers also continue in dialogue with their counterparts elsewhere in the LGPS. Officers from a group of Funds, including a number from the eastern region, have met on two occasions September & November. This is now referred to as the *"Access"* group. The Access group's statement after the November meeting is shown at annex E.

6. Government publications released with November 2015 Autumn Statement

6.1 On the 25 November 2015, released with Autumn Statement documents were:

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

6.2 Annexes A and B are each 25 pages. The response to the May 2014 consultation is 35 pages and a web link to its location is provided in para 12.3.

6.3 The criteria are:
- asset pools that achieve the benefits of **scale**
- strong **governance** & decision making
- reduced **costs** and excellent value for money
- improved capacity to invest in **infrastructure**

6.4 Funds are required to respond in two stages. By ***19 February 2016*** submissions should include a commitment to pooling and a description of progress towards formalising their arrangements with other Funds. At this first stage both individual or joint submissions can be made.
(NB: preliminary discussions have been held with DCLG which indicate it would acceptable for the Fund to submit its initial response after the 22nd February 2016, the date of the next scheduled ISC.)

6.5 Refined and completed submissions are required by ***15 July 2016***. At this second stage the Government anticipates:

- for each pool, a joint proposal from participating Funds setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each Fund, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

6.6 Also published was the consultation on revised investment regulations (annex B). In a move that has been anticipated for some years, these replace the existing investment limits and with a "prudential code" approach. Each Fund will be required to produce an Investment Strategy Statement by 1 October 2016. The areas to be addressed by the ISS will include the Fund's assessment of suitable investments, its approach to risk and, in light of the current developments, its approach to pooling.

6.7 In addition, the revised Regulations require Funds to make changes to their investment strategy should the Secretary of State consider it appropriate. This element of the Regulations is the "backstop legislation" to which the Chancellor made reference in the July 2015 budget (see para 4.1). The deadline for responses is 19 February 2016.

7. Next steps

7.1 A timeline of the build up to the initial submission is set out below:

Date	Event	Comment
15 Dec	Officer & Adviser meeting	
16 Dec	PSB	
Early/Mid Jan	Release of project POOL report	Circulated to Members of ISC & PSB. Copied to Members of PAB.
15 Jan	PAB (Local Pension Board)	Scheduled meeting Update on process (for info)
Mid/late Jan	POOL event for Chairmen & Fund officers	Cllr Bass to attend with Director
Late Jan TBC	Officer & Adviser meeting	
Late Jan	Circulate outline paper ahead of ISC	Invite comment & feedback
Early Feb	Officer / Advisers finalise papers	
13 Feb	Fund officers dispatch ISC agenda	
19 Feb	CLG deadline	CLG “comfortable” with a response early the following week.
22 Feb	ISC	Initial submission agreed
23 Feb	Initial submission dispatched.	

8. Link to Essex Pension Fund Objectives

8.1 Investments:
- to maximise the returns from investments within reasonable risk parameters.
- to ensure the Fund is properly managed.

9. Risk Implications

9.1 The risks associated with the Fund's investment strategy are published in the Statement of Investment Principles, a web link to which is set out below.
http://www.essexpensionfund.co.uk/themes/essex/scheme%20documents/Statement%20of%20Investment%20Principles%20March%202015.pdf

9.2 Officers and advisers are considering the risk implications of pooling, and this will feature in future ISC reports.

10. Communication Implications

10.1 A submission to Government is required in February 2016 and July 2016.

11. Finance and Resources Implications

11.1 In addition to the work undertaken by Officers, the Fund is due to make a contribution of £10,000 to the costs of the JWG initiative (project POOL).

11.2 Future costs will be incurred in the establishment of pools.

12. Background papers

12.1 DCLG consultation "Opportunities for collaboration, cost saving and efficiencies" – May 2014

12.2 Fund response agreed 9 July 2014

12.3 Government response to May 2014 consultation
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479721/Government_response_-_consultation.pdf

12.4 PricewaterhouseCoopers report on establishing Collective Investment Vehicles
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479482/PwC_Project_Metro_Report.pdf

Department for
Communities and
Local Government

Local Government Pension Scheme: Investment Reform Criteria and Guidance

November 2015
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

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Ministerial Foreword

At the summer Budget 2015, the Chancellor announced our intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance.

We have been clear for some time that the existing arrangements for investment by the Local Government Pension Scheme are in need of reform, and the announcement made plain our expectation that authorities would be ambitious when developing their proposals. The publication of these criteria and their supporting guidance marks a significant milestone on the road to reform, placing authorities in a strong position to take the initiative and drive efficiencies in the Scheme, and ultimately deliver savings for local taxpayers.

The Scheme is currently organised through 89 separate local government administering authorities and a closed Environment Agency scheme, which each manage and invest their assets largely independently. Recognising the potential for greater efficiency in this system, the coalition government first began to consider the opportunity for collaboration in 2013 with a call for evidence. Since then, we have been exploring the opportunities to improve; gathering evidence, testing proposals, and listening to the views of administering authorities and the fund management industry.

The Chancellor's announcement draws on this earlier work and in particular the consultation, *Opportunities for collaboration, cost savings and efficiencies,* published in May 2014 by the coalition government. More than 200 consultation responses and papers were received and analysed, leading to the development of a framework for reform that has administering authorities at its centre. The criteria published today make clear the Government's expectation for ambitious proposals for pooling, and invite authorities to lead the design and implementation of their own pools. The criteria have been shaped and informed by earlier consultations, as well as several conversations with administering authorities and the fund management industry which took place over the summer.

Working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes. The creation of up to six British Wealth Funds, each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth. I know that many authorities have already started to consider who they will work with and how best to achieve the benefits of scale. These early discussions place those authorities on a strong footing to deliver against our criteria, and I look forward to seeing their proposals develop over the coming months.

Marcus Jones

Criteria

1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

1.2 The following criteria set out how administering authorities can deliver against the Government's expectations of pooling assets.

1.3 It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, they should have regard to each of the four criteria, which are designed to be read in conjunction with the supporting guidance that follows. Their submissions should describe:

A. Asset pool(s) that achieve the benefits of scale: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. **Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

As part of their proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.

- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity to invest in infrastructure: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Addressing the criteria

Requirements and Timetable

2.1 Authorities are asked to submit their initial proposals to the Government to LGPSReform@communities.gsi.gov.uk by 19 February 2016. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

2.2 Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

Assessing the proposals against criteria

2.3 The Government will continue to engage with authorities as they develop their proposals for pooling assets over the coming months. The initial submissions will be evaluated against the criteria, with feedback provided to highlight areas that may fall outside of the criteria, or where additional evidence may be required.

2.4 Once submitted, the Government will assess the final proposals against the criteria. A brief report will be provided in response, setting out the extent to which the criteria have been met and highlighting any aspects of the guidance that the Government believes have not been adequately addressed. In the first instance, the Government will work with authorities who do not develop sufficiently ambitious proposals to help them deliver a more cost effective approach to investment that draws on the benefits of scale. Where this is not possible, the Government will consider how else it can drive value for money for taxpayers, including through the use of the "backstop" legislation, should this be in place following the outcome of the consultation described below.

Transitional arrangements

2.5 Plans should be made to transfer assets to the pools as soon as practicable. Analysis commissioned by the Government from PricewaterhouseCoopers (PwC) indicates that, even those pooling mechanisms requiring supporting infrastructure, such as collective investment vehicles, could be established within 18 months. It is expected that liquid assets are transferred into the pools over a relatively short timeframe, beginning from April 2018. It is recognised that illiquid assets are likely to transition over a longer period of time. For the avoidance of doubt, investments with high penalty costs for early exit should not be wound up early on account of the pooling arrangements, but should be transferred across as soon as practicable, taking into account value for money considerations. Any assets that are held outside of the pool should be kept under review to ensure that arrangement continues to provide value for money.

2.6 While authorities will need to be mindful of their developing pooled approach, they should continue to manage both their investment strategies and manager appointments as they do now until the new arrangements are in place. In keeping with the investment regulations, they are still responsible for keeping both under regular review.

Support to develop proposals

2.7 To help authorities develop proposals quickly and efficiently, the Government has made available PwC's detailed technical analysis of the different collective investment vehicles and their tax arrangements at: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance. This paper is provided for information only. It does not represent the view of Government, and authorities should seek professional advice as needed when developing their proposals. Authorities are also strongly encouraged to learn from those who have already begun to develop collective investment vehicles, such as the London Boroughs or Lancashire and the London Pension Fund Authority.

Legislative context

2.8 At the July Budget 2015, the Chancellor also announced the Government's intention to consult on "backstop" legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others. That consultation has now been published and is available on the Government's website at: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme.

2.9 The consultation proposes to introduce a power for the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to guidance published by the Secretary of State. The intervention should be proportionate and subject to both consultation and review.

2.10 The draft regulations include a provision for the Secretary of State to issue guidance. Subject to the outcome of the consultation, authorities would then need to have regard to that guidance when producing their investment strategy. The Government proposes to issue this document as Secretary of State's guidance if the draft regulations come into effect. The guidance will be kept under review and may be updated, for example if the proposals for pooling that come forward are not sufficiently ambitious.

2.11 The consultation also proposes to replace and update the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to make significant investment through pooled vehicles possible.

Supporting guidance

3.1 This guidance is to assist authorities in the design of ambitious proposals for pooling investments and to provide ongoing support as they seek to ensure value for money in the long term. It will be kept under review to ensure that it continues to represent best practice.

A. Asset pool(s) that achieve the benefits of scale

Headline criterion: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.

3.2 The consultation, *Opportunities for collaboration, cost savings and efficiencies*, set out strong evidence that demonstrated how using collective investment vehicles and pooling investments can deliver substantial savings for the Local Government Pension Scheme without affecting investment performance. Additional advantages to pooling, which should further reduce costs and improve decision making in the long term, include:

- Increasing the range of asset classes to be invested in directly,
- Strengthening the governance arrangements and in-house expertise available to authorities,
- Improving transparency and long-term stewardship, and
- Facilitating better dissemination of best practice and performance data between authorities.

The case for collective investment

3.3 Published in May 2014, the analysis in the Hymans Robertson report evidenced that using collective investment vehicles could deliver savings. In the case of illiquid assets alone, they found that £240m a year could be saved if investments were channelled through a Scheme wide collective investment vehicle rather than the existing "fund of funds" approach.[1]

3.4 A review of the academic analysis available also supports the case for larger investment pools. For example, Dyck and Pomorski's paper, *Is Bigger Better? Size and performance in pension fund management*, established that larger pension funds were able to operate at lower cost than their smaller counterparts, through a combination of

[1] Hymans Robertson report: *Local Government Pension Scheme structure analysis,* p.3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

improved negotiating power, greater use of in-house management, and more cost effective access to alternative assets like infrastructure.[2]

A third to a half of the benefits of size come through cost savings realized by larger plans, primarily via internal management. Up to two thirds of the economies come from substantial gains in both gross and net returns on alternatives.

3.5 A number of respondents to the May 2014 consultation also set out the case for larger funds being able to access lower cost investments. London Councils, for example, estimated that savings of £120m a year could be delivered if £24bn was invested through the London collective investment vehicle (CIV), as a result of reduced investment management fees, improved performance, and enhanced efficiency.

3.6 Formal mechanisms of pooling, such as collective investment vehicles, offer additional benefits to alternative arrangements such as procurement frameworks. For example, Hymans Robertson explained that larger asset pools would increase the opportunities for buy and sell transactions to be carried out within the Scheme, reducing the need to go to the market and so minimising transaction costs. Their analysis found that this could reduce transaction costs, which erode the value of assets invested, by £190m a year.[3]

3.7 Pooling investments will also create an opportunity to improve transparency and information sharing amongst authorities. By having a single entity responsible for negotiating with fund managers and reporting performance, authorities can see what they are paying and generating in returns and how it compares with other authorities. Similarly, Lancashire County Pension Fund and the London Pension Fund Authority, who are developing a pool for assets and liabilities, anticipate economies of scale driving improved performance. They have recently estimated that by pooling they can achieve enhanced investment outcomes of £20-£30m a year from their current levels.[4]

Achieving appropriate scale

3.8 The Government expects all administering authorities to pool their investments to achieve economies of scale and the wider benefits of sharing best practice.

3.9 A move to larger asset pools would also be in keeping with international experience. For example, in Ontario, smaller public sector pension funds are being required to come together to form pools of around $50bn Canadian (approximately £30bn at the time the proposal was made). Similarly, Australian pension funds have been consolidating in recent years, where a formal review in 2010 recommended that each MySuper pension fund be required to consider annually whether they have sufficient scale and membership to continue as a separate pension fund.[5]

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[2] Dyck and Pomorski, *Is bigger better? Size and Performance in Pension Plan Management*, pp.14-15
[3] Hymans Robertson report, pp.14-15
[4] Sir Merrick Cockell, writing in the *Pensions Expert* on 30 September 2015
[5] Government Response to the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, Recommendation 1.6,

3.10 The May 2014 consultation sought views on the number of collective investment vehicles to be established. Respondents stressed the importance of balancing the need for scale with local input and practical governance arrangements. It was also argued that while larger asset pools would deliver greater savings, the potential difficulties of successfully investing large volumes of assets in a single asset class, particularly active strategies for listed assets, should also be taken into account. However, while individual managers may restrict the value of assets they are prepared to accept or are able to invest, the selection of a few managers for each asset class would help to mitigate this risk.

3.11 Having reflected on the views expressed in response to the consultation and the experience of pension funds internationally, the Government believes that in almost all cases, fewer, larger assets pools will create the conditions for lower costs and reduce the likelihood of activity being duplicated across the Scheme, for example by minimising pooled vehicle set-up and running costs. It therefore expects authorities to collaborate and invest through no more than six large asset pools, each with at least £25bn of Local Government Pension Scheme assets under management once fully operational.

3.12 However, the Government recognises that there may be a limited number of bespoke circumstances where an alternative arrangement may be more appropriate for a particular asset class or specific investment. As set out below, this may include pooling to invest in illiquid assets like infrastructure, direct holdings in property and locally targeted investments.

Investment in infrastructure and other illiquid or alternative assets

3.13 The Hymans Robertson report highlighted illiquid or alternative assets as an area for significant savings for the Scheme. They found that in 2012-2013, illiquid asset classes like private equity, hedge funds and infrastructure represented just 10% of investments made, but 40% of investment fees. They also demonstrated that changing the way these investments are made, moving away from "fund of funds" to a collective investment vehicle, could save £240m a year.[6]

3.14 The Government expects the pooling of assets to remove some of the obstacles to investing in these asset classes in a cost effective way. A separate criterion has been included on infrastructure, although similar benefits exist for other alternative or illiquid assets, such as private equity, venture capital, debt funds and new forms of alternative business finance. In light of this, authorities should consider how best to access these asset classes in a more cost-effective way. Regionally based pools, such as the London boroughs' collective investment vehicle, would allow authorities to make best use of existing relationships, while a single national pool for infrastructure or illiquid assets would deliver even greater scale and opportunity for efficiency.

3.15 A considerable shift in asset allocation would be needed to develop a pool of £25bn for investment in infrastructure and other illiquid or alternative assets, such as private equity or venture capital. The Government recognises that such a significant movement in

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http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government_response/recommendation_response_chapter_1.htm

[6] Hymans Robertson report, p.24

asset allocation is unlikely in the near term. As such, should authorities elect to develop a single asset pool for illiquid investments or infrastructure, the Government recognises that a value of assets under management less than £25bn might be appropriate.

Investments outside of the pools

3.16 The Government's presumption is that all investments should be made through the pool, but we recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or products tailored to specific liabilities. Authorities may therefore wish to explore whether to retain a small proportion of their existing investments outside of the pool, where this can demonstrate clear value for money. Any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale.

Property

3.17 As of the 31 March 2014, authorities reported that they were investing around 2.5% of their assets in directly held property, with a further 4.1% invested through property investment vehicles.[7] However, the amount invested varies considerably between authorities, with some targeting investment of around 10% of their assets in direct holdings, for example.

3.18 A number of consultation responses stressed the importance of retaining direct ownership of property outside of any pooled arrangement, a view echoed in our discussions with interested parties over the summer. Directly held property is used by some authorities to match a particular part of an authority's liabilities, or to generate regular income. If these assets were then pooled, while the authority would receive the benefits of the pooled properties, there is a risk that this would not match the liability or cash-flow requirements that had underpinned the decision to invest in a particular property.

3.19 In light of the arguments brought forward by authorities and the fund management industry, the Government is prepared to accept that some existing property assets might be more effectively managed directly and not through a pool at present. However, pools should be used if new allocations are made to property, taking advantage of the opportunity to share the costs associated with the identification and management of suitable investments.

3.20 Where authorities invest more than the reported Scheme average of 2.5% in property directly, they should make this clear in their pooling submission.

Addressing the criterion

3.21 When developing their proposals for pooling, authorities should set out:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

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[7] Scheme Advisory Board, Annual Report http://www.lgpsboard.org/index.php/investment-performance-2014

- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making

Headline criterion: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability.

3.22 A number of consultation responses stressed the importance of establishing strong governance arrangements for pools. Securing the right balance between local input and timely, effective decision making was viewed as essential, but also a significant challenge. The management and governance arrangements of each pool will inevitably be defined by the needs of those participating. However, there are some underlying principles that the Government believes should be incorporated.

Maintaining democratic accountability

3.23 The May 2014 consultation was underpinned by the principle that asset allocation should remain with the administering authorities. Consultation respondents were strongly in favour of retaining local asset allocation, noting that each fund has a unique set of participating employers, liabilities, membership and cash-flow profiles, which need to be addressed by an investment strategy tailored to those particular circumstances.

3.24 Respondents also highlighted the transparency and accountability benefits offered by local asset allocation. If councillors are responsible for setting the investment strategy, then local taxpayers, who in part fund the Scheme through employer contributions, have an opportunity to hold their decisions directly to account through local elections. As one consultation response explained:

> The accountability of Members of the employing authorities playing a part in deciding locally how the assets of the Pension Fund are allocated is important. Employer contributions are paid, in the main, by local council tax payers who in turn vote for their local councillors. Those councillors should have the autonomy to make decisions relating to the investment strategy of that Pension Fund.

3.25 The Government agrees that this democratic link is important to the effective running of the Scheme and should not be wholly removed by the pooling of investments. As set out below, determining the investment strategy and setting the strategic asset allocation should remain with individual authorities. When developing a pool, authorities should ensure that there remains a clear link through the governance structure adopted, between the pool and the pensions committee. For example, this might take the form of a shareholding in the pool for the authority, which is exercised by a member of the pension committee.

Strategic asset allocation

3.26 Establishing the right investment strategy and strategic asset allocation is crucial to optimising performance. It is increasingly accepted that strategic asset allocation is one of the main drivers of investment returns, having far greater an impact than implementation decisions such as manager selection.

3.27 The majority of respondents to the May 2014 consultation supported local asset allocation, but discussions with interested parties over the summer have highlighted a lack of consensus as to what constitutes strategic asset allocation. Definitions have ranged from selecting high level asset classes such as the proportions in bonds, equities and property; to developing a detailed strategy setting out the extent and types of investments in each of the different equity or bond markets.

3.28 Informed by these discussions with fund managers and administering authorities, the Government believes that pension committees should continue to set the balance between investment in bonds and equities, recognising their authority's specific liability and cash-flow forecasts. Beyond this, it will be for each pool to determine which aspects of asset allocation are undertaken by the pool and which by the administering authority, having considered how best to structure decision making in order to deliver value for money. Authorities will need to consider the additional benefits of centralising decision making to better exploit synergies with other participating authorities' allocations and further drive economies of scale. When setting out their asset allocation authorities should be as transparent as possible, for example making clear the underlying asset class sought when using pooled funds.

Effective and timely decision making

3.29 Authorities should draw a distinction between locally setting the strategic asset allocation and centrally determining how that strategy is implemented. The Government expects that implementation of the investment strategy will be delegated to officers or the pool, in order to make the most of the benefits of scale and react efficiently to changing market conditions. As one consultation response suggested:

> We believe that high-level decisions about Fund objectives, strategy and allocation are best made by individual Funds considering their better knowledge of their liabilities, risk and return objectives and cash flow requirements. More detailed asset allocation decisions should however be centralised to achieve better economies of scale, and to allow more specialist management.

3.30 Authorities will need to revisit and review their decision-making processes as part of their move towards pools. For example, in order to maximise savings, manager selection will need to be undertaken at the pool level. Centralising manager selection would allow the pool to rationalise the number of managers used for a particular asset class. The resulting larger mandates should then allow the pool to negotiate lower investment fees. This approach would also give local councillors more time to dedicate to the fundamental issue of setting the overarching strategy.

3.31 A number of authorities have already delegated hiring and dismissing mangers to a sub-committee comprised predominantly of officers. This has allowed these authorities to react more quickly to changes in the market, taking advantage of opportunities as they arise. Similarly, delegating implementation decisions to the pool will allow the participating authorities to benefit not only from more streamlined decision making, but also from effecting those decisions at scale.

3.32 The creation of pools will necessarily lead to a review of decision making within each authority. The Government expects to see greater consolidation where possible. However, as a minimum, we would expect to see the selection of external fund managers and the implementation of the investment strategy to be carried out at the pooled level.

Responsible investment and effective stewardship

3.33 In June 2011, the Government invited Professor John Kay to conduct a review into UK equity markets and long-term decision making. The Kay Review considered how well equity markets were achieving their core purposes: to enhance the performance of UK companies and to enable savers to benefit from the activity of these businesses through returns to direct and indirect ownership of shares in UK companies. The review identified that short-termism is a problem in UK equity markets.[8]

3.34 Professor Kay recommended that Company directors, asset managers and asset holders adopt measures to promote both stewardship and long-term decision making. In particular, he stressed that 'asset managers can contribute more to the performance of British business (and in consequence to overall returns to their savers) through greater involvement with the companies in which they invest.'[9] He concludes that adopting such responsible investment practices will prove beneficial for investors and markets alike.

3.35 In practice, responsible investment could involve making investment decisions based on the long term, as well as playing an active role in corporate governance by exercising shareholder voting rights. Administering authorities will want to consider the findings of the Kay Review when developing their proposals, including what governance procedures and mechanisms would be needed to facilitate long term responsible investing and stewardship through a pool. The UK Stewardship Code, published by the Financial Reporting Council, also provides authorities with guidance on good practice in terms of monitoring, and engaging with, the companies in which they invest.

Enacting an environmental, social and corporate governance policy

3.36 The investment regulations currently require authorities to set out within the statement of investment principles the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. The draft regulations published alongside this document do not propose to amend this principle.

3.37 These policies should be developed in the context of the liability profile of the Scheme, and should enhance the authority's ability to manage down any funding deficit and ensure that pensions can be paid when due. Indeed, environmental, social and

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[8] *The Kay Review of UK Equity Markets and Long-Term Decision Making*, pp. 9-10
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf
[9] The Kay Review, p.12

corporate governance policies provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

3.38 As the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, the law generally is clear that schemes should consider any factors financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term, dependent on the time horizon over which their liabilities arise.

3.39 The Law Commission also clarified that, although schemes should make the pursuit of a financial return their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

3.40 The Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy.

3.41 Authorities will need to determine how their individual investment policies will be reflected in the pool. They should also consider how pooling could facilitate implementation of their environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area.

Addressing the criterion

3.42 When developing their proposals for pooling, authorities will need to set out:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any ethical, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board’s key performance indicator assessment.

C. Reduced costs and excellent value for money

Headline criterion: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

3.43 As set out in the July Budget 2015 announcement, the Government wants to see authorities bring forward proposals to reform the way their pension scheme investments are made to deliver long-term savings for local taxpayers. Authorities are invited to consider how they might best deliver value for money, minimising fees while maximising overall investment returns.

Scope for savings

3.44 Pooling investments offers an opportunity to share knowledge and reduce external investment management fees, as the fund manager is able to treat the authorities as a single client. There is already a considerable body of evidence in the public domain to support authorities in developing their proposals for investment reform and this continues to grow with new initiatives emerging from local authorities:

- **Passive management:** Hymans Robertson showed that annual fee savings of £230m could be found by moving from active to passive management of listed assets like bonds and equities, without affecting the Scheme's overall return.[10]
- Their analysis suggested that since passive management typically results in fewer shares being traded, turnover costs, which are a drag on the performance achieved through active management, might be reduced by £190m a year.[11]
- **Collective investment:** Hymans Robertson also demonstrated that £240m a year could be saved by using a collective investment vehicle instead of "fund of funds" for illiquid assets like infrastructure, hedge funds and private equity.[12]
- Similarly, the London Pension Fund Authority has estimated that they have reduced their external manager fees by 75% by bringing equity investments in-house, and hope to expand this considerably as part of their collective investment vehicle with Lancashire County Pension Fund.[13]

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[10] Hymans Robertson report, p. 12
[11] Hymans Robertson report, pp. 14-15
[12] Hymans Robertson report, p. 3
[13] Chris Rule, LPFA Chief Investment Officer, reported in *Pension Expert* on 1 October 2015

- **Sharing services and procurement costs:** The National Procurement Framework has also helped authorities to address some of the other costs associated with investment, such as legal and custodian fees, reporting measurable savings of £16m so far.[14]

3.45 As Hymans Robertson's analysis shows, just tackling the use of "fund of funds" for illiquid assets like infrastructure could save around £240m a year, with clear opportunities to go further. It is in this context that the Government is encouraging authorities to bring forward their proposals for collaboration and cost savings. Although a particular savings target has not been set, the Government does expect authorities to be ambitious in their pursuit of economies of scale and value for money.

In-house management

3.46 Some authorities manage all or the majority of their assets internally and so can already show very low management costs. In these cases, a move to a collective investment vehicle with external fund managers is unlikely to deliver cost savings from investment fees alone. However, there are wider benefits of collaboration which authorities with in-house teams should consider when developing their proposals for pooling. A pool of internally managed assets could lead to further reductions in costs, for example by sharing staff, research and due diligence checks; it may improve access to staff with stronger expertise in particular asset classes; and could introduce greater resilience in staff recruitment, retention and succession planning. Alternatively, newly created pools might wish to work with existing in-house teams to build up expertise and take advantage of their lower running costs.

Active and passive management

3.47 The May 2014 consultation considered the use of active and passive management by the Local Government Pension Scheme. Active management attempts to select fund managers who actively choose a portfolio of assets in order to deliver a return against a specific investment target. In practice, this is often used to try and outperform a benchmark, for that class of assets over a specific period. In contrast, passive management tracks a market and aims to deliver a return in line with that market.

3.48 The consultation demonstrated that when considered in aggregate, the Scheme had been achieving a market return over the last ten years in each of the main equity markets. This suggested that collectively the Scheme could have delivered savings by using less costly passive management for listed assets like bonds and equities, without affecting overall performance. While the majority of consultation responses agreed that there was a role for passive management in a balanced portfolio, most also argued that authorities should retain the use of active management where they felt it would deliver higher net returns.

3.49 In response to that consultation, the Government has now invited authorities to bring forward proposals for pooling investments to deliver economies of scale. The extent to which passive management is used will remain a decision for each authority or pool,

[14] National LGPS Frameworks website, http://www.nationallgpsframeworks.org/national-lgps-frameworks-win-lgc-investment-award

based on their investment strategy, ongoing performance and ability to negotiate lower fees with fund managers. However, in light of the evidence set out in the Hymans Robertson report and the May 2014 consultation, authorities are encouraged to keep their balance of active and passive management under review to ensure they are delivering value for money. For example, should their net returns compare poorly against the index in a particular asset class over the longer term, authorities should consider whether they are still securing value for money for taxpayers and Scheme members.

3.50 When determining how to measure performance, authorities are encouraged to consider setting targets for active managers that are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

Improving the transparency of costs

3.51 In addition to the fees paid to asset managers, there are considerable hidden costs of investment that are difficult to identify and so often go unreported by investors. In the case of the Local Government Pension Scheme, Hymans Robertson showed that investment costs in 2012-13 were at least £790m a year, in contrast to the £409m reported by the authorities.[15] Even the £790m understated the total investment costs as it excluded performance fees on alternative assets such as private equity and hedge funds (it included performance fees on traditional assets) and turnover costs (investment performance figures include the impact of turnover costs).

3.52 To really drive savings within the Scheme, it is essential that these hidden costs are better understood and reported as transparently as possible. Although many of these costs are not paid out in cash, they do erode the value of the assets available for investment and so should also be scrutinised and the opportunities for savings explored.

3.53 The Chartered Institute of Public Finance and Accountancy (CIPFA) has already made some changes to their guidance, Accounting for Local Government Pension Scheme management costs 2014, to encourage authorities to explore these costs and report some through a note to the accounts. For example, these include performance fees and management fees on pools deducted at source. Authorities should have regard to this guidance and ensure that they are reporting costs as transparently as possible.

3.54 In addition, the Scheme Advisory Board is commissioning advice to help authorities more accurately assess their transparent and hidden investment costs. Once available, authorities should take full advantage of this analysis when developing their proposals.

Addressing the criterion

3.55 As set out above, there is a clear opportunity for authorities to collaborate to deliver hundreds of millions in savings in the medium term. Although there is no overall savings target for the Scheme, the Government expects authorities to take full advantage of the benefits of pooling to reduce costs while maintaining performance.

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[15] Hymans Robertson report, pp.10-11

3.56 To support the delivery of savings authorities bringing forward proposals are asked to set out their current investment costs in detail, and demonstrate how these will be reduced over time and the savings forecast. Where possible, costs should be reported back to 2012-2013 so that any cost reductions already achieved as a result of procurement frameworks and early fee negotiations are transparently captured.

3.57 Authorities are encouraged to provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity and capability to invest in infrastructure

Headline criterion: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

3.58 Investment in infrastructure is increasingly being seen as a suitable option for pension funds, particularly amongst larger organisations. This may in part be the result of the typically long term nature of these investments, which may offer a useful match to the long term liabilities held by pension funds.

International experience

3.59 Multiple large international pension funds are investing a significant proportion of their assets in infrastructure. A recent OECD report, which analysed a sample of global pension funds as at 2012, showed that some Canadian and Australian funds (with total assets of approximately £35-40bn in 2014 terms) were investing up to 10-15% in this asset class.[16] The report also noted that those funds with the largest infrastructure allocations were investing directly, and that such investment was the result of the build up of sector-specific knowledge, expertise and resources.[17] This experience might be demonstrated through an organisation's ability to manage large projects, as well as the associated risk.

3.60 Figures published by the Scheme Advisory Board for the 2013 Annual Report show that around £550m, or 0.3%, of the Scheme's total assets of £180bn was invested in infrastructure.[18] This falls some way behind other large pension funds that have elected to invest in this area, such as those noted above and the Ontario Teachers Pension Plan which invested 6.1% according to the same 2014 report.

Creating the opportunity

3.61 The Scheme's current structure, where assets are locked into 90 separate funds, reduces scale and makes significant direct infrastructure investment more difficult for administering authorities. As a result, authorities may determine that they are unable to invest in infrastructure, or may invest indirectly, through the "fund of funds" structure. Such arrangements are expensive, as the Hymans Robertson report demonstrated and this paper sets out in paragraph 3.13.

3.62 Developing larger investment pools of at least £25bn will make it easier to develop or acquire improved capacity and capability to invest in infrastructure. In so doing, it should be possible to reduce the costs associated with investment in this area. This is likely to be the case particularly if authorities pool their infrastructure investment nationally, where the

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[16] OECD, *Annual Survey of Large Pension Funds: report on pension funds' long-term investments*, p.32, available at: http://www.oecd.org/daf/fin/private-pensions/LargestPensionFunds2012Survey.pdf
[17] OECD report, p.14
[18] Scheme Advisory Board annual report http://www.lgpsboard.org/index.php/scheme-investments

resultant scale may allow them to buy-in or build-up in-house expertise in relevant areas, such as project and risk management.

3.63 In considering such investment, administering authorities might want to reflect on the wide range of assets that might be explored, such as railway, road or other transport facilities; utilities services like water and gas infrastructure; health, educational, court or prison facilities, and housing supply. Authorities should also examine the benefits of both:

- Greenfield infrastructure – projects involving the construction of brand new infrastructure, such as a new road or motorway junction to unlock a housing development, or the recent investment of £25m by the Greater Manchester Pension Fund to unlock new sites and build 240 houses; and
- Brownfield infrastructure – investing in pre-existing infrastructure projects, such as taking over the running of (or the construction of a new terminal building at) an airport.

3.64 As set out above, investment in infrastructure represents a viable investment for pension funds, offering long term returns to match their liabilities. Authorities will need to make their investments based on an assessment of risk, return and fit with investment strategy. However, the creation of large pools will make greater investment in infrastructure a more realistic prospect, opening up new opportunities to develop or buy-in the capacity and capability required.

3.65 In developing their proposals for pooling, authorities should take the opportunity to review their asset allocation decisions and consider how they can be more ambitious in their infrastructure investment. The Government believes that authorities can play a leading role in UK infrastructure and driving local growth, and encourages authorities to compare themselves against the example set by the leading global pension fund investors in their approach to allocating assets in this area.

Addressing the criterion

3.66 Authorities should identify their current allocation to infrastructure, and consider how the creation of up to six pools might facilitate greater investment in this area. When developing proposals, authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through fund, or “fund of funds”.
- How they might develop or acquire the capability and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or “fund of funds” arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Department for
Communities and
Local Government

Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Consultation

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About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact DCLG Consultation Co-ordinator.

Department for Communities and Local Government

2 Marsham Street

London

SW1P 4DF

or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	This consultation proposes to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 with the draft regulations described in this paper. There are two main areas of reform: 1. A package of reforms that propose to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. 2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.
Scope of this consultation:	Views are sought on: 1. Whether the proposed revisions to the investment regulations will give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk. 2. Whether the proposals to introduce the power of intervention as a safeguard will enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme (the Scheme) and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions Division.
Duration:	25 November 2015 to 19 February 2016
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **19 February 2016**. Electronic responses are preferred. However, you can also write to: LGPS Reform Department for Communities and Local Government 2/SE Quarter, Fry Building 2 Marsham Street London SW1P 4DF
Additional ways to become involved:	If you would like to discuss the proposals, please email LGPSReform@communities.gsi.gov.uk
After the consultation:	All consultation responses will be reviewed and analysed. A Government response will then be published within three months, and subject to the outcome of this consultation, the resulting regulations laid in Parliament.
Compatibility with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	The proposals in this consultation are the culmination of work looking into Local Government Pension Scheme investments that began in early 2013. It has been developed in response to the May 2014 consultation, *Opportunities for collaboration, cost savings and efficiencies,* which considered whether savings might be delivered through collective investment and greater use of passive fund management. A copy of the consultation and the Government's response is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies. The consultation responses called for a voluntary approach to reform, opposing the introduction of a single, national model of pooling. The Government has therefore invited authorities to develop their own proposals for pooling, subject to common criteria and guidance. The criteria for reform have been developed using the consultation responses and following a series of workshops and conversations with authorities and the fund management industry since the July Budget 2015. Some respondents to the May 2014 consultation also suggested that amendments were required to the investment regulations in order to facilitate greater investment in pooled vehicles. In addition, prior to that consultation, authorities and the fund management industry had called for wider reform. A small working group, whose participants are listed in Annex A, was established to look at whether the approach to risk management and diversification in the existing regulations was still appropriate. They recommended moving towards the "prudential person" approach that governs trust based pension schemes. The group also sought clarity as to whether certain types of investment were possible, such as the use of derivatives in risk management. The work of that group has informed the development of this consultation. In relaxing the regulatory framework for scheme investments, it is important to introduce safeguards to ensure that the less prescriptive approach is used appropriately. The July Budget 2015 announcement also indicated that measures should be introduced to ensure that those authorities who do not bring forward ambitious proposals for pooling, in keeping with the criteria, should be required to pool. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

Previous engagement:	The proposed changes in this consultation are the result of a programme of engagement that began in summer 2013: • Round table event, 16 May 2013. Representatives of administering authorities, employers, trade unions, the actuarial profession and academia discussed the potential for increased cooperation within the Scheme. • A call for evidence, run with the Local Government Association, June to September 2013. This gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The results were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their analysis of the responses. • Consultation, *Opportunities for collaboration, cost savings and efficiencies,* May to June 2014. The consultation set out how savings of £470-660m a year could be achieved by collective investment and greater use of passive fund management. It also sought views as to how these reforms might best be implemented. The Government's response is available online: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies. • Informal engagement, July to November, 2015. Since the July Budget 2015 announcement, officials have attended over 25 workshops and bi-lateral meetings with administering authorities and the fund management industry. These discussions have been used to develop the criteria for reform and inform how the proposed power of the Secretary of State to intervene might work. In addition, the Investment Regulation Review Group was formed in 2012 to consider potential amendments to the investment regulations. The group included representatives from administering authorities, actuarial firms, pension lawyers and the fund management industry. An initial proposal for reform was prepared that has also informed the development of the draft regulations that are the subject of this consultation.

Introduction and Background

Introduction

1.1 In May 2014 the Government published a consultation which set out how savings of up to £660m a year might be achieved through greater use of passive management and pooled investment. Investing collectively can help authorities to drive down costs and access the benefits of scale, and also enables them to develop the capacity and capability to invest more cost effectively in illiquid asset classes such as infrastructure. The Government has therefore invited authorities to develop ambitious proposals for pooling assets that meet published criteria. More information about the criteria and process of reform is available on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance.

1.2 This consultation complements that invitation, recognising that the existing regulations place restrictions on certain investments that may constrain authorities considering how best to pool their assets. It therefore proposes to move to a prudential approach to securing a diversified investment strategy that appropriately takes account of risk. In so doing, and to ensure that authorities take advantage of the benefits of scale, the Government proposes to introduce a power to allow the Secretary of State to intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

1.3 This paper sets out the purpose and rationale of the suggested amendments to the investment regulations, and seeks views as to whether the proposed approach would best deliver those stated aims.

Background

1.4 With assets of £178bn at its last valuation on 31 March 2013, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

1.5 The Scheme is managed through 90 administering authorities which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London boroughs. In most cases, the administering authorities are upper tier local authorities such as county or unitary councils, but there are also some authorities established specifically to manage their pension liabilities, for example the London Pension Fund Authority and the Environment Agency Pension Fund. The

[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

administering authorities have individual governance and working arrangements. Each has its own funding level, cash-flow and balance of active, deferred and pensioner members. Authorities take these circumstances into account when preparing their investment strategies, which are normally agreed by the councillors on each authority's pension committee. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 set the legal framework for the development of these investment strategies and the investments carried out by administering authorities. This consultation proposes that the Government revokes and replaces those regulations.

1.6 Under the Public Service Pensions Act 2013, there is a requirement for a national scheme advisory board, as well as a local board for each of the 90 funds. In 2013, Scheme employers and the trade unions established a shadow board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. Appointments have now been made to the national scheme advisory board and the Chair is expected to be appointed shortly.

Getting to this stage

2.1 The consultation is formed of two main proposals:

1. A package of reforms that propose to remove some the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. The changes proposed would move towards the “prudent person” approach to investment that applies to trust based pension schemes.
2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately, and that the guidance on pooling assets is adhered to, including a power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.

Pooling assets to deliver the benefits of scale

2.2 The proposals set out in this consultation are the culmination of work carried out over the last two and a half years to explore how to reform the way the Scheme makes its investments in order to achieve the benefits of scale and drive efficiencies.

2.3 In summer 2013, the coalition government launched a call for evidence to explore how the Scheme might be made more sustainable and affordable in the long term. 133 responses were received, many of which took the opportunity to discuss whether collective investment and greater collaboration might deliver savings for the Scheme.

2.4 Following the call for evidence, the Minister for the Cabinet Office and Minister for Local Government commissioned a cost-benefits analysis from Hymans Robertson on a range of proposals. Hymans Robertson’s report explored three areas:

- **The cost of investment:** Many of the costs associated with investment are not transparent and so difficult to capture. The costs of managing and administering the Scheme were reported as being £536 million in 2012-13.[2] However, Hymans Robertson found that the actual cost was likely to be rather higher; with investment costs alone estimated as in excess of £790 million a year.[3]
- **Approaches to collaboration:** Hymans Robertson was asked to examine the costs and benefits of three options for reform: merging the authorities into 5-10 funds, creating 5-10 collective investment vehicles, or establishing just 1-2 collective investment vehicles. They found that the net present value of savings over ten years was highest with a small number of vehicles, while merging funds offered the lowest benefit.[4]

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[2] Local government pension scheme funds summary data: 2012 to 2013
[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson pp. 10-11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies
[4] Hymans Robertson, p.6

- **The aggregate performance of the scheme:** The report found that the Scheme as a whole had been achieving the market rate of return in each of the main equity markets over the ten years to March 2013. If the Scheme's investments in bonds and equities had been managed passively instead of actively, authorities could have saved at least £230m a year in management fees without affecting overall investment returns.[5]

2.5 Drawing on the Hymans Robertson report and the call for evidence, the coalition government published a consultation in May 2014 entitled *Opportunities for collaboration, cost savings and efficiencies*. This set out how the Scheme could save up to £660m a year by using collective investment vehicles and making greater use of passive management for listed assets like bonds and equities. The consultation sought views on these proposals, and how they might be most effectively implemented. Respondents were broadly in favour of pooling assets, but felt that any reform should be voluntary and led by administering authorities. While many recognised a role for passive management in an investment strategy, most also felt that some active management should be retained.

2.6 At the July Budget 2015, Ministers having reflected on the consultation responses, the Chancellor announced the Government's intention to invite administering authorities to bring forward proposals for pooling local government pension scheme investments. Authorities' proposals would be assessed against published criteria, designed to encourage ambition in the pursuit of efficiencies and the benefits of scale. These criteria have now been published and are available online at https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance.

Updating the investment regulations

2.7 When considering the implications of creating asset pools amongst authorities, some respondents to the May 2014 consultation took the opportunity to call for a review of the existing investment regulations. At their introduction in 2009, the regulations sought to ensure that authorities established a balanced and diversified portfolio by placing restrictions on the proportion of their assets that could be invested in different vehicles. For example, deposits with a single bank, institution or person, (other than the National Savings Bank), were restricted to 10% of an authority's assets. These restrictions have been kept under regular review and have been subject to change following representations from the investment sector and pension fund authorities.

2.8 Some respondents to the consultation suggested that the current limits on investments would prevent authorities from making meaningful allocations to a collective investment vehicle, one of the leading options for asset pooling, as the allocation to particular types of vehicle is capped at 35%. Participants in the London Boroughs' collective investment vehicle and the collaboration between the London Pension Fund Authority and Lancashire County Council also wrote to the Department encouraging reform in this area.

[5] Hymans Robertson, p.12

2.9 While the proposals for collective investment in the May 2014 consultation prompted encouragement to review the investment regulations, the idea of reform was not new. In 2012, following representations from the investment sector, the Government formed a small working group to revisit and examine the investment regulations with input from actuaries, fund managers and administering authorities. This group, whose membership is set out in Annex A, recommended that a more permissive approach should be taken to the legislative framework, similar to the “prudent person” model that applies to trust based pension schemes. This approach places the onus on the pension fund to determine a suitable balance of investments to meet its liabilities, which are clearly articulated in an investment strategy. The group also felt that the existing regulations introduced uncertainty for some authorities as to what constituted a permitted investment, as some asset classes were explicitly referenced but others were not. In particular, concern has been expressed as to whether or not pension fund authorities are permitted to invest in vehicles such as derivatives, hedge funds and forward currency contracts.

2.10 The proposals in this consultation paper therefore seek to address these issues, placing the onus on authorities to determine a diversified investment strategy that appropriately takes risk into account.

2.11 However, in relaxing the regulatory framework for scheme investments, it is also important to introduce safeguards to ensure that the less prescriptive approach proposed is used appropriately. Similarly, the July Budget 2015 announcement stated that draft regulations would be introduced to require an authority to pool its investments if it did not bring forward ambitious proposals that met the Government’s criteria. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

Response to the Law Commission’s Review of Fiduciary Duty

2.12 The Kay Review on Fiduciary Duty published its final report in July 2012. In addition to making a number of recommendations to address the excessive focus on short-term performance in equity investment markets, it recommended that the Government ask the Law Commission to review the fiduciary duties of investment intermediaries amid concerns that these common law duties were being interpreted by some pension schemes as a requirement to focus solely on short-term financial returns.

2.13 In their report, published in July 2014, the Law Commission called on the Department to review:

- Whether the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 should transpose article 18(1) of the Institutions for Occupational Retirement Provision (IORP) Directive, and
- Those aspects of Regulation 9 of the 2009 Regulations which require investment managers to be appointed on a short-term basis and reviewed every three months.

2.14 These recommendations were supported by the Government's progress report on the implementation of the Kay Review published in October 2014 by the Department for Business Innovation and Skills.

2.15 Article 18(1) of the IORP Directive requires assets to be invested in the best interests of members and beneficiaries and, in the event of a conflict of interest, in the sole interests of members and beneficiaries.

2.16 Regulation 4 of The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005 No 3378) transposed Article 18(1):

"4. (1) The trustees of a trust scheme must exercise their powers of investment, and any fund manager to whom any discretion has been delegated under section 34 of the 1995 Act (power of investment and delegation) must exercise the discretion, in accordance with the following provisions of this regulation

(2) The assets must be invested:

(a) In the best interests of members and beneficiaries; and

(b) In the case of a potential conflict of interest, in the sole interest of members and beneficiaries."

2.17 The Local Government Pension Scheme is a statutory scheme made under section 1 of the Public Service Pensions Act 2013 and previously under The Superannuation Act 1972. It is not subject to trust law and those responsible for making investment decisions in the Scheme are not therefore required to comply with Regulation 4 of the 2005 Regulations.

2.18 However, this does nothing to change the general legal principles governing the administration of Scheme investments and how those responsible for such decisions should exercise their duties and powers under the Scheme's investment regulations.

2.19 In a circular issued by the then Department of the Environment in 1983 (No 24), the Secretary of State took the view that administering authorities should pay due regard to the principle contained in the case of Roberts v Hopwood [1925] A.C. 578 p. 595:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of the property of others."

2.20 Those in local government responsible for making investment decisions must also act in accordance with ordinary public law principles, in particular, the ordinary public law principles of reasonableness. They risk challenge if a decision they make is so unreasonable that no reasonable person acting reasonably could have made it.

2.21 Having considered fully the recommendation made by the Kay Review and supported by both the Law Commission and the Government, Ministers are satisfied that the Scheme is consistent with the national legislative framework governing the duties placed on those responsible for making investment decisions. The position at common law is also indistinguishable from that produced by the 2005 Regulations applicable in respect of trust-based schemes.

2.22 We do, however, propose to remove the requirement for the performance of investment managers to be reviewed once every three months from the regulations.

Proposal 1: Adopting a local approach to investment

Deregulating and adopting a local approach to investment

3.1 In developing these draft regulations, the Government has sought, where appropriate, to deregulate and simplify the regulations that have governed the management and investment of funds since 2009. Some of the existing provisions have not been carried forward into the draft 2016 Regulations in the expectation that they would be effectively maintained by general law provisions and so specific regulation is no longer needed. For example, those making investment decisions are still required to act prudently, and there remains a statutory requirement to take and act on proper advice. Some of the provisions in the 2009 Regulations which have not been carried forward on this basis include:

- Stock lending arrangements under Regulation 3(8) and (9) of the 2009 regulations. The view is taken that the definition of "investment" in draft Regulation 3 is sufficient given that a stock lending arrangement can only be used if it falls within the ordinary meaning of an "investment".
- Regulation 8(5) of the 2009 regulations ensures that funds are managed by an adequate number of investment managers and that, where there is more than one investment manager, the value of the fund money managed by them is not disproportionate. Here, the view is taken that administering authorities should be responsible for managing their own affairs and making decisions of this kind based on prudent and proper advice.
- There are many provisions in the 2009 Regulations which impose conditions on the choice and terms of appointments of investment managers. Since the activities of investment managers are governed by the contracts under which they are appointed, the view is taken that making similar provision in the 2016 Regulations would be unnecessary duplication. Examples include the requirement for investment managers to comply with an administering authority's instructions and the power to terminate the appointment by not more than one month's notice.
- Regulation 12(3) of the 2009 Regulations requires administering authorities to state the extent to which they comply with guidance given by the Secretary of State on the Myners principles for investment decision making. As part of the wider deregulation, the draft regulations make no provision to report against these principles, although authorities should still have regard to the guidance.

3.2 These examples of deregulation are for illustrative purposes only. It is not an exhaustive list of provisions which the Government proposes to remove. Consultees are asked to look carefully at the full extent of deregulation and comment on any particular case that raises concerns about the impact such an omission might have on the effective management and investment of funds.

Investment strategy statement

3.3 As part of this deregulation, the draft regulations also propose to remove the existing schedule of limitations on investments. Instead authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.

3.4 Key to this will be the investment strategy statement, which authorities will be required to prepare, having taken proper advice, and publish. The statement must cover:

- A requirement to use a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including how it will be measured and managed.
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services.
- The authority's environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

Transitional arrangements

3.5 Draft regulation seven proposes to require authorities to publish an investment strategy statement no later than six months after the regulations come into force (this is currently drafted as 1 October 2016, in case the draft regulations come into effect on 1 April 2016). However, the draft regulations would also revoke the existing 2009 Regulations when they come into effect. Transitional arrangements are therefore required to ensure that an authority's investments and investment strategy are regulated between the draft regulations coming into effect and the publication of an authority's new investment strategy statement. The transitional arrangements proposed in draft regulation 12 would mean that the following regulations in the 2009 Regulations would remain in place until the authority publishes an investment strategy or six months lapses from the date that the regulations come into effect:

- 11 (investment policy and investment of pension fund money)
- 14 (restrictions on investments)
- 15 (requirements for increased limits)
- Schedule 1 (table of limits on investments)

Statement of Investment Principles

3.6 We do not propose to carry forward the existing requirement under regulation 12 of the 2009 Regulations to maintain a Statement of Investment Principles. However, the main elements, such as risk, diversification, corporate governance and suitability, will instead be carried forward as part of the reporting requirements of the new investment strategy statement. Administering authorities will still be required to maintain their funding strategy statements under Regulation 58 of the 2013 regulations.

Non-financial factors

3.7 The Secretary of State has made clear that using pensions and procurement policies to pursue boycotts, divestments and sanctions against foreign nations and the UK defence industry are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. The Secretary of State has said, “Divisive policies undermine good community relations, and harm the economic security of families by pushing up council tax. We need to challenge and prevent the politics of division.”

3.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 already require administering authorities to publish and follow a statement of investment principles, which must comply with guidance issued by the Secretary of State. The draft replacement Regulations include provision for administering authorities to publish their policies on the extent to which environmental, social and corporate governance matters are taken into account in the selection, retention and realisation of investments. Guidance on how these policies should reflect foreign policy and related issues will be published ahead of the new Regulations coming into force. This will make clear to authorities that in formulating these policies their predominant concern should be the pursuit of a financial return on their investments, including over the longer term, and that, reflecting the position set out in the paragraph above, they should not pursue policies which run contrary to UK foreign policy.

Investment

3.9 A few definitions and some aspects of regulation 3, which describes what constitutes an investment for the purpose of these regulations, have been updated to take account of changing terminology and technical changes since the regulations were last issued in 2009. For example, the reference to the London International Financial Futures Exchange (LIFFE) has been removed as it now operates as a clearing house and so is covered by the approved stock exchange definition.

3.10 Some additional information has been included to make clear that certain investments, such as derivatives, may be used where appropriate. The Government expects that having considered the appropriateness of an investment in their investment strategy statement, authorities would only use derivatives as a means of managing risk, and so has not explicitly stated that this should be the case.

Questions

1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities’ investments are made prudently and having taken advice?

2. Are there any specific issues that should be reinstated? Please explain why.

3. Is six months the appropriate period for the transitional arrangements to remain in place?

4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

Proposal 2: Introducing a safeguard - Secretary of State power of intervention

Summary of the proposal

4.1 The first part of this consultation lifts some of the existing restrictions on administering authorities' investments in order to make it easier for them to pool their investments and access the benefits of scale. To ensure that this new flexibility is used appropriately, the consultation also proposes to introduce a power to intervene in the investment function of an administering authority if the Secretary of State believes that it has not had regard to guidance and regulations. The consultation sets out the evidence that the Secretary of State may draw on before deciding to intervene, and makes clear that any direction will need to be proportionate. The power proposed in this consultation is intended to allow the Secretary of State to act if best practice or regulation is being ignored, which will help to ensure that authorities continue to pursue more efficient means of investment.

4.2 The July Budget 2015 announcement set out the Government's intention to introduce "backstop" legislation to require those authorities who do not bring forward sufficiently ambitious plans to pool their investments. It also explained that authorities' proposals would need to meet common criteria, which have been published with draft guidance alongside this consultation. The draft power to intervene discussed in this paper could be used to address authorities that do not bring forward proposals for pooling their assets in line with the published criteria and guidance. The guidance will be kept under review, and will be revised as circumstances change and authorities' asset pools evolve.

4.3 The following sections set out the process for intervention described in draft regulation 8.

Determining to intervene

4.4 The draft regulations propose to give the Secretary of State the power to intervene in the investment function an administering authority, if the Secretary of State has determined that the administering authority has failed to have regard to the regulations governing their investments or guidance issued under draft regulation 7(1). In reaching that conclusion, the Secretary of State will consider the available evidence, which might include:

- Evidence that an administering authority is ignoring information on best practice, for example, by not responding to advice provided by the scheme advisory board to local pension boards.
- Evidence that an administering authority is not following the investment regulations or has not had regard to guidance published by the Secretary of State under draft Regulation 7 (1). For example, this might include failing to participate in one of the large asset pools described in the existing draft guidance, or proposing a pooling arrangement that does not adhere to the criteria and guidance.

- Evidence that an administering authority is carrying out another pension-related function poorly, such as an unsatisfactory report under section 13(4) of the Public Service Pensions Act 2013, or another periodic reporting mechanism. (Section 13(4) of the 2013 Act requires a person appointed by the Secretary of State to report on whether the actuarial valuation of a fund has been carried out in accordance with Scheme regulations, in a way that is consistent with other authorities' valuations, and so that employer contribution rates are set to ensure the solvency and long term cost efficiency of the fund.)

4.5 If the Secretary of State has some indication to suggest that intervention might be necessary, the draft regulations propose that he may order a further investigation to provide him with the analysis required to make a decision. If additional evidence is sought, draft regulation 8(5) would allow the Secretary of State to carry out such inquiries as he considers appropriate, including seeking advice from external experts if needed. In this circumstance, the administering authority would be obliged to provide any data that was deemed necessary to determine whether intervention is required. The authority would also be invited to participate in the review and would have the opportunity to present evidence in support of its existing or proposed investment strategy.

The process of intervention

4.6 If the Secretary of State is satisfied that an intervention is required, he would then need to determine the appropriate extent of intervention in the authority's investment function. The draft regulations propose to allow the Secretary of State to draw on external advice to determine what the specific intervention should be if necessary.

4.7 Draft regulation 8(2) describes the interventions that the Secretary of State may make. The power has been left intentionally broad to ensure that a tailored and measured course of action is applied, based on the circumstances of each case. For example, in some cases it may be appropriate to apply the intervention just to certain parts of an investment strategy, whereas in particularly concerning cases, more substantial action might be required. The proposed intervention might include, but is not limited to:

- Requiring an administering authority to develop a new investment strategy statement that follows guidance published under draft Regulation 7(1).
- Directing an administering authority to invest all or a portion of its assets in a particular way that more closely adheres to the criteria and guidance, for instance through a pooled vehicle.
- Requiring that the investment functions of the administering authority are exercised by the Secretary of State or his nominee.
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body.

4.8 The Secretary of State will write to the authority outlining the proposed intervention. As a minimum, this proposal will include:

- A detailed explanation of why the Secretary of State is intervening and the evidence used to arrive at their determination.

- A clear description of the proposed intervention and how it will be implemented and monitored.
- The timetable for the intervention, including the period of time until the intervention is formally reviewed.
- The circumstances under which the intervention might be lifted prior to review.

4.9 The authority will then be given time to consider the proposal and present its argument for any changes that it thinks should be made. If, at the end of that period an intervention is issued, any resulting costs, charges and expenses incurred in administering the fund would be met by the pension fund assets.

Review

4.10 As set out above, each intervention will be subject to a formal review period which will be set by the Secretary of State but may coincide with other cyclical events such as the preparation of an annual report or a triennial valuation. At the end of that period, progress will be assessed and the Secretary of State will decide whether to end, modify or maintain the current terms of the intervention, and will notify the authority of the outcome. The authority will also have the opportunity to make representations to the Secretary of State if it feels a different course of action should be followed. Throughout this period of intervention, the authority will be supported to improve its investment function, so that it is well placed to bring the intervention to an end at the first opportunity.

4.11 The Secretary of State’s direction will include details about what is required of the authority in order to end the intervention, and how progress will be measured. Progress could, for example, be measured by creating a set of performance indicators to be monitored on an ongoing basis by Government officials, the local pension board, the scheme advisory board, or an independent body. A regime of regular formal reports to the Secretary of State could also be required.

4.12 The draft regulations also allow the Secretary of State to determine that sufficient improvement has been made to end the intervention before the review date. The administering authority may also make representations to the Secretary of State before that date, if it has clear evidence that the prescribed action is no longer appropriate.

Questions

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

Summary of the draft regulations

(1) Citation, commencement and extent

This details the citation and scope of the draft regulations, and gives the date at which they will come into force.

(2) Interpretation

These provisions define terms used in the draft regulations with reference to legislation, and cite the legislation that gives administering authorities the powers that may be impacted by the draft regulations.

(3) Investment

This draft regulation defines what is considered an investment for the purposes of the regulations. This definition includes futures, options, derivatives, limited partnerships and some types of insurance contracts. It also defines who a person with whom a contract of insurance can be entered into is.

(4) Management of a pension fund

This draft regulation lists the monies that an administering authority must credit to its pension fund, including employer and employee contributions, interest, and investment capital and income. It also sets out the administering authority's responsibility to pay benefits entitled to members, and states that, except where prohibited by other regulations, costs of administering the fund can be paid by the fund.

(5) Restriction on power to borrow

This proposed regulation outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.

(6) Separate bank account

The draft regulation states that an administering authority must deposit all pension fund monies in a separate account, and lists those institutions that can act as a deposit taker. It also states that the deposit taker cannot use pension fund account to set-off any other account held by the administering authority or a connected party.

(7) Investment strategy statement

This draft regulation places an obligation on the administering authority to consult on and publish an investment strategy statement, which must be in accordance with guidance from the Secretary of State. The statement should demonstrate that investments will be suitably diversified, and it should outline the administering authority's maximum allocations for different asset classes, as well as their approach to risk and responsible investing.

In many respects, the investment strategy statement replaces the list of restrictions given in Schedule 1 of the 2009 Regulations and enables the criteria to be determined at local level. Schedule 1 of the 2009 Regulations will remain in force until such time that the new investment strategy statements have to be published.

Provision is made for authorities to publish their policy on the extent to which environmental, social and corporate governance factors are taken into account in the selection, retention and realisation of investments.

Separate guidance will be issued by the Secretary of State that will clarify how the Government's recent announcement on boycotts, sanctions and disinvestment will be exercised.

(8) Directions by the Secretary of State

This provision would grant the Secretary of State the power to intervene in the investment function of an administering authority if he is satisfied that the authority is failing to have regard to regulation and guidance. He can also initiate inquiries to determine if an intervention is warranted, and must consult with the authority concerned. Once it is determined that an intervention is needed, the Secretary of State can intervene by directing the authority undertake a broad range of actoins to remedy the situation.

(9) Investment managers

This draft regulation details how an administering authority must appoint external investment managers.

(10) Investments under section 11(1) of the Trustee Investments Act 1961

This draft regulation allows administering authorities to invest in Treasury-approved collective investment schemes.

(11) Consequential amendments

This proposed regulation lists the prior regulations that are amended by the draft amendments.

(12) Revocations and transitional provisions

The draft provision lists the regulations that would be revoked if the draft regulations come into effect. It also proposes transitional arrangements to ensure that the existing regulations governing the investment strategy remain in place until a new investment strategy statement is published by an authority under draft regulation seven. These transitional arrangements would apply for up to six months after the draft regulations came into effect.

Annex A: Members of the Investment Regulation Review Group

Alison Hamilton	Barnet Waddingham
Bob Claxton	Wandsworth Pension Fund
Clifford Sims	Squire Patton Boggs
Dawn Turner	Environment Agency Pension Fund
Geoff Reader	Bedford Pension Fund
Graeme Russell	Greater Gwent Pension Fund
Guy Sears	Investment UK
Loretta Stowers	Greater Manchester Pension Fund
Nick Buckland	Dorset Pension Fund
Nigel Keogh	Chartered Institute of Public Finance and Accountancy
Paul Dale	Bromley Borough Council
Peter Morris	Greater Manchester Pension Fund

LGA Briefing: Pooled investments

This briefing sets out the policy clarification emerging since the Summer Budget announcement on pooling investments in the LGPS.

Background

1. On 7th July the chancellor made two announcements (one via the red book, the other in the speech) that will have an impact on the LGPS.

2. The first, and of more immediate concern, was the announcement of a consultation on legislation for delivering savings via the use of pooled investment vehicles for LGPS fund assets.

3. The document which accompanies the budget and is published immediately the chancellor sits down (the red book) contains the detail of the major announcements made in the chancellor's speech to the House together with those announcements which for whatever reason were not included in the speech.

4. The red book contains at page 78 the following section

   2.19 Local Government Pension Scheme pooled investments *– The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.*

5. This briefing sets out the clarification on policy which has emerged since the Summer Budget announcement on pooled investments. It includes the key messages which are now becoming clear; a brief note of the meetings held on the subject; and a description of the options for pooling currently under discussion.

Key messages

6. Since the budget announcement the following key messages have emerged in discussion with DCLG/HMT officials:

   a) Proposals for pooling will need to be assessed against criteria to be set by government. The budget statement is potentially misleading in that the consultation on the criteria is happening now not in the autumn.

   b) Criteria are likely to be around size (£30b has been used as an illustrative example), cost and governance. However there will be no specific savings target in the cost criterion. A forth criterion on infrastructure is expected to be added following the chancellor's speech to the Conservative party conference on 5th October.

   c) This additional criterion is not expected to be prescriptive but will aim to provide an environment in which cost effective infrastructure investment opportunities may be better accessed by the LGPS.

   d) We expect the criteria will likely be published in November alongside a consultation on:

      - new investment regulations (with the removal of any limits or restrictions which would prevent pooling); and
      - ‘back stop’ legislation which will apply if any fund is not invested via a vehicle/s which meet the criteria;

   e) Thoughts about pooling models and options should be underway now with a view to proposals on a direction of travel (likely pools and which funds will be in them) going to ministers early next year. Further and more, detailed proposals would then be expected later in 2016.

   f) Announcement by government on the way forward likely in Spring 2016.

g) Asset allocation is to be left at the local level, but as yet there is no guidance on the exact nature of this allocation (e.g. at the class or sub class level?).

h) Government has no fixed ideas on the structure of pools (CIV, CIF, joint procurement etc.) that decision is being left to the sector.

i) Government has no fixed ideas on type of pools (regional, multi asset or single asset) again, that decision is with the sector. However it has expressed a preference for a 'simple' solution.

j) Government is alive to the transitional issues for example illiquid vehicles that cannot be unwound in the short term without significant financial penalties. It is also aware of the time that structures such as the London CIV have taken to set up. However it will probably expect pooled vehicles to be in place in this parliament even if all assets will not be ready to be moved within that timeframe.

k) There may be a place for a proportion of the assets to remain under direct local control in certain circumstances. However any such exemptions would probably be for prescribed investments and will be small.

Meetings

7. A number of recent meetings have taken place on this subject organised both by the LGA, in response to a request from DCLG to facilitate discussions with stakeholders, and the Scheme Advisory Board (SAB).

8. LGA organised a fund officers/DCLG/HMT meeting on the 17th August, followed up with a further meeting on the 7th September, to encourage thinking around the criteria and possible models. The key outputs of these meetings were that funds:

- Remain unconvinced that there are any intrinsic benefits of scale especially for in house teams with already low costs.
- Do not see CIVs as the only method of pooling.
- Interpret 'asset allocation' in a number of different ways.
- Can see some benefits to pooling in some asset classes but would want to retain some local discretion.
- Anticipate reduced fees especially for alternatives, provided pools are well governed.

9. The LGA also organised an investment managers DCLG/HMT meeting on 24th August to solicit the views of the industry. The key outputs of this meeting were that managers:

   - Were less concerned about the background structure of any pool and more concerned on the need for it to present itself as one client.
   - Would encourage as much decision making as possible be placed within the pools in order to achieve the greatest savings.
   - That pools if structured correctly could provide the 'sticky mandates' necessary to remove unnecessary churn.

10. The SAB held an open invitation session on 21st August for all funds. There were over 60 attendees (the vast majority officers) representing 45 funds. A copy of the Q&A from this session is attached as **ANNEX 1**.

11. LGA held a meeting for chairs of pension committees on 16th October. A number of issues were raised mainly around timing of proposals, the need to obtain political agreement, the potential exemptions and the potential for competing pools. The issue of co-ordination in order to ensure that all funds are involved in the proposals was also raised.

Potential models

12. Making an assumption that around £30b is the target for multi asset pools, with perhaps a smaller number for single asset pools which could be

evidenced to operate better at the national level; then a number of potential options for pooling emerge:- PLEASE NOT LGA are not supporting, proposing or seeking to achieve any of these options and the following are listed for information only

- Six or seven[1] regional multi asset pools
- Six or seven national multi asset pools - funds could join pools with similar investment strategies or methodologies (e.g. in-house)
- Four or five multi asset pools (regional or national) with a single national framework for passive
- Four or five multi asset pools with a national pool for a single asset class (e.g. infrastructure)
- Four or five multi asset pools with a single national framework for passive and a national pool for a single asset class
- Three or four multi asset pools with single national framework for passive, a national pool for a single asset class (e.g. infrastructure) and a single pool for fixed liabilities (e.g. a pensioner pool)

13. For pools themselves there are a number of different potential structures which are under consideration these being:

    - Joint procurement (e.g. the passive framework)
    - Joint vehicles (e.g. the LPFA/GMPF infrastructure pool)
    - Combined vehicles (e.g. the London CIV and Lancs/LPFA models)
    - Delegated functions (e.g. section 101(5) committee with lead authority)

14. For the latter two a degree of in-house management is being considered either to replicate what is already there or to build extra capacity.

15. In order for funds to be able to compare a number of the options a group of LGPS funds are working with Hymans Robertson to undertake an analysis of

[1] Depending on the participation of Welsh funds in cross border pools or one Welsh pool.

options with a view to assessing how each performs against the following criteria:

- Size - are the multi asset pools sufficient to meet the assumed government criteria of £30b, are the other vehicles optimally sized for their class or method?
- Costs - what are the estimated gross savings for each option?
- Governance - how do each of the models provide political structures and behaviours that encourage best practice outcomes (e.g. long term investment)?
- Local political direction - who is working with who already, where are the obvious fits?
- Central political direction - are there other policy drivers which the options best fit with (e.g. combined authorities)?
- Impact on competition - both in the manager market and between pools.
- Legislative requirements - what is needed and what would be the time frame needed?

16. The data from the above analysis will be made available to the stakeholders and in this respect the LGA's Head of Pensions will liaise with the steering group managing this work.

How LGA can help

17. The LGA pensions team can provide cross scheme data from the Scheme Annual Report to enable funds to assess the potential assets pools across England and Wales.

18. LGA can co-ordinate the process by making funds aware of the pooling projects underway and providing a central contact point for funds who are exploring their options and may wish to talk to more than one project.

19. The LGA Head of Pensions is able to attend joint or single meetings of officers and/or elected members in order to set out the background and current understanding of the process.

20. The LGA can make representation on behalf of LGPS funds back to government and/or facilitate contact with DCLG and HM Treasury officials who are leading on the process.

21. If you would like further information on how the LGA can provide support please contact:

Cllr Roger Phillips LGA lead member on pensions:
rjphillips@herefordshire.gov.uk

Jeff Houston Head of Pensions:

jeff.houston@local.gov.uk

October 2015

ANNEX 1

Questions received for 21st August Pooled Investment Event.

Q1. The current regulatory framework within which the LGPS operates makes it difficult for funds to collaborate on investments without a requirement to achieve FCA registration which entails additional cost and complexity. It should be possible to revise the Investment Regulations to allow funds to work together, within guidelines, without unnecessary regulation.

Are ministers receptive to a revision of the regulatory framework to enable funds to work together more easily? If so, will this be undertaken at the same time as the pooling consultation?

A1. Yes, as part of the package, government will consult on revising the investment regulations. It has been noted that the initiatives to be implemented in the near term, i.e. the London CIV, have needed to work through barriers in order to get the current stage. Amended investment regulations would be required to facilitate ease of implementation of investment pooling without having to establish third party companies and FCA regulation.

Q2. How do low cost internally managed LGPS schemes fit into their view for the LGPS?

A2. The intention is for all LGPS assets to be pooled, there will not be exemptions for any fund. However, the package for the LGPS is deliberately not over-prescriptive. The criteria for investment pools will include some detail on governance, size, and cost, but it will be up to LGPS funds to work together to uphold proposed investment pools against the criteria.

There is an issue of scale to address, and a need to collaborate with others with the same goals. Government can help proposals through regulatory change.

Q3. Funds are required to demonstrate cost savings, however as investment arrangements are income contracts as returns improve you pay higher fees, arguably you want to be paying more as it demonstrates you are earning more? Is “cost savings” the right question or should it be “Value for Money”?

A3. Both costs and the return on investments are important. It is recognised that i) there are industry-wide issues with investment expenses transparency, and ii) each fund will be starting from a different point. There is evidence to suggest larger pools may be more cost effective, benefitting from economies of scale. The government is *looking at a timescale longer than term of office for any cost savings to fully materialise. Without having set the criteria, questions around demonstrating cost savings against them are difficult to answer.*

Q4. There has not been any work to achieve a consistent fee base or fee budget for the wider LGPS to measure against, so how is the integrity of fee saving submissions established.

A4. LGPS policy has moved on from 2013 when the call for evidence brought investment costs into focus and ignited the passive versus active debate. Since then it has been shown that LGPS Funds had managed to negotiate competitive fee bases. Fee savings are one of the reasons, but not the primary reason, for pooling investments. As above, the criteria have not been set, nor the nature of the pools; therefore submissions would need to be backed up with evidence.

Q5. How are CIV structures more likely to generate savings over shared procurement initiatives, especially as CIV's have an operating cost, governance and access challenges to overcome?

A5. The policy intention would not be met by frameworks and/or procurement initiatives alone. If the end result is that the investments of the LGPS are to be held in four or five robust CIVs, similar to the London CIV, the government would not be disappointed. CIVs, however, were not prescribed in the budget, and there are other, just as acceptable, means for investment pooling.

One of the long term detractors in performance is investment manager turnover; its extent would be reduced as a result of pooling investments. The eventual solutions would need to be considered, backed up by research and require a lead in time to implementation.

Q6. How do we ensure that our proposals are not a patchwork quilt many of which may not meet the size criteria and/or overlap with each other? Do we need a moratorium on any new initiatives while we develop proposals and will be Board be looking to compile responses into a number of cohesive options?

A6. The criteria consultation is a continuum, with the 21st August Q&A/forum forming part of the process. Grouping for pools have yet to be defined, but regional, asset, liability and philosophy bases have been discussed. The Board will have a central role in coordinating responses and analysis to support the proposals and the development of suitable proposals is a challenge for the room.

Q7. I would like to know if there are any particular plans for funds with low cost, outperforming internal investment teams.

A7. As above, the intention is for all LGPS assets to be pooled, there will not be exemptions for any fund. However, outperforming internal investment teams are well placed to work together to lead and influence the pooling proposals.

Q8. Has the option of negotiating an LGPS fee with external managers been considered without the need to pool funds? I understand that some managers are offering this already.

A8. As above, the policy intention would not be met by frameworks and/or procurement initiatives alone. A "keep doing what you're doing", "business as usual" option would not be acceptable to government.

Q9. Can it be confirmed if this issue/consultation includes Scotland or is it purely England & Wales.

A9. The consultation is for England and Wales, and the criteria setting will be carried out by DCLG. The regulations for the LGPS in Scotland are devolved, therefore Scotland is not included.

Q10. Some asset class mandates are restricted by capacity, for example, private equity. Are these sorts of asset class exempt from pooling?

A10. It is the intention that all asset classes would be included in pooling, including alternatives asset classes, property, private equity etc.

Q11. What are the timescales?

A11. Criteria should be available in the autumn, and government will expect a report on how work has moved forward by next March. A 'clear direction of travel' would be useful within the next six months. Proposals are expected to be realised within the lifetime of this parliament. It is recognised that this is a challenge – but Secretary of State has a preference for collaboration over prescription.

Q12. Will financial support be provided to help establish investment pooling infrastructure (i.e. setting up systems, processes and staff etc, not infrastructure as an asset class)?

A12. Funds will be expected to meet the costs of restructuring investments from their own budgets. As mentioned earlier, and in the knowledge that expenses will be considerable, the government is looking at a timescale longer than term of office for any cost savings to fully materialise.

To Whom It May Concern

12 November 2015

Dear all

Update on Project Pool: Local Authority response to consultation on LGPS investment pooling

Many of you will be aware that, with the help of Hymans Robertson, a group of local authorities has formed a Joint Working Group (JWG) to work together on a project to deliver a joined up response to government on options for LGPS investment pooling.

It is important that local authorities involved in the LGPS respond constructively and effectively, using the knowledge, experience and expertise of our officers to help shape a solution that meets our needs as well as government objectives and helps secure a sustainable future for the scheme.

I am writing to you on behalf of the project steering group to update you on the objectives of our project and progress made so far.

Key points

- Project Pool – joined up local authority response to government consultation on pooling LGPS investments
- 25 local authorities in the Joint Working Group own the report and are responsible for conclusions and any proposals to government. Another 10-15 are supporting the work-streams.
- Hymans' role is to provide technical support, project management and data analysis
- Data provided by LGPS funds and fund managers covers £140-150bn of LGPS assets
- Local authorities and Hymans are committed to full transparency – further updates will follow
- Report will be delivered to government in January 2016 and will be made public

Project objectives

Our aim is to deliver an authoritative and objective evidence based assessment of options for pooling LGPS investments. It is important to emphasise that the participating local authorities have ownership of the report and will be responsible for any conclusions and recommendations on preferred options.

With help from Hymans we will quantify expected cost savings using the latest available data as well as an estimate of the costs of setting up and running any new pooled vehicles.
All of the options for pooling will be assessed against likely government criteria for pooling

proposals including scale, savings, governance and ease of access to infrastructure investment suitable for LGPS purposes.

We are aiming to deliver our report to government in January 2016 and to share it will all local authorities, the LGA and other interested parties.

Participants

The 25 local authorities involved in the project are a broad church of county and met funds with a wide range of interests and preferences, including funds who have expertise and experience in internal management, procurement and other collaboration initiatives. We are pleased to say that the London Boroughs are also involved, sharing their experience and learning in delivering the London CIV. All of the participants are contributing their time and experience in the analysis of options. We are also grateful to individuals from another 10-15 funds who, although not formally involved in the project, are generously supporting the work of the various work-streams.

In the slide deck attached we list the local authorities participating in the Joint Working Group and the work-streams they are engaged in. We have also set up a steering group of local authority officers which will be responsible for guiding the project and ensuring the quality and objectivity of the final report.

Hymans' role is to provide technical support, project management and data analysis and to assist discussions with government officials. As well as the support we are getting from John Wright and Linda Selman, Hymans have provided consultants to support each work-stream and project management expertise to help us complete this challenging piece of work in time for it to be of use to the government in influencing its thinking.

Progress

We have made good progress in a short space of time since the first meeting of the Joint Working Group at Celtic Manor in September. All of the work-streams have identified a full range of options for consideration and have carried out an initial qualitative assessment of these.

There has been a tremendous response to our request for data from LGPS funds and from fund managers. In total we have received data for £140bn of assets out of the estimated £200bn total for the LGPS. In fact we have data in respect of 80% of the assets outside of London. We are grateful that some boroughs have taken the time to provide us with their data which is useful as a measure of the costs for smaller funds. We are confident that any gaps in the data we have from London are not a concern as we will rely on the assessment of savings carried out for their CIV project.

Thanks are due to the fund management community too. Nearly 40 managers have responded, providing data for a wide range of asset classes and coverage of £150bn of LGPS assets.

We believe that this is the most comprehensive data set of this sort ever assembled for the LGPS. To put it in context, Hymans' 2013 work on LGPS investment costs for DCLG was based on detailed data for £38bn of assets, a record at that time.

Hymans are now analysing data submitted by LGPS funds and fund managers so that the work-streams can progress to the quantitative stages in their analysis.

Transparency and communication
Everyone involved in the project (the participating local authorities and the team from Hymans supporting us) wants the work of the group to be fully transparent.

Hymans have been providing regular updates to DCLG, HMT and the LGA. All have been supportive of the project and helpful in giving feedback so that we can be more certain the final report will carry weight with policymakers.

We are conscious that the elected members on our LGPS committees may appreciate being kept up to date. We would be grateful to all local authority LGPS officers if you could help by keeping your committees briefed as appropriate.

We hope that this update is useful. Over the coming weeks we will provide further updates on progress and our final report will be made public.

In the meantime, thanks to all involved in the project and to those who have expressed support in other ways including those who have generously provided data to make our work possible.

If you would like to know more, please don’t hesitate to get in touch with me, the other local authority officers involved in the Joint Working Group or John and Linda in the Hymans’ team.

Yours sincerely

Rodney Barton
West Yorkshire Pension Fund
On behalf of the Project Pool Joint Working Group of local authorities

Statement of ACCESS Group of LGPS Officers.

The Undersigned Funds:

1. *reaffirm our commitment to working together to explore the opportunities and challenges of the Government's pooling agenda, to seek the best outcomes for our Funds and the wider LGPS individually and collectively (whether ultimately via this group or others or a combination thereof);*
2. *continue to support the LGPS owned initiative (being facilitated by Hymans Robertson) now known as project POOL, to develop a joined up proposal to Government, that allows the LGPS to speak with a clear, authoritative voice, focussed on a single or small number of options which satisfy the Governments criteria, backed up by well evidenced research data and analysis;*
3. *believe that individual Members on LGPS s101 Committees will:*
    a. *require appropriate time to consider the findings of the project POOL proposal; and*
    b. *be better placed to consider the next steps for individual Funds in the light of such a proposal once finalised; and*
4. *consider that the optimum outcomes for all stakeholders will be centred around appropriate timescales which combine momentum with efficiently managed transition.*

The Undersigned Funds are understood to be:

Bedfordshire
Cambridgeshire
Essex
Hertfordshire
Isle of Wight
Leicestershire
Lincolnshire
Norfolk
Northamptonshire
Staffordshire
Suffolk

Essex Pension Fund Strategy Board	EPB/27/15
date: 16 December 2015	

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 Board.

3.2 Since the Board's last meeting the ISC has met once on 25 November 2015.

4. Report of the meeting of ISC on 25 November 2015

4.1 The Committee received an update from the Chairman on the recent Local Government Association (LGA) event held for LGPS Pension Fund Committee Chairs. This was followed by an update outlining the other latest developments regarding the potential structural reform of the LGPS.

4.2 The Committee noted the proposed introduction by the European Commission of the Markets in Financial Instruments Directive II (MiFiD II) due to take effect in January 2017 and its potential impact on the Essex Pension Fund. The Committee agreed that a new risk, reflecting the potential impact of the introduction of MiFiD II to the Fund, be added to the Fund's risk register.

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
Investments	To ensure the Fund is properly managed	I16	The implementation of MiFiD II 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	3	12	1. Negotiations led by CIPFA/Interim Advisory Board/LGA aimed towards LGPS nationally retaining professional client status. 2. Fund Officers working with Fund Managers & Investment Advisers aimed towards the Essex Fund retaining professional client status.	4	2	8

4.3 A verbal update on Q2 September 2015 market conditions was discussed followed by a report on Q2 2015 Investments Tables, which detailed investment manager performance. It was noted that the Fund's value had decreased £4.887bn as at 30 June 2015 to a value of £4.725bn as at 30 September 2015. It was noted that the value of the Fund has since recovered.

4.4 The Committee noted the traffic light report on investment managers and the report of the meeting that officers & advisers had held with M&G Infracapital on 26 October 2015. It was agreed that Officers in conjunction with Advisers explore the options highlighted in the report in more detail, with a view to bring back a recommendation to the February 2016 Strategy meeting.

4.5 The Committee received an update on progress regarding the global equity rebalancing of Baillie Gifford's mandate back to within 1% of its strategic allocation. It was noted that the transition strategy was highly effective, completing on schedule and was well within the pre-trade cost estimation.

4.6 A report was received by the Committee on the review of the global custody services provided by Northern Trust. It was agreed that a further report be brought back in the first quarter of 2016 reviewing the global custody services provided by Northern Trust.

4.7 Presentations were received from Longview Partners on the global equity portfolio and Stewart Investors on the emerging market portfolio. On the emerging market portfolio, discussion covered areas of potential new investment, and Stewart Investors agreed to provide further background detail on the limits that would apply in these circumstances.

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 In addition to those already identified those already identified as part of the Fund's investment strategy (and detailed in the Statement of Investment Principles) a new risk associated with MiFiD II is set out at 4.2.

7. Communication Implications

7.1 None

8. Finance and Resources Implications

8.1 None other than those already identified as part of the Fund's investment strategy.

9. Background Papers

9.1 ISC meetings of 25 November 2015 – agenda and draft minutes.

9.2 LGA pensions team briefing Note 16 October 2015

AGENDA ITEM 7

Essex Pension Fund Strategy Board	PSB/28/15
date: 16 December 2015	

Year-end data submissions and Annual Benefit Statements

Report by the Director for Essex Pension Fund and Head of the Essex Pension Fund
Enquiries to Kevin McDonald on 033301 38488 and Jody Evans on 033301 38489

1. Purpose of the Report

1.1 To further update the Board on 2014/15 year end data submissions by Fund employers and the distribution of Annual Benefit Statements to active scheme members.

1.2 To inform the Board of plans for the 2015/16 year-end data submissions and Annual Benefit Statements exercise.

1.3 To ask the Board to approve a charging policy for late 2015/16 year-end data return submissions.

2. Recommendations

It is recommended that the Board agree to:

2.1 note the update on the 2014/15 year-end data submissions and Annual Benefit Statements exercise;

2.2 note the plans for the 2015/16 year-end data submissions and Annual Benefit Statements exercise; and

2.3 consider a scale of charges (to be circulated at the meeting) for the late receipt of 2015/16 year-end data return submissions.

3. Background

3.1 At its December 2014 meeting the Board received a report on year-end data submissions, the issues caused by late submissions by employers given the requirement to send out annual benefit statements by 31 August and HMRC annual allowance requirements.

3.2 The Board agreed a policy which enabled a charge of £250 to be issued to employers who neither provided the data on time nor engaged with the Fund.

3.3 The Board noted that the Fund and its employers need to be strongly positioned to meet the requirements of the 2016 Actuarial Valuation process.

3.4 At its July 2015 meeting the Board received a further report on the progress of the 2014/15 year-end data exercise and the anticipated impact on the issue of annual benefit statements to all active members by the statutory deadline of 31 August. Members agreed a target for 95% of active members to receive their annual benefit statements by the 31 August statutory deadline.

4. 2014/15 Experience

4.1 The 2014/15 year-end data exercise did not go as smoothly as had been hoped, despite the introduction of the £250 charge for employers not engaging with the Fund.

4.2 28% of employer returns were submitted on time.

4.3 Charges were issued to 20 employers amounting to £5,000.

4.2 A significant amount of additional resources were used in an effort to achieve the agreed target and in the end 93% of active members received their annual benefit statement by the 31 August deadline.

4.4 The additional resources expended or diverted into achieving 93% of active members receiving their annual benefit statements by the deadline were significant; the overtime cost amounted to £25,000. The opportunity cost of diverting existing resources was estimated to be in excess of £45,000.

4.5 Officers discussed the experiences of the 2014/15 exercise in order to benefit from the lessons learnt and plan for the 2015/16 exercise. The clear outcome of those discussions was that early engagement with the right people at employers was crucial to improving the collection of data from employers in future years.

4.7 It was felt that the potential to incur a charge of £250 for not engaging with the fund had not been a sufficient deterrent for employers and a revised approach to this is needed for 2015/16

4.8 As at 30 November 2015, four employers had failed to submit a return. This resulted in a combined total of 22 active members still awaiting an ABS for 2014/15. Fund officers have since written to each of the Birkin Cleaning Services Ltd, Harlow Community Transport, Southend YMCA Community School and Wates Living Space (Maintenance) Ltd alerting them to the fact that the Fund has reported them to the Pension Regulator. Fund officers have also written to each of the 22 active members highlighting that the absence of their Annual benefit Statement is due to the failure of their employer to comply with the Fund's data requirements.

5. Plans for 2015/16 exercise

Early engagement

5.1 With 2016 being a valuation year, it is crucial that delays are avoided. The Director for Essex Pension Fund and Head of Essex Pension Fund delivered a presentation on this year-end matter to S151 officers of the major tax raising bodies on 19 November. The subsequent actions currently planned include;

- an earlier start to engagement;
- early communication at Chief Executive/Director of Finance level in order to stress the importance of this exercise and get early 'buy in' from employers at a high level;
- requiring confirmation of receipt from employers of all fund communications;
- the earlier release of the spreadsheets and guidance;
- a series of workshops to be held in February with attendance mandatory for employers; and
- close monitoring of responses with e-mail/phone/visit follow up where no response or there are concerns.

Implications for Employer Forum

5.2 The fund holds an employer forum each year and the last one was held in June 2015 and included an indicative interim report by the actuary. Officers feel the focus of employer engagement should be as in 5.1 above and the next employer forum should be based around the release of the 2016 valuation results.

2015/16 charging policy

5.3 A large number of employers submitted their returns late in 2014/15 and this had a significant detrimental impact on the overall exercise.

5.4 The policy to charge employers, not engaging with the fund, a flat charge of £250 for the 2014/15 exercise did not appear to act as a significant deterrent.

5.5 It is felt that a ‘per member’ fine would be a more effective deterrent. This means the larger the employer the larger the potential charge and this should act as a better deterrent and encouragement for employers to comply with the fund’s requirements.

5.6 A scale of charges will therefore be presented at the PSB meeting for Members to consider.

6. Background papers

6.1 Item 7 report of 10 December 2014 meeting of the Board

6.2 Item 7 report of 8 July 2015 meeting of the Board

7. Link to Essex Pension Fund Objectives

7.1 Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need

8. Risk Implications

8.1 Under the LGPS Regulations, Funds are required to distribute Annual benefit Statements to active scheme members by 31 August each year. As a result of the issues experienced with the year-end data exercise in 2014/15 a risk was identified in July 2015 and added to the fund’s risk register, Ref A18. At that time, the risk was allocated a residual risk score of 12 (Red).

8.2 In light of the proposed measures and work detailed in this report in respect of the 2015/16 Actuarial valuation cycle and ABS arrangements, this risk is currently has a residual score of 8 (amber).

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
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A18	Unable to produce Annual Benefit Statements for active Scheme Members in line with Regulatory deadlines due to lack or late provision of data from employers	4	3	12	For 2015/16 exercise communicate timetable and requirements to employers in advance, and encourage employers to engage with Fund Officers.	4	2	8

9. Finance and resource implications

9.1 The finance and resource implications for 2014/15 are highlighted in paragraph 4.4.

10. Communication Implications

10.1 Fairly significant resources will be required to ensure sufficient proactive engagement with fund employers. This will be taken from redeploying existing resources as it is in the fund's interests to ensure the year-end data return process goes smoothly. The fine income generated is intended to cover any further additional resources required if the process does not go as smoothly as hoped.

AGENDA ITEM 8

Essex Pension Fund Strategy Board	PSB29/15
Date: 16 December 2015	

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:

- 2015/16 business plan
- three year business plan
- risk management
- scorecard

2. Recommendations

2.1 That the Board notes:

- progress against the 2015/16 business plan
- the 3 year business plan
- the current risks with a residual score of six or above
- the latest scorecard measures

2.2 That the board agrees:

- the revised risk scores highlighted in 7.4 and 7.5 and detailed in Annex B (ii).
- the new risk highlighted in 7.3 and detailed in Annex B (ii)

3. Background

3.1 The following documents accompany this report:

- an update on the 2015/16 business plan at Annex A(i);
- the 3 year business plan at Annex A(ii);
- unchanged risks with a residual score of six or above are detailed at Annex B(ii);
- risks with a changed score along with any new risks are shown at Annex B(ii)
- 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 Reform
- Investment Steering Committee (ISC) Quarterly report
- Year-end returns
- Governance Policy & Compliance Statement
- Communications Policy

5. Business Plan 2015/16

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

- 7 (30%) have been completed;
- 12 (52%) are in progress, of which 5 are subject to items elsewhere on this agenda
- 4 (18%) 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 Unchanged risks with a residual score of six or above are detailed at Annex B (ii);

7.2 Annex B (ii) outlines new risks or those with a changed score. Those included are detailed below.

7.3 Risk **I16** is a new risk proposed by the Investment Steering Committee following their consideration of a report on MiFiD II. This is which was highlighted in agenda item 6, and has a residual score of 8 (amber).

7.4 Risk **A1** is an increased amber score of 9, and covers potential issues arising out of IT systems. In addition to the roll out of Phase 2 of the UPM system, a migration of general ledger packages is scheduled for early 2016. User Acceptance Testing is currently underway.

7.5 Risk **A18** covers risk arising out of the failure of employers to submit year end returns. This was highlighted in agenda item 7, and following the 2014/15 Annual Benefit Statement exercise has been reduced from a residual score of 12 (red) to 8 (amber).

7.6 The full risk register is available on infoBOARD.

8. Scorecard

8.1 The scorecard is set out in Annex C. Measures of note which have been updated this quarter include those set out below.

8.2 The cost per member statistics, along with the CIPFA benchmark average were made available during the quarter. Continuing the trend of recent years measure **1.1.1** shows a reduction the Fund's cost per member to £16.61. The CIPFA average for 2014/15 was £19.17.

8.3 The annual survey of both scheme members and employers took place during October. The results were broadly positive and are detailed within scorecard in measures **1.1.4 & 1.1.5**, and throughout sections **5.1**, **5.2** and **5.3** of annex C.

8.4 Measures in relation to PSB/PAB Member training (**1.2.1** & **2.2.1**) were under development at the time the agenda was finalised.

8.5 Most of the measures under objective **4.1 (Annual)** *"Deliver a high quality, friendly and informative service"* have been updated for the 2014/15 year. The particular significance of these measures is that they cover the migration from the AXISe system to the new UPM system. As a result measures **4.1.1** – **4.1.8** are split between the periods of time under each system. In addition to the 95% target comparison, the CIPFA average and caseload data is also included.

9. Shadow Scheme Advisory Board – Key Performance Indicators (KPIs)

9.1 The national Scheme Advisory Board has circulated a series of KPIs for LGPS Funds to complete. A number of the KPIs overlap with measures in the scorecard and Fund officers submitted a KPI return for the Fund last month.

10. Link to Essex Pension Fund Objectives

10.1 Monitoring Pension Fund activity via the business plan, risks and scorecard assists the Fund in achieving all of its objectives, and in particular:

- Provide a high quality service whilst maintaining value for money
- Understand and monitor risk and compliance
- Continually measure and monitor success against our objectives

11. Risk Implications

11.1 Key risks are identified at Annex B(i) and Annex B(ii)

12. Communication Implications

12.1 Key lines of communication are required with both Board Members and other stakeholders.

13. Finance and Resources Implications

13.1 The business plan for 2015/16 is challenging and will require significant input by officers and advisers to bring some of the actions to conclusion. The staffing structure will be reviewed towards the end of the year.

14. Background Papers

14.1 None.

ANNEX A

Essex Pension Fund Business Plan 2015/16

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. Continually measure and monitor success against our objectives
- 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

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at December 2015
1. Annual business plan will be put in place.	Proposed actions for 2015/16 business plan actions presented to 4 March 2015 Board for approval.	DfEPF & HoEPF	Complete
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2015/16.	IGAA	In progress. A training item appears elsewhere on the 16 December 2015 PSB agenda

Action	How will this be achieved?	Officer managing action*	Progress as at December 2015
3. Board members' knowledge centre	Further infoBOARD training will take place during 2015/16	HoEPF	Scheduled for 2016 Further development of infoBOARD and training is planned for 2016
4. Annual review of governance policy	A review of governance policy will take place after arrangements for the Pensions Advisory Board have been finalised.	DfEPF,HoEPF & IGAA	In progress. The draft governance policy & compliance statement appears elsewhere on the 16 December 2015 PSB agenda
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it.	GTM and IGAA	In progress. Some of the recommended actions will feature in consideration of the governance policy & compliance statement.
6. Implement the requirements of the Public Sector Pension Act 2013	Implement required changes to Governance arrangements	DfEPF,HoEPF & IGAA	Complete. The first meeting of the new Pension Advisory Board took place on 17 July 2015.

Investments

Objectives:

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

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at December 2015
7. Review of asset allocation	Review of asset allocation as part of the strategy & structure deliberations at the ISC strategy meetings.	DfEPF	In progress. A review took place on 22 July 2015. A further review is scheduled for 22 February 2016
8. Implement any review of investment allocation arrangement	Any asset allocation decisions made by the ISC will be implemented as required.	DfEPF	Complete. As reported to the ISC on 25 November, rebalancing the Baillie Gifford mandate in line with the ISC's decision of 22 July 2015 was completed in early October 2015.
9. To review investment management fees	Ensure that fee monitoring arrangements form part of the review of strategy.	DfEPF	Scheduled for February 2016.

Action	How will this be achieved?	Officer managing action*	Progress as at December 2015
10. Review the Statement of Investment Principles (SIP)	Annual Review of SIP – to include review of Statement of Compliance on Investment Decision Making	DfEPF	The next review of the SIP is scheduled for March 2016.
11. Procurement of Independent Investment Adviser (IIA)	The position of IIA will be advertised, and a shortlist of suitable candidates will be interviewed by a sub-committee of Members.	DfEPF	Complete. The Appointment Sub Committee met on 19 June 2015 and agreed to appoint Mark Stevens as the new IIA.
12. Respond to the requirements of LGPS structural reform process	Developments in relation to LGPS structural reform will be monitored.	DfEPF	In progress. A separate report on this matter appears elsewhere on the 16 December 2015 agenda.

Funding

Objectives

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

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at December 2015
13. Interim Review as at 31 March 2015.	An interim review of the Fund as at 31 March 2015 will be commissioned from the Actuary.	DfEPF and HoEPF	Complete. The Actuary presented the Interim Review to the PSB at its meeting in September 2015.
14. Review Funding Strategy Statement	Consideration will be given to whether the Funding Strategy requires review in the light of the results of the Interim Review as at 31 March 2015.	DfEPF and HoEPF	Complete. At its September meeting, in light of the results of the Interim Review, the PSB agreed that the Funding Strategy remain unchanged
15. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis	DfEPF and HoEPF	In progress - Monitoring continues

Administration

Objectives:

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

Actions:

Action	How will this be achieved	Officer managing action*	Progress as at December 2015
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	Complete. This exercise has been completed for all employers who submitted a Year End return by 30 November 2015.
17. Administration Strategy	The Administration Strategy will be monitored during 2015/16.	HoEPF	In progress. An item on Year End Returns appears elsewhere on the 16 December 2015 agenda.

Action	How will this be achieved	Officer managing action*	Progress as at December 2015
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 2016).	HoEPF	In progress. Monitoring continues
19. Implementation of new administration system	The second phase of UPM implementation including the *“member online” and “employer online”* modules will be phased in during 2015/2016.	HoEPF	In progress. Testing continues. Phase 2 modules currently being implemented are the new required GMP module, barcoding to enable streamlined scanning of documents and bulk data importing to allow large uploads of employee information.
20. Review of staffing structure	A review of staffing structure will take place.	DfEPF and HoEPF	Scheduled for Q4 2015/ Q1 2016
21. Confirmation of GMP entitlement	Confirming the GMP element of all Scheme Members’ entitlement is required to have been completed by 2017/18.	HoEPF	In progress: Work on this significant project has commenced. Initial comparative data reporting has commenced.

Communications

Objectives:

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

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at December 2015
22. Monitor Communications Policy	A review of the communications policy will take place.	HoEPF & CM	In progress. The draft Communications Policy appears elsewhere on the 16 December 2015 agenda.
23. Communicating forthcoming National Insurance changes	The Fund will inform both employers and active scheme members of the increases to employer and employee national insurance contribution rates scheduled to commence from April 2016.	CM	In progress. Dialogue with employers continues. Employees advised within the Annual Benefit Statement.

Key:
DfEPF: Director for Essex Pension Fund
HoEPF: Head of Essex Pension Fund
GTM: Governance Team Manager
IGAA: Independent Governance & Administration Adviser
CM: Communications Manager

Essex Pension Fund
3 Year Business Plan
April 2015 to March 2018

Area of activity	2015/16	2016/17	2017/18
Governance			
Business plan	March for the following year	March for the following year	March for the following year
Members' knowledge and understanding • Prepare & implement training strategy • Training needs assessment (TNA)	September Ongoing	September Ongoing	September Ongoing
Governance review	December	September	September
Effectiveness of Pension Fund Board	July	July	July
Annual Statement of Accounts	July (draft) September (Final)	July (draft) September (Final)	July (draft) September (Final)
Employer Forum(s)	June	October (onwards)	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	December	December	December
Investment (Steering Committee)			
Strategic asset allocation review	July & February	July & February	July & February
Asset/Liability study		February	
Statement of Investment Principles review	March	March	March
Review investment management fees	February	February	February
Individual manager review	Quarterly	Quarterly	Quarterly

Area of activity	2015/16	2016/17	2017/18
Funding			
Funding Strategy Statement review	September	July - March	September
Actuarial Valuation 2016	Preparation	April - March	Implementation
Interim funding review	September		September
Admission/employer participation/bulk transfer policy	Ongoing	Ongoing	Ongoing
Administration			
LGPS reform – planning for administration changes	Follow up amendments	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
Introduce infoBOARD and develop usage	Ongoing	Ongoing	Ongoing

ANNEX B(i)

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 planned for Q415/Q116
Investments	To maximise the returns from investments within reasonable risk parameters	I1	If investment return is below that assumed by the Actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk.	3	3	9	**9**	Kevin McDonald	Diversified portfolio; Annual Strategy Review; Asset Liability Study, extended recovery periods to smooth contribution increases.
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	3	3	9	**9**	Kevin McDonald	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	3	2	6	**6**	Kevin McDonald	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous Risk Score	Risk Owner	Comments, Actions and Recommendations
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	3	2	6	**6**	Kevin McDonald	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible. 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	A6	Fund's resources not able to match the demands of providing the service.	3	3	9	**6**	Kevin McDonald / Jody Evans	A review of the staffing structure planned for Q415/Q116
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.
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally	C1	Increase in enquiries from Scheme Member resulting in increased workload for Fund officers	2	3	6	6	Kevin McDonald /Jody Evans	Whilst the volume of phone enquiries stemming from 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.

ANNEX B (ii)

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
Investments	To ensure the Fund is properly managed	I16	The implementation of MiFiD II 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	New Risk	Kevin McDonald	1. Representations at national level (Scheme Advisory Board/CIPFA/LGA aimed towards LGPS nationally retaining professional client status. 2. Fund Officers working with Fund Managers & Investment Advisers aimed towards the Essex Fund retaining professional client status.
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	6	Kevin McDonald / Jody Evans	Phase one of the new UPM Civica system was implemented in January 2015 and monitoring continues. Phase two is anticipated in the first half of 2016. A General Ledger package migration is scheduled for Q116. A Pension Fund project team has been established to liase with colleagues working on ECC's TCS project. User Acceptance testing in progress.
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	12	Jody Evans	For 2015/16 exercise communicate timetable and requirements to employers in advance, and encourage employers to engage with Fund Officers.

ANNEX C

Essex Pension Fund Scorecard - 16 December 2015

1. GOVERNANCE

	R	A	G	Gy
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		1	1	1
1.3 - Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times. Continually measure and monitor success against our objectives.		1		
1.4 - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	1		3	
1.5 - Understand and monitor risk and compliance			5	

2. INVESTMENTS

	R	A	G	Gy
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)		1		1
2.3 - Ensure investment issues are communicated appropriately to the Fund's stakeholders			5	

3. FUNDING

	R	A	G	Gy
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			2	

4. ADMINISTRATION

	R	A	G	Gy
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		2		
4.4 - Compliance with Fund's governance arrangements	1		4	

5. COMMUNICATIONS

	R	A	G	Gy
5.1 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.		1	3	
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	Frequency
1.1.1 Cost per scheme member	2nd	quartile	G	G	2nd/3rd quartile	2nd/3rd quartile	Low	Annual (Dec)
1.1.2 Number of scheme member complaints	1		G	G	5	20	Low	Quarterly
1.1.3 Number of scheme member compliments	23		G	G	15	60	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 September 2015 was 1

1.1.3. The number of compliments received in the 3 months to 30 September 2015 was 23

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/Barry Mack

Status

	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity	Frequency
1.2.1 Members training		%	Gy	Gy				
1.2.2 Board Member attendance at Board meetings	75%	%	A	A	80%	80%	High	Quarterly
1.2.3 Officer training plans and Supporting Success objectives in place	100%	%	A	G	100%	100%	High	Ongoing

Rationale for performance status and trend

1.2.1 A new measure in respect of members training is under development

.

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	30% Complete 52% in progress 18% yet to commence	A	A	50% Complete, 30% 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:

7 (30%) complete
12 (52%) in progress
4 (18%) scheduled to commence later in 2015/16

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	R	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 previous 12 months as at 30 September 2015

1.4.2 Reflects performance over the previous 12 months as at 31 September 2015

1.4.3 PSB UNISON nominee Keith Blackburn's four year term ceased in September 2017. Eastern Region UNISON is understood to be in the process of finalising Mr Blackburn's successor.
Yes = green; No = red.

1.4.4 Appointments too the PAB were finalised in July 2015.
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	0		G	G	0	N/A	Low	On-going
1.5.3 Percentage of risks on the risk register with a residual score that is classified as amber	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	%	R	G	0%	0%	High	Quarterly
1.5.5 Number of matters raised by external auditors relating to Pensions Services	0		G	G	0	N/A	Low	Annually (Sep)

Rationale for performance status and trend

1.5.1 This includes all internal audits conducted in the last 12 months. The 2014/15 internal audit reports for both Pensions Administration and Pensions Investment received good assurance.

1.5.2 The 2014/15 internal audit reports for both Pensions Administration and Pensions Investment contained a total of one moderate recommendation, which has been completed .

1.5.3 The Fund currently has 83 risks in its register, of which 14 have a residual score that is classified as amber. (12 in September). 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. (1 in September). Measurement: 0% = green; above 0% = red

1.5.5 There are no significant recommendations for Members to note in the 2014/15 Annual Results Report from EY.

2.1 - Maximise returns from investments within reasonable risk parameters

Data as at: 31 March 2015

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	14.8	%	R	G	13.1%	13.1%	High
2.1.3 Five year (annualised) return compared to Benchmark	9.6	%	G	G	8.1%	8.1%	High
2.1.4 Five year (annualised) return compared to central expected return of current investment strategy	9.6	%	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	9.6	%	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 July 2015, the Essex Pension Fund with 14.8% had the highest annual return of the peer group which consists of Kent, Suffolk, Norfolk, Cambridgeshire & Bedfordshire. The lowest return within the group was 11.1%. Essex also had the highest return of this group of Funds in 2013/14.

2.1.2 The annual return of 14.8% was above the benchmark.

2.1.3 The five year return of 9.6% was above the benchmark.

2.1.4 The five year return of 9.6% was above the central expected return of the current investment strategy.

2.1.5 The five year return of 9.6% 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 & Barry Mack

Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
2.2.1 ISC Member attendance at ISC meetings	77	%	G	A	80%	80%	High	On-going
2.2.2 ISC Members training			Gy	Gy				

Rationale for performance status and trend

2.2.1 . This represents attendance at ISC meetings in February 2015, March 2015, June 2015, July 2015 & November 2015 and the ISC Appointment Sub Cttee on 19 June 2015.

2.2.2 A new measure in respect of members training is under development
.

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

Measure Purpose: To ensure all significant Fund investment issues are communicated properly to all interested parties

Scope: Publication of meeting minutes and agendas, communication governance arrangements agreed by Board and ISC

Measure Owner: Kevin McDonald **Data lead:** Kevin McDonald

Status

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

Rationale for performance status and trend

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

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

All arrangements are in place.

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

Data as at: February 2014

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

Scope: Sources of funding: employer contributions and investments

Measure Owner: Kevin McDonald **Data leads:** Kevin McDonald

Status

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

Rationale for performance status and trend

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

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

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

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.

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	GY	G	Yes	Yes	High	Ongoing

Rationale for performance status and trend

3.5.1
This new measure was agreed by the ISC at its meeting on 22 July 2015.

The Fund is will use some investment income to pay benefits during 2015/16.

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)	0.000	%	G	G	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

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

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 by 31 August.	93.0%		G	A			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 IDRP appeals during the year	1		G	G			Below CIPFA average	Pending
4.1.12 IDRP appeals - number of lost cases	0		G	G			Below CIPFA average	Pending

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.

The release of the 2014/15 data by CIPFA has been delayed, and will therefore now feature in the December 2015 scorecard.

4.1.9 As highlighted in the cover report to this item, Annual Benefit Statements were issued to 93% of active members by 31 August 2015.

4.1.10 The last dispatch of these statements to Deferred members was in June 2015. The previous dispatch was in June 2014

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	June '15 quarter	Sept '15 quarter
A: Notifications of Scheme Member deaths received	51	60
B: Number within A with death grant nomination	28	32
C: Number within B paid in line with nomination held	25	30
D: Number within A paid to next of kin (in instances of predeceased nominee)	3	2
E: Number within A without death grant nomination	23	28
F: Number within D paid to next of kin	23	28
G: 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		A	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.

As reported to the PSB at its September meeting, there had been a data breach within the previous quarter.
Over 12,500 letters were distributed to Fund members who had a change in their circumstances (i.e. joined the Fund voluntarily, brought into the Fund by auto-enrolment, changed job or started a second job) since the migration to the new CIVICA/UPM system in November 2014.

Of this total, 81 letters (0.6%) wrongly combined names with the wrong address. This was the result of human error during the bulk upload of data to the new system.

This breach has been reported in line with ECC's data breach protocols.

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.

As reported to the PSB at its September meeting, 81 revised letters have been distributed explaining and correcting the situation. The data on UPM has been corrected.

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	58.0	%	G	A	75%	100%	High	Quarterly
4.3.2 % of contributing employers submitting timely payments	96.3	%	A	A	100%	100%	High	Quarterly

Rationale for performance status and trend

4.3.1 In quarter up to September 2015 **58%** of reconciliations were completed on time compared to the target of 75%. This is principally the result of a re-allocation of staff responsibilities during the quarter.

4.3.2 For the quarter ending September 2015 **96.3%** of employers submitted timely payments. In cash terms this equated to **98.9%** of a total employer contribution of £30.6m.

4.4 - Compliance with the Fund's governance arrangements

Measure Purpose: To ensure compliance with the Fund's governance arrangements agreed by the Council
Scope: Publication of Essex Pensions Funding Board agendas and minutes. Governance arrangements agreed by Board
Measure Owner: 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	R	100%	100%	High	Quarterly
4.4.4 % of Board minutes uploaded to internet 12 working days after meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.5 Compliance with governance arrangements - number of governance arrangements not in place	0	number	G	G	0	0	High	On-going

Rationale for performance status and trend

4.4.3 & 4.4.4 Whilst the draft minutes for the September meeting were delayed in production (meaning a red score) the publication was in line with deadline (meaning green)

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

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

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

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

Status

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

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 A proposal for the PSB to invite the PAB to review the Communications Policy forms part of the 16 December 2015 PSB agenda.

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

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

Scope: All Scheme members and employers

Measure Owner: David Tucker **Data lead:** Matt Mott

Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.2.1. % of positive responses from the Scheme member Survey - *Clarity of website information.*	93.7%	%	G	A	95.0%	95.0%	High	Annual (Dec)
5.2.2. % of positive responses from the Scheme Member Survey - *Understandable Annual Benefit Statements.*	92.0%	%	A	A	95.0%	95.0%	High	Annual (Dec)
5.2.3. % of positive responses from the Scheme Member Survey - *Communications that suit needs, easy to understand and relevant.*	99.2%	%	G	G	95.0%	95.0%	High	Annual (Dec)
5.2.4. % of positive responses from the Employ**er** Survey - *Clarity of Website information.*	95.2%	%	A	G	95.0%	95.0%	High	Annual (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 was 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 - *Information available is helpful in employers understanding their responsibilities*	100.0%	%	G	G	95%	95%		Annual (Dec)

Rationale for performance status and trend

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

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

Essex Pension Fund Strategy Board	EPB/30/15
date: 16 December 2015	

Governance Policy and Compliance Statement Report

Report by the Director for Essex Pension Fund and the Independent Governance & Administration Adviser

Enquiries to Kevin McDonald on: 0333 0138 488

1. Purpose of the Report

1.1 To ask the Pension Fund Strategy Board to note the Fund's updated draft Governance Policy and Compliance Statement.

2. Recommendations

2.1 It is recommended that the Pension Strategy Board invite the Pension Advisory Board to review the attached policy and provide comment back to a future meeting in 2016.

3. Background

3.1 Under the Local Government Pension Scheme Regulations, each Pension Fund Administering Authority is required to produce and keep under review a Governance Policy detailing the following:

- whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;
- if it does so -
  - the terms, structure and operational procedures of the delegation,
  - the frequency of any committee or sub-committee meetings,
  - whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights.

3.2 The Policy must also outline the extent to which the Administering Authority complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

4. Amendments to Governance Policy

4.1 The Board last approved the Governance Policy on 9 December 2013. The Governance policy has been updated to take account of the new governance arrangements effective from 1 April 2015.

4.2 The Public Services Pensions Act 2013 and subsequent Local Government Pension Scheme Governance Regulations 2015 required the creation of a Local Board to assist the Scheme Manager (in Essex Pension Fund's case the Essex Pension Fund Board and Investment Steering Committee).

4.3 As a consequence in February 2015, Essex County Council agreed the formation of the Essex Pension Fund Advisory Board (PAB) as a result, the Essex Pension Fund Board is now referred to as the Essex Pension Fund Strategy Board (PSB).

4.4 The main change to the policy is the inclusion of the PAB terms of reference. The latest guidance issued by the Secretary of State for Communities and Local Government do not currently extend to the governance arrangements of the newly formed PAB. As such the document sets out the PAB's compliance against the requirements applicable to local pension boards as set out in the LGPS Regulations, Scheme Advisory Board Guidance and The Pensions Regulator's Code of Practice No. 14. This is shown in a separate table to the rear of the report.

4.5 The Policy has also been updated to take account that with effect from 2014 the approval of the Treasury Management Strategy is now a delegated function of the ISC instead of the PSB.

5. Recommendations

5.1 It is recommended that the Pension Strategy Board invite the Pension Advisory Board to review the attached policy and provide comment back to a future meeting in 2016.

6. Link to Essex Pension Fund Objectives

6.1 This paper has relevance to 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.

7 Risk Implications

7.1 None.

8 Communication Implications

8.1 The Policy will be published on the Fund's website and will appear in the 2015/16 Pension Fund Report and Accounts.

9 Finance and Resources Implications

9.1 If agreed, this recommendation will form part of the PAB's 2016 business which in turn will require Officer support.

10 Background Papers

10.1 The Public Services Pensions Act 2013

10.2 Local Government Pension Scheme Governance Regulations 2015

10.3 Scheme Advisory Board Guidance

10.4 The Pensions Regulator's Code of Practice No.14

Essex Pension Fund

Governance Policy and Compliance Statement

as at 16 December 2015

Introduction

This Policy and Compliance Statement outlines the governance arrangements for the Essex Pension Fund, maintained by Essex County Council, as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013 (“The Regulations”).

Under that provision all LGPS Funds in England and Wales are required to produce a Governance Compliance Statement, keep it under review, revise it following any material change in its delegation arrangements and publish it, following such consultation as it considers appropriate. The statement is required to set out:

a. whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;
b. if they do so
   i. the terms, structure and operational procedures of the delegation;
   ii. the frequency of any committee or sub-committee meetings;
   iii. whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and if so, whether those representatives have voting rights;
c. the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying;
d. details of the terms, structure and operational procedures relating to the local pension board established under The Regulations.

Each administering authority is required to:

a. keep the statement under review;
b. make such revisions as are appropriate following a material change in respect of any of the matters mentioned in points a. to d., above; and
c. if revisions are made, publish the statement as revised.

In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

This Policy and Statement was made and approved by the Essex Pension Fund Board on 16 December 2015. There have been some changes to the governance arrangements since the previous Policy and Statement.

In 2013 the Public Service Pensions Act required that each public sector scheme establish a Pension Board. The subsequent amendments to The Regulations specify the role of the Board for LGPS funds. The Regulations require the creation of a Local Board to assist the scheme manager (in Essex Pension Fund’s case, The Essex Pension Fund Strategy Board and the Essex Pension Fund Investment Steering Committee):

- to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS;
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- in such other matters as the LGPS regulations may specify.
- secure the effective and efficient governance and administration of the LGPS for the Essex Pension Fund;
- provide the Scheme Manager with such information as it requires in order to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

About The Essex Pension Fund

Under the Local Government Pension Scheme Regulations 2013, Essex County Council is required to maintain a pension fund ("the Fund") for its employees and those of other Scheme Employers within its area.

Essex County Council therefore administers the Fund for its own employees and those of the 14 District/Borough/Unitary Councils and numerous other bodies. In total there are over 580 separate employing bodies in the Fund. The Fund excludes provision for teachers, fire-fighters and police officers, for whom separate arrangements exist but includes administrative and support staff for those organisations.

Benefits are prescribed by, and the Fund is invested in accordance with, the provisions of the following regulations under the Public Service Pensions Act 2013 (all as amended):

- Local Government Pension Scheme (LGPS) Transitional Provisions, Savings and Amendment Regulations 2014;
- Local Government Pension Scheme (LGPS) Regulations 2013;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

and other saved provisions from previous sets of LGPS regulations.

With effect from 1 April 2014 employee contributions have been banded according to employees' annual pensionable pay. The rates payable vary from 5.5% to 12.5% of annual pensionable pay.

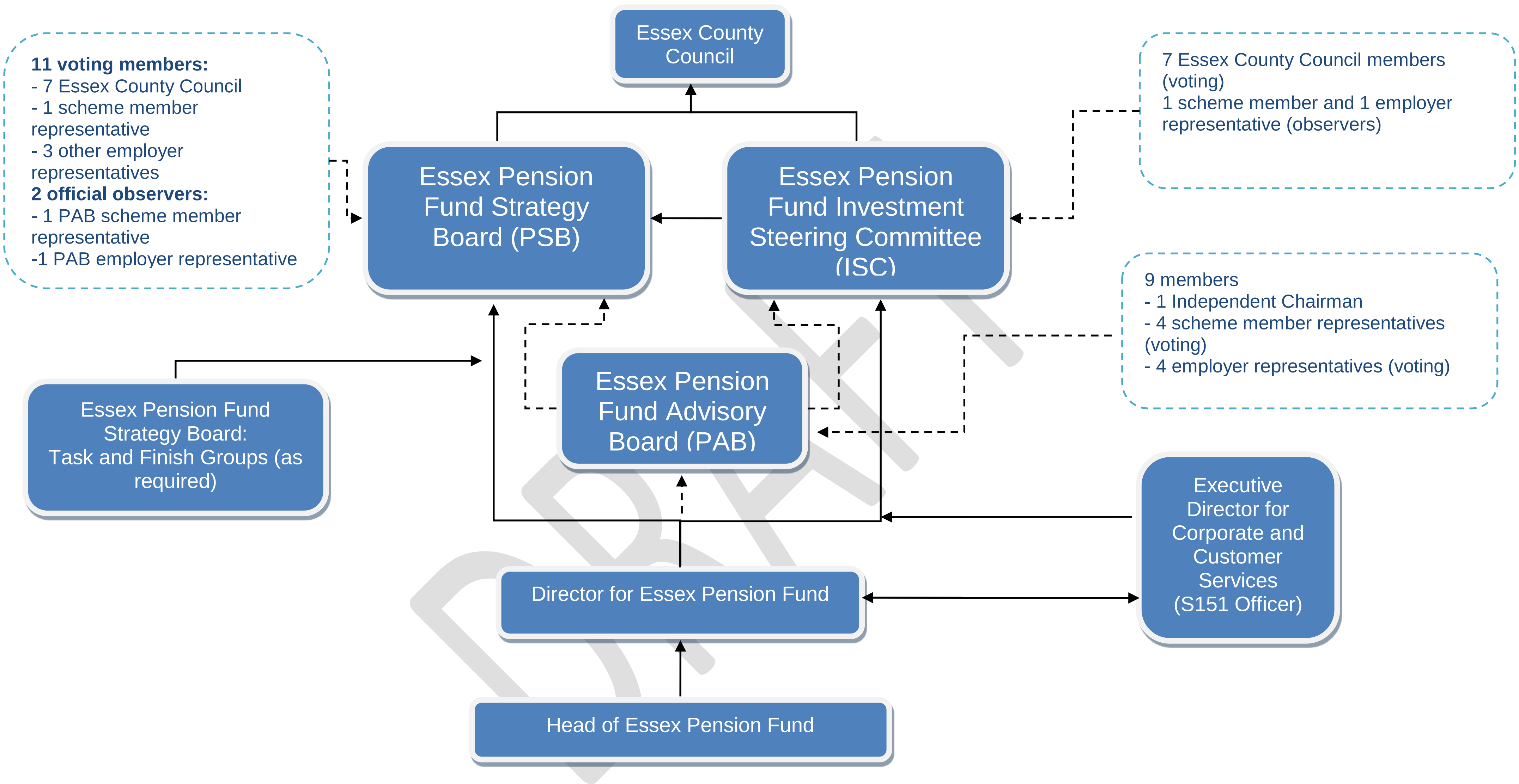
Membership Summary as 31 March 2015	
Active Members	50,965
Pensioner/Dependants	35,455
Deferred Members	44,038
Total	130,458

* Deferred pensioners are former active members who have chosen not to transfer their pension rights but retain their pension rights in the Essex Pension Fund until they are due for payment.

At the last triennial valuation of the Fund as at 31 March 2013 Fund assets were £3.958 billion, which represented 80% of the Fund’s liabilities. Employers are responsible for paying employer contributions at rates determined by the fund actuary at each triennial valuation.

Governance Structure

The Essex Pension Fund governance structure is illustrated below. This structure relates to the administering authority responsibilities only. Essex County Council is also an employer within the Essex Pension Fund. A separate governance structure and Scheme of Delegation is in place in relation to Essex County Council's employer responsibilities:


Essex County Council
11 voting members:
- 7 Essex County Council
- 1 scheme member representative
- 3 other employer representatives
2 official observers:
- 1 PAB scheme member representative
-1 PAB employer representative
Essex Pension Fund Strategy Board (PSB)
Essex Pension Fund Investment Steering Committee (ISC)
7 Essex County Council members (voting)
1 scheme member and 1 employer representative (observers)
9 members
- 1 Independent Chairman
- 4 scheme member representatives (voting)
- 4 employer representatives (voting)
Essex Pension Fund Strategy Board: Task and Finish Groups (as required)
Essex Pension Fund Advisory Board (PAB)
Executive Director for Corporate and Customer Services (S151 Officer)
Director for Essex Pension Fund
Head of Essex Pension Fund

Scheme of delegations for the Essex Pension Fund

Essex County Council ("the Council") has delegated its functions in relation to the maintenance of the Essex Pension Fund as follows:

1. **To the Essex Pension Fund Strategy Board (PSB) (formerly known as the Essex Pension Fund Board)**:

   i. 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. The delegation will include the following specific functions:
      a. To monitor and oversee the work of the Investment Steering Committee through its quarterly reports.
      b. To monitor the administration of the Pension Scheme, including compliance with The Regulations, to oversee the day to day administration and payment of pensions including the Internal Disputes Resolution Procedures. To ensure the Fund delivers best value and complies with best practice guidance where considered appropriate.
      c. To exercise Pension Fund discretions on behalf of the Administering Authority.
      d. To determine Pension Fund policy in regard to employer admission arrangements.
      e. To determine the Pension Fund's Funding Strategy and approve its Funding Strategy Statement.
      f. To receive periodic actuarial valuation reports from the Actuary.
      g. To coordinate Administering Authority responses to consultations by Central Government, professional and other bodies.
      h. To consider any views expressed by employing organisations and staff representatives.

2. **To the Essex Pension Fund Investment Steering Committee (ISC)**:

   i. To approve and review annually the content of the Statement of Investment Principles.
   ii. To appoint and review Investment Managers, Custodian and Advisors.
   iii. To assess the quality and performance of each Investment Manager annually in conjunction with investment advisers and the Section 151 Officer.
   iv. To set the investment parameters within which the Investment Managers can operate and review these annually.
   v. To monitor compliance of the investment arrangements with the Statement of Investment Principles.
   vi. To assess the risks assumed by the Fund at a global level as well as on a manager by manager basis.

vii. To approve and review the asset allocation benchmark for the Fund.
viii. To submit quarterly reports on its activities to the Essex Pension Fund Board.
ix. To approve the Fund's Treasury Management Strategy.

3. To the Executive Director for Corporate and Customer Services (S151 Officer):

i. To act as the Council's officer appointed under section 151 of the Local Government Act 1972 and to make such decisions as are necessary for the proper administration of the Council's financial affairs.
ii. To be the Proper Officer under Section 115 of the Local Government Act 1972.
iii. To be responsible for all the Council's powers and duties with respect to pensions including the Essex Pension Fund and the Council's involvement with other pension schemes

Note 1: The Executive Director for Corporate and Customer Services is not empowered to change the managers of the Pension Fund unless the Chief Executive agrees following a recommendation from the ISC.

Note 2: The operational procedures related to these functions are carried out by the Essex Pension Fund.

4. To the Director for Essex Legal Services:

To act as the administering authority for the purposes of the pensions complaints procedure.

Under the Public Service Pensions Act 2013, the Essex Pension Fund's Local Pension Board is known as the Essex Pension Fund Advisory Board (PAB). The functions of the PAB are set out in its terms of reference and are summarised below:

The Essex Pension Fund Advisory Board

i. To assist the Administering Authority:
    a. to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
    b. to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator (tPR).
ii. To secure the effective and efficient governance and administration of the LGPS for the Essex Pension Fund ("EPF").
iii. To help ensure that the EPF is managed and administered effectively and efficiently and complies with the tPR's Code of Practice (CoP –

"Governance and administration of public service pension schemes") No. 14.

iv. To assist the Scheme Manager in this case the Administering Authority with such matters as the scheme regulations may specify.

v. To be a "critical friend" to the PSB and the ISC.

vii. To provide oversight of decisions made by the PSB to ensure that due process has been followed.

viii. The Board may review any decision made by or on behalf of the Scheme Manager.

ix The Board will adopt a policy statement on reporting breaches identified under viii.

x. At the invitation of the PSB, the Board may also undertake other tasks.

xi. Appoint Observers to attend meetings of the PSB and the ISC.

Board/Committee Representation

The Essex Pension Fund Strategy Board (PSB)

The Essex Fund Pension Strategy Board is composed as follows:

Representing	No	Term of Office	Comments
Essex County Council	7	until 2017 County Council Elections	
District/Borough Councils in Essex	1	4 years (from May 2015 until 2019 District/Borough Council elections)	Nominated by Essex Borough and District Leaders‟/Chief Executives‟ Meeting
Unitary Councils in Essex	1	4 years (from May 2015 until 2019 Unitary Authority elections)	One from either Southend-on-Sea and Thurrock Councils
Scheme Members	1	4 years from date of appointment	Nominated by UNISON
Smaller Employing Bodies	1	2 years, from Employer Forum 2015 until Employer Forum 2017	To be nominated following voting by either eligible employers attending the Employer Forum or election process
Total	**11**		
PAB Employer representative (observer)	1	A review of the PAB is due to commence by October 2016 with any changes implemented by May 2017.	PAB Nomination
PAB Employee representative (observer)	1		PAB Nomination

All members of the Board have equal voting rights.

The Strategy Board is supported in the execution of its responsibilities by staff from the Authority’s Pension Fund function as well as an Independent Governance and Administration Adviser and other advisers as considered necessary (e.g. the Fund Actuary).

The Strategy Board meets five times a year with one of the meetings set aside for consideration of Pension Fund strategy matters. Additional Task and Finish Groups can meet as necessary to consider and report to the Board on matters that require further consideration.

The Strategy Board also has a dedicated training plan which includes specific internal training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

The Essex Pension Fund Investment Steering Committee (ISC)

The Essex Pension Fund Investment Steering Committee is composed as follows:

Representing	No	Term of Office	Comments
Essex County Council (voting)	7	Until 2017 County Council Elections	
Total	**7**		
Employer representative (observer)	1	4 years (from May 2015 until 2019 District/Borough Council elections)	Nominated by Essex Borough and District Leaders‟/Chief Executives‟ Meeting
Scheme Members (observer)	1	4 years from date of appointment	Nominated by UNISON,

The Investment Steering Committee is supported in the execution of its responsibilities by two investment advisers (one independent and one institutional) and staff from the Authority's Pension Fund function.

The Committee meets routinely on six occasions each year. Four of those meetings are primarily to meet with investment managers in order to review the performance of the investment managers against their benchmarks but two meetings each year in February and July are set aside for the consideration of ongoing investment strategy.

In addition special meetings of the Committee are held when required for the discharge of its functions in regard to such matters as the selection and appointment of investment managers.

The Essex Pension Fund Advisory Board (PAB)

The Essex Pension Fund Advisory Board is composed as follows:

Representing	No	Term of Office	Comments
Independent Chair (non-voting)	1	A review of the PAB is due to commence by October 2016 with any changes implemented by May 2017	
Essex County Council	1		
District/Borough Councils in Essex	1		Nominated by Essex Borough and District Leaders‟/Chief Executives‟ Meeting
Unitary Councils in Essex	1		One from either Southend-on-Sea and Thurrock Councils
Smaller Employing Bodies	1		Essex Fire Authority
Scheme Members	3		2 deferred and 1 active member
Scheme Member	1		Nominated by UNISON
Total	**9**		

The Essex Pension Fund Advisory Board is appointed by Essex County Council as its Local Pensions Board in accordance with section 5 of the Public

Service Pensions Act 2013 and Part 3 of the Local Government Pension Scheme Regulations 2013.

The Essex Pension Fund Advisory Board has no delegated decision making ability, on behalf of Essex County Council.

With the exception of the Chair, who has no vote, all members of the Board have equal voting rights.

There are no substitute members.

The Pension Advisory Board is supported in the execution of its responsibilities by staff from the Authority's Pension Fund function as well as advisers to the fund such as the Independent Governance and Administration Adviser and other advisers as considered necessary (e.g. the Fund Actuary, institutional investment adviser).

The Pension Advisory Board meets at least twice per year.

The Pension Advisory Board will follow the dedicated EPF training plan which includes specific internal training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

The Pension Advisory Board reports its activities at the end of each financial year to the Authority and will be publicly disclosed.

Governance Compliance Statement: Section 101 Committees

As can be seen, Essex Pension Fund governance arrangements in respect of the PSB and ISC are fully compliant with the latest guidance issued by the Secretary of State for Communities and Local Government (issued in 2008):

Description of Principle	Essex Pension Fund's Position	Future Action
A Structure		
(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council. (b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. (c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. (d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	The Essex Pension Fund Strategy Board was established as the Essex Pension Fund Board in 2008, changing its name on 1st April 2015 following the formation of the Essex Pension Fund Advisory Board. It is an overarching body to oversee the functions of the County Council as Administering Authority of the Fund, except where they have been specifically delegated to another committee or officers. Its functions include monitoring the administration of the Pension Scheme, exercising Pension Fund discretions and determining Pension Fund policy towards employer admission arrangements. Membership of the Pension Strategy Board is drawn from the County Council as well as other scheme employers and member representatives. All representatives have full voting rights and receive appropriate training and development. In addition to the Pension Strategy Board the Fund has also put in place an Investment Steering Committee (ISC). The role of the ISC is to oversee and approve all matters related to the Fund's investments. Their main role is to decide asset allocation, appoint investment managers and periodically review and monitor investment manager performance. All decisions of the ISC are ultimately ratified by the Pension Strategy Board. Membership of the ISC is drawn from the County Council representatives of the Pension Strategy Board, all of which have full voting rights as well as employer and member representatives from the Pension Strategy Board (who have observer status only).	The Fund has developed a rolling three year business plan, which includes the training, development and effectiveness of the Pension Strategy Board and ISC. This plan is reviewed quarterly.

Description of Principle	Essex Pension Fund's Position	Future Action
B Representation (a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies); (ii) scheme members (including deferred and pensioner scheme members); (iii) independent professional observers; (iv) expert advisers (on an ad hoc basis). (b) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	The terms of reference of both the Pension Strategy Board and the ISC set out the term of office for individual members. The terms of reference of the Pension Strategy Board also sets out the mechanism by which representatives from different sectors of scheme employers are able to volunteer for membership of the Pension Strategy Board. For example: • District and Borough Council representatives are nominated by the Leaders/Chief Executives of those organisations; • Member representatives are nominated by the individual unions; and • Small employing body representatives are nominated following voting by eligible employers attending the Pension Fund Employer Forum All members of the Pension Strategy Board and ISC are treated equally in terms of provision of meeting papers, opportunity to contribute (full voting rights on the Pension Strategy Board) and knowledge and skills training. In addition, the Pension Strategy Board has appointed an independent governance and administration adviser to assist the Pension Strategy Board and its officers.	

Description of Principle	Essex Pension Fund's Position	Future Action
C Selection and Role of Lay Members (a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (b) that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	This is clearly set out in the terms of reference of both the Pension Strategy Board and ISC.	Continually monitor and review to ensure that the functions of the Pension Strategy Board and ISC remain appropriate.
D Voting (a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	All members of the Pension Strategy Board have full voting rights. While voting rights of the ISC is limited to the County Council members only, this reflects the fact that ultimately it is the County Council that has the legal responsibility to pay all benefits from the Fund. The observer members of the ISC will of course have full voting rights as members of the PSB, when considering any decisions taken by the ISC that are subsequently referred to the PSB.	Continually monitor and review to ensure appropriate.

Description of Principle	Essex Pension Fund's Position	Future Action
E Training/ Facility Time/ Expenses (a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. (b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The Fund has put in place a comprehensive knowledge and skills training strategy in place, which covers all aspects of the CIPFA knowledge and skills framework. The document sets out the strategy agreed by the Pension Strategy Board concerning the training and development of: • all the members of the Pension Strategy Board and the ISC; and • the officers of the Essex Pension Fund responsible for the management of the Fund. The training strategy was established to aid members of the Pension Strategy Board and the ISC in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the decision making responsibility put upon them. In addition the Pension Fund has developed a full training strategy and plan, which ensures the Pension Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise and that they act with integrity and accountability to all stakeholders and decisions, ensuring they are robust and well-based. Member Allowance Scheme is set out in the ECC Constitution for the members carrying out their Board/Committee decision making responsibilities. Allowances are limited to the County Council members only. All costs associated with the attendance of training/conferences away from County Hall for all Board/Committee members that are relevant and within the training strategy plan are met by the EPF. Participating employers are also encouraged to allow facilities' time where relevant.	A training plan has been formed and will be rolled out from 2016.

Description of Principle	Essex Pension Fund's Position	Future Action
F Meetings – Frequency (a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Pension Strategy Board and ISC meet a minimum of four times a year. Meetings of both the Pension Strategy Board and ISC are arranged so that outputs from the ISC are available to the Pensions Strategy Board in a timely manner.	

Description of Principle	Essex Pension Fund's Position	Future Action
G Access (a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the Pension Strategy Board and ISC are provided access to all committee papers and documentation via the Pension Fund's on-line portal infoBOARD.	
H Scope (a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The role of the Pension Strategy Board is to consider all aspects of the management and administration of the Essex Pension Fund. While certain day-to-day responsibilities have been delegated to officers and investment decisions to the ISC, via the County Council's scheme of delegation the Pension Strategy Board's remit includes monitoring the administration of the pension team, exercise of administering authority discretions and determining the Fund's policy in relation to the admission of new employers.	
I Publicity (a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Full details of the governance arrangements of the Essex Pension Fund are contained within this Statement as well as additional detail being included within the Pension Fund Annual Report, which is available on the Fund's website www.essexpensionfund.co.uk.	

Governance Compliance Statement: Essex Pension Fund Advisory Board

At present the latest guidance issued by the Secretary of State for Communities and Local Government does not extend to the governance arrangements of the newly formed local Board, the Essex Pension Fund Advisory Board (PAB). The following table sets out how the PAB complies with the requirements applicable to local pension boards, as set out in the LGPS Regulations, Scheme Advisory Board Guidance and The Pensions Regulator's Code of Practice No. 14.

Requirement	Essex Pension Fund's Position	Future Action
A - LGPS 2013 Regulations		
Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.	The PAB has been set up as a separate, stand-alone Board. Essex County Council has not taken steps to seek Secretary of State approval for the setting up of a joint arrangement with the PSB.	The County Council will monitor, with interest, the success of any scheme manager that does receive Secretary of State approval to the setting up of a joint arrangement.
Where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities, those administering authorities may establish a joint local pension board if approval in writing has been obtained from the Secretary of State.	The Essex Pension Fund is solely managed by Essex County Council.	
Only employer and scheme member representatives shall be entitled to vote	Although the PAB has an independent Chair voting rights only extend to the employer and member representatives	

Requirement	Essex Pension Fund's Position	Future Action
The administering authority has established a fair and transparent process for the appointment of local pension board members	The terms of reference of the PAB set out the term of office for individual members. The terms of reference of the PAB also sets out the mechanism by which representatives from different sectors of scheme employers are able to volunteer for membership of the PAB. For example: Employers Representatives • District and Borough Council representatives are nominated by the Leaders/Chief Executives of those organisations; and • Small employing body representatives are nominated following voting by eligible employers attending the Pension Fund Employer Forum. Member Representatives • Member representatives are nominated by the individual unions; and • by members individually. All members of the PAB are treated equally in terms of provision of meeting papers, opportunity to contribute (full voting rights) and knowledge and skills training. In addition, the Pension Strategy Board has appointed an independent governance and administration adviser to assist the both the PSB and its officers.	

Requirement	Essex Pension Fund's Position	Future Action
The local pension board consists of at least 4 members of whom 2 are employer representatives and 2 scheme member representatives	The PAB includes a membership of 4 employer and 4 member representatives and an independent Chair. Each of the 4 employer and 4 member representatives has equal voting rights. The independent Chair has no voting rights. The PAB has no decision making powers.	
Employer and scheme member representatives have the capacity to represent their constituency.	The Fund has put in place a comprehensive knowledge and skills training strategy in place, which covers all aspects of the CIPFA knowledge and skills framework. The document sets out the strategy agreed by the PAB concerning the training and development of its members. The training strategy was established to aid members of the PAB in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the responsibilities put upon them. In addition the Pension Fund has developed a full training strategy and plan, which ensures the Pension Fund, is managed, and its services delivered, by people who have the appropriate knowledge and expertise and that they act with integrity and accountability to all stakeholders and decisions, ensuring they are robust and well-based.	A training plan has been formed and will be rolled out from 2016.

Requirement	Essex Pension Fund's Position	Future Action
Where the local pension board is not a joint body also exercising delegated decision making powers; a) no officer or elected member of the administering authority who is also responsible for the discharge of functions under LGPS 2013 may be a member of the local pension board, and b) any elected member of the administering authority who is a member of the pension board must be an employer or scheme member representative.	No officer or elected member on the PAB has any responsibility for the discharge of function under the LGPS Regulations as part of their normal duties.	
No person to be appointed to the pension board may have a conflict of interest.	All members of the PAB are required to adopt and adhere to the County Council's published conflict of interest policy. Where any conflict or potential conflict is identified it must be declared and any remedial action taken to resolve the conflict or potential conflict must be carried out in accordance with the County Council's stated conflicts policy in place at that time	
No member of a pension board may have a conflict of interest.	All members of the PAB are required to adopt and adhere to the County Council's published conflict of interest policy. Where any conflict or potential conflict is identified it must be declared and any remedial action taken to resolve the conflict or potential conflict must be carried out in accordance with the County Council's stated conflicts policy in place at that time.	

Requirement	Essex Pension Fund’s Position	Future Action
B – Training		
There is a clear policy on training which complies with the Pension Regulator’s code of practice no. 14	The Fund has put in place a comprehensive knowledge and skills training strategy in place, which covers all aspects of the CIPFA knowledge and skills framework. The document sets out the strategy agreed by the PAB concerning the training and development of its members. The training strategy was established to aid members of the PAB in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the responsibilities put upon them. In addition the Pension Fund has developed a full training strategy and plan, which ensures the Pension Fund, is managed, and its services delivered, by people who have the appropriate knowledge and expertise and that they act with integrity and accountability to all stakeholders and decisions, ensuring they are robust and well-based.	
C - Expenses and facility time		
There is a clear policy on the reimbursement of expenses and use of facility time	Provision has been made in the accounting procedures to identify the costs incurred in the establishment and operational costs of the local pension board. Participating employers are also encouraged to allow facilities’ time where relevant.	

Requirement	Essex Pension Fund’s Position	Future Action
D - Conduct of members		
The members of a Local Pension Board should have regard to the 'Seven Principles of Public Life' (“the Nolan Principles”)	All members of the PAB will have been made aware of the Seven Principles of Public Life as part of their initial induction and as part of regular reminders in ongoing training and development.	
E - Reporting Breaches		
There should be a policy in place for the reporting of breaches of the law.	It is the responsibility of all members of the PAB to understand their individual and collective responsibilities in this area and to familiarise themselves with the steps they should follow in the event a breach of the law is suspected.	
F - Internal reporting		
There should be a clear mechanism for the Pension Board to report its requests, recommendations or concerns	This is covered within the PAB terms of reference	

Essex Pension Fund Strategy Board	**EPB/31/15**
date: 16 December 2015	

Communication Policy Annual Review 2015

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

Enquiries to Kevin McDonald on: 0333 0138 488

1. Purpose of the Report

1.1 To ask the Pension Fund Strategy Board to note the Fund's updated draft Communications Policy.

2. Recommendations

2.1 It is recommended that the Pension Strategy Board invite the Pension Advisory Board to review the attached policy and provide comment back to a future meeting in 2016.

3. Background

3.1 The Essex Pension Fund has in place a Communications Policy to ensure all types of communications issued are in line with the Local Government Pension Scheme (LGPS) Regulations.

3.2 This Policy is reviewed to ensure it continues to meet the requirements of the LGPS and to ensure that the most appropriate form of communication is used depending on the audience.

3.4 A communication calendar is also attached to the policy.

4. Recommendations

4.1 It is recommended that the Pension Strategy Board invite the Pension Advisory Board to review the attached policy and provide comment back to a future meeting in 2016.

5. Links to the Essex Pension Fund Objectives

5.1 This paper has relevance to the following Fund 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.

6. Risk Implications

6.1 None

7. Communication Implications

7.1 To ensure all stakeholders receive timely, legislatory and regulatory correct information regarding the LGPS

8. Finance and Resources Implications

8.1 If agreed this recommendation will form part of the PAB’s 2016 business, which in turn will require Officer support.

8.2 All costs associated with all forms of communication are met by the Fund.

9. Background Papers

9.1 Essex Pension fund Communication Policy 2015/2016

Essex Pension Fund

COMMUNICATIONS POLICY

Introduction

This Communication Policy has been prepared by the Essex Pension Fund (the Fund) and is effective from April 2016. The Communication Policy has been designed to meet the legislative requirements and in addition, meet the Funds objectives that are outlined within this Policy. This policy will be reviewed annually and updated as necessary following each review.

This Policy should be read in conjunction with the supporting 'Communication Calendar' which is detailed in Appendix 1 of this document.

Key Objectives

To ensure that we are communicating with our audiences and we enhance the service we currently offer, we have set the following 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.

Measuring success

To monitor our success against our objectives we will aim to:

- Achieve a year on year increase in the response rate to our Satisfaction Surveys to each of our audiences.
- Achieve to 95% of positive responses in our Satisfaction Surveys to each of our audiences.
- Have a supporting communications calendar that is adapted where necessary, to each of our audiences.

Achieving success

Our principles when delivering our communication will be to:

1. Improve member understanding and gain appreciation:

To ensure that our communications support member understanding we will:

- Tailor our communication to the audience's needs.
- Make our messages clear, consistent and use the right language.
- Provide contact information for people to find out more information.

- Be consistent with our key messages throughout our communication.
- Use the most appropriate delivery methods to reach our audiences and make communications accessible to everyone.
- Provide good quality communications that meets the expectations of the audience.

2. Plan our communication and deliver by the most appropriate method:

- We will use the most appropriate communication channel for the audience.
- We will adapt our communication where possible following feedback from our audiences.
- We will consider how to make the service available to all audiences and be accessible to everyone.
- We will actively promote our service through our existing communication channels where appropriate. For example, employer roadshows and meetings.

3. Give our communication a clear purpose

- Each of the communications we send will have a clear purpose and fit into our overall communications plan. This will ensure each item is part of our overall policy and cost effective.
- We will continually review all of our communication to ensure that it is fit for purpose.

4. Give our communication impact through visual identity:

Pension schemes with their own style and brand result in communications that are instantly recognisable as pension related. A visual identity will be developed alongside the Councils existing brand.

Our key messages

There are a number of key messages to each of our audiences but through all of our communication the messages to the majority of audiences will be:

1. Your pension is a valuable benefit
2. It is important that you understand how the LGPS works now and in the future
3. Make sure that you are saving enough for retirement

A summary of the key messages to each audience is below:

Audience	Key message
Active members	• It is important that you understand the impact of any changes in legislation: Pension Reform, Automatic enrolment, Lifetime allowance /Automatic enrolment. • Your employer pays in to help you save for your retirement. • Remember you have other benefits with your pension.
New / potential joiners and opt outs	• It is important to understand the impact of any changes in legislation: Pension Reform and auto enrolment. • The LGPS pension is a good way to save for your retirement. • Remember you have other benefits with your pension.
Deferreds	• Keep your details up to date. • You need to understand how the fund worked when you left. • It is important to understand the impact of any changes in legislation • The pension will be different if you come back into the Scheme. • Understand the implications of transferring out of the Scheme. • We will tell you if anything changes.
Pensioners	• Keep your details up to date. • We are here to help with any questions you might have. • You will continue to get your pension no matter what changes happen. • Remember to phone the tax office with any tax queries you have. • Remember you have other benefits with your pension.
Employers	• You have a responsibility to provide employees with information about the LGPS. • You need to understand how the Scheme works and the effect of any changes in legislation. • The LGPS is a valuable benefit for members and you need to help educate members to understand the changes and the impact. • You have a responsibility to inform the Fund of any changes to scheme members circumstances.

Communication deliverables

Media, tools and channels of our communication

The communication tools we will use will incorporate our existing communication channels for efficiency. The tools we use may adapt as we receive feedback from each of audiences. The tools we will use for each of our audiences are outlined below:

Scheme members – Active, deferred and pensioner members

- **Internet** – The Fund has established an extensive website essexpensionfund.co.uk containing Scheme details, leaflets, guides and forms etc. There are also news items and links to other organisations relevant to Scheme members
- **'Prime' newsletter** – We will issue a newsletter to members of the Fund at least once a year, the contents of which will cover current pension topics within the LGPS and the pensions industry in general plus important repeated messages
- **Deferred newsletter** – We may issue a newsletter to deferred members of the fund, where a current address is known. This will consist of the key messages, plus any topical issues such as changes affecting deferred members and will normally be sent with the annual benefit statement.
- **Benefit statements** – An annual benefit statement may be sent directly to the home address of all members who are contributing to the Fund at the previous financial year end. Benefit statements are sent direct to the home address of deferred members where a current address is known
- **Scheme literature** – A range of Scheme literature is produced by the Fund and is supplied to employing bodies and Scheme members directly. Copies of the Scheme literature will be available on the Fund's website essexpensionfund.co.uk
- **Pay advices** – The Fund issues pay advices to Scheme pensioners in April and May and if there is a change to the member's net pension of more than £1.00. The pay advices are also used to convey important generic messages to Scheme pensioners.
- **Correspondence** –The Fund uses both surface mail and e-mail to receive and send correspondence.
- **Telephone helpline** – A dedicated telephone helpline is provided for Scheme members and is widely publicised in Scheme literature.
- **Pensions roadshow** – The Fund stages a number of pension roadshows where it visits the buildings of main employers in the Fund. Additionally, satellite roadshows and surgeries are held at outlying sites, particularly when there may be organisational changes occurring which have pensions implications
- **'Your Time' –** The Fund issues an annual newsletter, 'Your Time' to its Pensioner members

Scheme employers

To assist employers participating in the LGPS, the Fund has a range of communication materials and methods that aims to increase their understanding of pension issues and help them fulfil their responsibilities as Scheme Employers. By working together we are able to provide a better service to our members.

- **Employer website –** The Essex Pension Fund website has a section for Scheme Employers. This is used to distribute forms used by employers to notify the fund of certain material events and holds resources such as the Employers' guide, Scheme Employer newsletters and links to LGE circulars and bulletins. Employers are requested to download the forms as and when required to ensure up-to-date documentation is always used
- **Employer guide –** The Fund has produced and maintains an Employer guide to assist Scheme employers to understand their role. The guide is a key resource and explains the statutory requirements of the Employer with regards to the scheme. All Scheme employers have been sent a hard copy and electronic copy of the guide and the latest version is also made available on the Fund's website
- **Scheme employer newsletter –** The Fund produces a newsletter for Scheme employers covering current issues, scheme changes and administration issues. This is sent to employers electronically by Email
- **E-mail alerts –** The fund sends a number of e-mail alerts to employers throughout the year with important pension related news and information
- **Report and Accounts –** The Report and Accounts are produced annually and an electronic copy is sent to all Scheme employers. It is also made available on the Fund's website
- **Employer meetings or other ad hoc meetings –** The fund holds a number of employer meetings at the offices of main employers in the Fund to which all Fund Employers are invited. The Fund also attends meetings with employers either at the request of the employer or if it has identified a need. These are usually to keep Employers up-to-date with LGPS developments and to offer training and assistance to the employer to help them to carry out their pension obligations
- **An employer forum –** The Fund hold an employer forum each year which focuses on administrational aspects of the fund and any developments in the scheme including identifying the likely impact of scheme changes. Workshops will be held on specific relevant pension topics at least once a year. The Fund invites all Scheme employers to the forum
- **Employer Training –** The Fund offers training to all Scheme Employers on the LGPS and their role in administering the Scheme. Training covers the full range of administrative and Regulatory activities and is tailored to the needs of the particular employer

Prospective Scheme members – Including opt-outs

- **Scheme information / guide –** All prospective Scheme Members must be given basic information about the LGPS. The Fund requires Employers to provide all employees information about the scheme and to provide either a hard copy of the short scheme guide or direct them to an electronic version, when they become eligible to join the scheme. The Fund's website has a section 'I am thinking of joining' which summarises the main benefits provided by the LGPS
- **Internet –** The Fund has established an extensive website essexpensionfund.co.uk containing Scheme details, leaflets, guides and forms etc. There are also links to other organisations relevant to Scheme members
- **'Prime' newsletter-** We will issue a newsletter to members of the Fund at least once a year, the contents of which will cover current pension topics within the LGPS and the pensions industry in general. Employers are encouraged to make the newsletter available to all of their eligible staff regardless of whether they are currently contributing to the scheme
- **Pensions Roadshow –** The Fund stages a number of pension roadshows at the offices of main employers in the Fund to which the employees of all Fund employers are invited. These events are not just aimed at Scheme members but also at eligible employees who are not currently contributing to the scheme

Prospective Scheme employers

The Fund provides information to prospective Employers to ensure they understand the LGPS Regulations, their implications and the role of a Scheme Employer. The Fund will provide information required to facilitate a smooth transition in respect of prospective Employers to which LGPS Members may TUPE transfer, such as contractors providing a service to a Scheme Employer.

APPENDIX 1

Communication Calendar

The following communication calendar outlines the communication to each of the key audiences and will be implemented to ensure that communication is regular and efficient. Each communication will include the key messages for each audience. The communication calendar will be reviewed annually, and updated as necessary.

Act	**Active members**	Pen	**Pensioners**	Opt	**Opt outs**
Emp	**Employers**	Def	**Deferreds**		

Month	Activity		Media/purpose
April	Pen	Pay advices	
	Pen	Pensions Increase letters	
	Emp	Employer Presentation/Meeting	
May	Pen	Pay advices/P60s	
	Def	Annual Benefit Statements	
June	Emp	Employer Presentation/Meeting	
July	Emp	Employer Guide update	
	Emp	Report and Accounts	Electronic only
	Emp	Employer Presentations/Meetings	
August	Act	Annual Benefit Statements	
	Act	'Prime' newsletter	To be sent with Annual Benefit Statements
September	Opt		
	Act	Employee Roadshows	Drop-in session
	Opt		
	Emp	Employer Presentations/Meetings	
	Pen	Payslips (full payroll run)	For National Fraud Initiative (NFI)
October	Pen	'Your time' newsletter	E-newsletter

	Act / Opt	Employee Roadshows	Drop-in session
	Emp	Employer Presentations/Meetings	
	Emp	‘Scheme Employer’ newsletter	E-newsletter
	Emp	Contributions newsletter	
	Emp	Employer Forums	If valuation results out
	Def	Deferred newsletter	

November	Act / Opt	Employee Roadshows	Drop-in session
	Emp	Employer Presentations/Meetings	
	Emp	Employer Forums	If valuation results out

December	Emp	Employer Forums	If valuation results out

January	Act	Review Scheme literature	
	Act / Opt	Employee Roadshows	Drop-in session

February	Act / Opt	Employee Roadshows	Drop-in session
	Act	Review Scheme Literature	
	Emp	Employer Training EOY & Valuation	

March	Act / Opt	Employee Roadshows	Drop-in session
	Emp	Employer Presentations/Meetings	
	Emp	‘Scheme Employer’ newsletter	E-newsletter
	Emp	Employer Forum	