

Essex Pension Fund Board	EPB/11/09
date: 24 June 2009	

Draft Pension Fund Accounts

Report by Head of Investments & Insurance

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1. Purpose of the Report

1.1 To provide an update on the Draft Pension Fund Accounts for 2008/09.

2. Recommendation

2.1 That the report should be noted.

Pension Fund Accounts

Introduction

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

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Fund account for the year ended 31 March 2009

2007/08 £000	Note		2008/09 £000	£000
		Contributions and Benefits		
		Income		
		Contributions receivable		
(41,374)	5	Employees' contributions	(47,296)	
(148,846)	5	Employers' contributions	(164,151)	
(19,548)	5	Transfers from other schemes	(22,358)	
(198)		Other income	(192)	
<u>(209,966)</u>		Total income		(233,997)
		Expenditure		
		Benefits payable		
107,856	5	Pensions	115,672	
30,323		Commutation of pensions and lump sums	32,020	
1,705		Death benefits	3,510	
		Payments to and on account of Leavers		
7		Refunds of contributions	6	
3		State scheme premiums	6	
14,499	5	Transfers to other schemes	13,701	
2,267	7	Administration expenses	1,812	
<u>156,660</u>		Total expenditure		166,727
(53,306)		Net additions from dealings with members		(67,270)
		Returns on investments		
(69,130)	6	Investment income	(69,956)	
220,614	8	Change in market value of investments	821,996	
4,006		Taxation	3,340	
13,327		Investment management expenses	13,687	
<u>168,817</u>		Net returns on investments		769,067
115,511		Net (increase)/decrease in the Fund during the year		701,797
(3,042,879)		Net assets as at 1 April		(2,927,368)
<u>(2,927,368)</u>		Net assets as at 31 March		<u>(2,225,571)</u>

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Net assets statement as at 31 March 2009

31 March 2008		Note	31 March 2009	
£000	£000		£000	£000
Restated				
		8		
		Investments at market value		
		Investment assets		
209,489		Fixed interest securities	149,665	
1,692,485		Equities	1,348,654	
157,128		Index linked securities	72,068	
187,194		Property unit trusts	120,822	
435,523		Managed funds	326,510	
701,629		Derivative Contracts	652,455	
119,995		Property	83,165	
122,244		Cash/deposits	101,992	
16,529		Other investments	15,479	
	3,642,216			2,870,810
		Investment liabilities		
(745,705)		Derivative Contracts	(684,462)	
(5,340)		Other Investments	(4,003)	
	(751,045)			(688,465)
	2,891,171	Total Investments		2,182,345
		10		
		Current assets and liabilities		
	23,888	Cash invested with the County Council		14,413
	16,302	Debtors and payments in advance		32,133
	2,931,361			2,228,891
	(3,993)	Creditors and receipts in advance		(3,320)
	<u>2,927,368</u>			<u>2,225,571</u>

Note:

Figures for 31 March 2008 have been restated in line with two changes required by the Statement of Recommended Practice (SORP).

Firstly, LGPS Pension Funds are no longer required to disclose the full economic exposure of Futures contracts in the Net Asset Statement. These figures have been included within the totals for fixed interest securities and equities. In turn, these amounts were then offset by cash backing futures which had been included in the cash/deposit total. Details of the economic exposure to futures are now included within Note 8.5.

Secondly, the SORP now requires investments to be categorised as either Assets or Liabilities and to separately disclose derivative contracts.

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Notes to the Pension Fund Accounts

1. Background

The Essex Pension Fund (the Fund) is governed by the Local Government Pension Scheme Regulations 1997, as amended. The Fund provides pensions and other benefits to employees of the County Council, district, borough and unitary councils and other scheduled and admitted bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

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

2. Basis of preparation

The Pension Fund Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA, and the main recommendations of the Statement of Recommended Practice (SORP): 'Financial Reports of Pension Schemes' (Revised May 2008).

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

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

3. Actuarial valuation

The most recent actuarial valuation of the Pension Fund was at 31 March 2007, when the market value of the assets was **£3,043m**. The assets of the Fund were valued on the market value approach and showed that the assets held were sufficient to cover **79.6%** of the Fund's liabilities at that time. The valuation was carried out using the

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projected unit method. Contribution rates are set after the valuation has been completed and appropriate deficit recovery periods set.

The main economic assumptions used in the actuarial valuation were:

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

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

An interim valuation of the Fund as at 31 March 2009 has been commissioned.

4. Accounting policies

4.1 Accounting convention

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

4.2 Investments

In the majority of cases, equity investments are valued at the last traded price recorded on the Stock Exchange Electronic Trading Service or bid market price at 31 March 2009.

For private equity limited partnerships, there is usually a time delay in receiving information from the private equity fund managers. The valuations shown in the net asset statement for these investments are the latest valuations provided to the County Council. In general these are valuations at 31 December 2008 and are

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compiled in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. To estimate the valuation at 31 March 2009, the Fund amends the 31 December 2008 valuation for payments made to and payments received from the private equity managers in the period 1 January 2009 to 31 March 2009.

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

The value of fixed interest investments in the Fund's investment portfolio excludes interest earned but not paid over at the Fund year end, which is included separately within accrued investment income (as disclosed in Note 8).

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

Direct property investments have been valued, at open market value, at 31 March 2009, by Jones Lang LaSalle, Chartered Surveyors.

Acquisition costs are included in the purchase cost of investments.

4.3 Investment income

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

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

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

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

4.4 Foreign currencies

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction. In the financial statements, balances are recorded at rates ruling on 31 March 2009.

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4.5 Contributions

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

4.6 Benefits payable

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

4.7 Transfers to / from other schemes

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

4.8 Administrative and other expenses

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

5. Membership activities

5.1 Membership

31 March 2008		31 March 2009
43,152	Contributors	46,857
24,995	Deferred pensioners	26,272
27,118	Pensioners	27,992

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

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5.2 Pension benefits payable

2007/08 £000		2008/09 £000
42,076	County Council	44,551
48,685	District / unitary authorities	51,539
8,573	Other scheduled bodies	9,944
8,522	Other admitted bodies	9,638
<u>107,856</u>		<u>115,672</u>

5.3 Contributions receivable

2007/08 £000 Restated		2008/09 £000
78,491	Normal	88,292
20	Augmentation	145
62,973	Deficit	69,731
7,362	Other	5,983
<u>148,846</u>		<u>164,151</u>

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

2007/08			2008/09	
Employee £000	Employer £000		Employee £000	Employer £000
14,021	46,728	County Council	16,360	51,623
12,957	53,169	District / unitary authorities	14,570	53,071
10,617	28,948	Other scheduled bodies	12,270	31,129
3,779	20,001	Other admitted bodies	4,096	28,328
<u>41,374</u>	<u>148,846</u>		<u>47,296</u>	<u>164,151</u>

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

In 2007/08 lump sum contributions were received from Chelmsford Borough Council **£1.843m** and Greenfields Community Housing (**£6.277m**).

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5.4 Transfers from other schemes

There were no amounts received in respect of group transfers from other schemes during 2007/08 or 2008/09.

5.5 Transfers to other schemes

No amounts were payable in respect of group transfers to other schemes during 2007/08 or 2008/09.

6. Investment income

2007/08 £000		2008/09 £000
6,393	Income from fixed interest securities	5,021
46,610	Dividends from equities	42,872
1,217	Income from index linked securities	416
8,253	Net rent from properties	7,396
5,212	Interest from cash deposits	12,892
1,445	Other	1,359
<u>69,130</u>	Total	<u>69,956</u>

7. Administrative expenses

	2007/08 £000	2008/09 £000
Administration and Processing	2,047	1,491
Actuarial Fees	185	128
Legal and other Professional Fees	35	193
	<u>2,267</u>	<u>1,812</u>

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8. Investments

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

2008			2009		
£m	%		£m	%	
141	4.9	Alliance Bernstein	146	6.7	
443	15.3	Baillie Gifford and Co	161	7.4	
281	9.7	Capital International	218	10.0	
98	3.4	First State Investments (UK) Ltd	97	4.4	
135	4.7	Goldman Sachs Asset Management International	132	6.0	
648	22.3	Legal and General Investment Management	712	32.6	
144	5.0	Marathon Asset Management Ltd	146	6.7	
52	1.8	Martin Currie Investment Management Ltd	-	0.0	
34	1.2	Mellon Capital Management	14	0.6	
61	2.1	Mirabaud Investment Management Ltd	-	0.0	
351	12.1	Morley Fund Management	270	12.4	
94	3.3	Nomura Asset Management UK Ltd	-	0.0	
123	4.3	Prudential M&G Alpha Opportunities	111	5.1	
52	1.8	Prudential M&G Infracapital	48	2.2	
51	1.8	Private Equity	65	3.0	
38	1.3	Record Currency Management	(9)	-0.4	
145	5.0	Shareholder activism	71	3.3	
2,891	100.0		2,182	100.0	

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

2007/08		2008/09	
£m		£m	£m
3,010	Value at 1 April		2,891
	Change from Mid to Bid market value		(3)
	Restated value at 1 April (Bid market value)		2,888
2,698	Purchases at cost	1,170	
(2,674)	Sale proceeds	(961)	
(221)	Change in market value	(819)	
75	Cash movement	(109)	
3	Other investments	13	
(119)			(706)
2,891	Value at 31 March		2,182

For 2008/09, the total transaction costs were **£1.9m** (2007/08: £2.2m).

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

2008 £000 Restated		2009 £000
	Fixed interest securities	
86,051	UK public sector quoted	63,278
67,410	UK quoted	42,409
6,551	Overseas public sector	267
49,477	Overseas quoted	43,711
	Equities	
357,251	UK quoted	57,807
871,132	Overseas quoted	684,967
314,678	UK unit trusts	179,544
149,424	Overseas unit trusts	426,336
	Index linked securities	
128,702	UK public sector quoted	72,068
28,427	UK quoted	-
	Managed funds	
228,526	UK unquoted	171,542
136,714	Overseas quoted	116,145
70,283	Active currency	38,823
	Derivative Contracts	
701,629	Derivative Assets	652,455
(745,705)	Derivative Liabilities	(684,462)
	Property	
27,390	UK properties (leasehold)	21,950
92,605	UK properties (freehold)	61,215
187,194	Property unit trusts	120,822
	Cash deposits	
110,225	Sterling	84,485
9,627	Foreign currency	17,116
2,392	Margin accounts	391
	Investment accruals	
5,586	Debtors - outstanding sales	7,978
(4,743)	Creditors - outstanding purchases	(3,838)
10,943	Income accrual - Debtor	7,501
(598)	Income accrual - Creditor	(165)
<u>2,891,171</u>	Value at 31 March	<u>2,182,345</u>

Figures for 31 March 2008 have been restated in line with two changes required by the Statement of Recommended Practice (SORP).

Firstly, LGPS Pension Funds are no longer required to disclose the full economic exposure of Futures contracts. These figures had been included within the totals for fixed interest securities and equities. In turn, these amounts were then offset by cash backing futures which had been included in the cash/deposit total. Details of economic exposure to futures are now included within Note 8.5.

Secondly, the SORP now requires investments to be categorised as either Assets or Liabilities and to furthermore separately disclose derivative contracts.

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

2008		Legal & General Investment Management Unit trust / pooled vehicle	2009	
£000	%		£000	%
Restated				
304,812	10.6	UK Equity Index	179,544	8.1
128,702	4.5	Europe (Ex UK) Equity Index	139,490	6.3
12,402	0.4	North America Equity Index	139,221	6.3

As at 31 March 2009, the Fund had a commitment to contribute a further **£114m** to existing partnership investments, including private equity (31 March 2008: £76m). It is anticipated that payments against these commitments will be made over the next 1 – 5 financial years.

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

31 March 2008 £000		31 March 2009 £000
	Futures Contracts	
30,167	UK Government Fixed Interest	32,899
16,785	Overseas Government Fixed Interest	(40,182)
(972)	UK Equities	125,291
999	Overseas Equities	(123,327)
(46,979)	Cash backing open futures	5,319
		-
	Forward Foreign Exchange Contracts	
701,629	Sterling	652,455
(745,705)	Foreign Currency	(684,462)
(44,076)	Total Derivative Contracts held at year end	(32,007)

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

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

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9. Additional Voluntary Contributions (AVC) Investments

2007/08 £000		2008/09 £000
6,447	Value of AVC fund at beginning of year	6,355
537	Employees contributions	646
42	Investment income and change in market value	(768)
(671)	Benefits paid and transfers out	(787)
<u>6,355</u>		<u>5,446</u>

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

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

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

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10. Current assets and liabilities

31 March 2008 £000 Restated		31 March 2009 £000
	Current assets	
23,888	Cash invested with the Council	14,413
	Debtors and payments in advance	
16,302	Contributions due	32,133
	Current liabilities	
	Creditors and receipts in advance	
(1,875)	Benefits due	(1,731)
(2,118)	Investment management expenses	(1,589)
<u>36,197</u>	Net total	<u>43,226</u>

11. Related party transactions

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

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

Note 10 to the accounts shows the Pension Fund cash held with the County Council at 31 March and note 7 shows the charges made to the Pension Fund by the County Council for administration costs.

12. Further information

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

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

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