

# Essex Pension Fund Business Plan 2011/12

## Introduction

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

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

## Background

Provisional total membership of the Fund as at 31 March 2011 is:

Active members	43,747
Pensioners/dependents	30,655
Deferred Members	34,294
<u>Total</u>	<u>108,696</u>

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

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

The estimated total value of pensions paid during 20010/11 was £125m, together with other benefits totalling £36m. The average value of pension in payment during the year was £4,239.

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

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

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

### **Objectives for 2011/12**

The Essex Pension Fund objectives for 2011/12 are as follows. Detailed action plans outlining improvement areas for achieving these objectives are set out at Annex C. These action plans do not itemise tasks required as part of day to day normal business.

### **Governance**

- Provide a high quality 'gold standard' 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, ensuring efficiency at all times
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk and compliance
- Continually measure and monitor success against our objectives
- Pursue socially responsible business practices

### **Investments**

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

### **Funding**

- Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters
- To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible
- To have consistency between the investment strategy and funding strategy
- To manage employers' liabilities effectively by the adoption of employer specific funding objectives
- Maintain liquidity in order to meet projected net cash-flow outgoings
- Minimise unrecoverable debt on termination of employer participation

### **Administration**

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

### **Communications**

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

## **Staffing Establishment 2010/11**

### **Investments Team**

<b>Grades</b>	<b>Projected number of FTE posts at 1 April 2011</b>	<b>Projected number of FTE posts at 31 March 2012</b>	<b>Comments</b>
Bands 7-11	1.69	1.69	An increase to the establishment of one FTE was agreed in 2009/10 – although recruitment was put on hold during 2010/11. It is also intended to revert one part time member of staff back to full time.
Band 6	1.00	1.00	
Range 5	1.81	3.00	
Bands 1-4	1.00	1.00	
<b>Total</b>	<b>5.5</b>	<b>6.5</b>	

### **Pension Services Team**

The following staff breakdown covers those staff within Pension Services currently responsible for administering the Local Government Pension Scheme on behalf of Essex County Council, the Administering Authority, and administering the Police and Fire Pension Schemes on behalf of the Administering Police and Fire Authorities, and providing a Pensioner Payroll service.

<b>Grades</b>	<b>Projected number of FTE posts at 1 April 2011</b>	<b>Projected number of FTE posts at 31 March 2012</b>	<b>Comments</b>
Bands 7-11	1.00	1.00	One Band 5 post and One Band 1-4 post are currently vacant - to be recruited  Staffing resources will be reviewed in line with agreed objectives
Band 6	2.00	2.00	
Range 5	4.00	5.00	
Bands 1-4	32.00	33.00	
<b>Total</b>	<b>39.00</b>	<b>41.00</b>	

## **Outline Budget Summary 2011/12**

For key elements of the Pension Fund an updated estimate of the 2010/11 outturn has been provided. A forecast for 2011/12 has also been provided based on existing membership levels. No assumptions have been made at this stage in regard to the outcome and effects of the Hutton Review. Monitoring will be carried out by officers during the year and the impact of any significant developments will be reported to the Board.

**ESSEX PENSION FUND**
**MARCH 2011**
**CONTRIBUTIONS, BENEFITS, TRANSFERS, INVESTMENT MANAGEMENT & ADMINISTRATION EXPENSES**

2009/10 Actual £'000			2010/11 Updated Estimate £'000	2010/11 Updated Estimate £'000	2011/12 Original Estimate £'000
	<b>Note</b>	<b>INCOME</b>			
(49,558)	1	<b>Employee Contributions</b>		(50,175)	(50,627)
		<b>Employer Contributions</b>			
(94,680)	2.1	Ongoing Contributions	(103,175)		(100,105)
(55,390)	2.2	Deficit Contributions	(58,156)		(59,203)
(4,619)	2.3	Financial Strain and Augmentation	(3,888)		(3,958)
(154,689)				(165,219)	(213,892)
(25,264)	3	<b>Transfers in</b>		(27,936)	(26,600)
(229,511)		<b>TOTAL INCOME</b>		(243,330)	(240,492)
		<b>EXPENDITURE</b>			
		<b>Benefits Payable</b>			
125,384	4.1	Pensions	129,952		131,122
31,826	4.2	Lump Sums	36,700		37,030
3,986	4.3	Death Benefits	3,053		3,520
161,196				169,705	171,672
16,160	5	<b>Transfers Out</b>		18,382	18,933
13,627	6	<b>Total Investment Management Expenses</b>		14,968	15,417
1,869	7	<b>Administration</b>		1,906	1,964
192,852		<b>TOTAL EXPENDITURE</b>		204,962	207,986

	2010/11 £'000	2011/12 £'000
<b>ESTIMATED CASH BALANCE</b>		
<b>Opening cash balance</b>	(5,064)	(14,394)
<b>TOTAL INCOME</b> (excluding accruals)	(242,340)	(239,510)
<b>TOTAL EXPENDITURE</b> (excluding accruals)	204,850	207,872
<b>less Investment Management Expenses charged directly to mandates</b>	(4,840)	(4,985)
	(42,330)	(36,622)
<b>Further allocations to Fund Managers (note 8)</b>	33,000	40,000
<b>ESTIMATED CASH BALANCE</b>	(14,394)	(11,016)

**Note**

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



## **Essex Pension Fund Business Plan 2011/12**

### **Governance**

#### **Objectives:**

- Provide a high quality 'gold standard' 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, ensuring efficiency at all times
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk and compliance
- Continually measure and monitor success against our objectives
- Pursue socially responsible business practices

#### **Actions:**

<b>Action</b>	<b>How will this be achieved?</b>
1. Annual business plan will be put in place.	A draft business plan will be produced based upon the draft objectives and submitted to the Board for approval in March 2011.
2. Measurement of progress.	Performance reports will be provided to the Board.
3. Review the scheme of delegation	Scheme of delegation to be reviewed to ensure appropriate reporting lines, particularly in relation to Pension Services and the recent move to Finance Professional Services

Action	How will this be achieved?
4. Further roll out of training and training needs assessments	<p>Consider further development of training for Board and officers including:</p> <ul style="list-style-type: none"> <li>• Induction programme to be offered to all new members of the Board and ISC. Training opportunities identified and offered to existing members throughout the year.</li> <li>• Officer training and development needs will be identified through “my performance” process and reviewed during year. Background reports will be prepared on all decisions to be taken by the Board and ISC. Arrangements to ensure that appropriate advice is available to the ISC from institutional investment consultant and two independent investment advisers will be maintained. Where specific issues require additional specialist advice, suitable providers will be identified. A handbook has been prepared and will be maintained for members of the Board.</li> </ul> <p>Review of success of training and agreeing an ongoing training assessment and delivery programme for PFB, ISC and, possibly, officers, which could incorporate the CIPFA Knowledge and Skills Framework</p>
5. Annual review of governance policy	Review governance policy to ensure it is relevant and up to date, including the governance compliance statement therein.
6. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it.
7. Review Fund objectives.	Fund objectives to be reviewed later in 2011/12 in advance of preparation of 2012/13 business planning. Measurement indicators will assist in understanding the appropriateness of the current objectives.
8. Commence procurement of Independent Investment Adviser	One of the ISC’s Independent Investment advisers is due to end his contract mid way through 2012. Arrangements will be made to ensure that a successor is in place when required.



# Investments

## **Objectives:**

To maximise the returns from investments within reasonable risk parameters

To ensure the Fund is properly managed

Ensure all significant Fund investment issues are communicated properly to all interested parties

## **Actions:**

Action	How will this be achieved?
9. Monitor compliance with statutory guidance on investment decision making and disclosure.	Annually review the Statement of Compliance to be published in the SIP.
10. Review of asset allocation	Commission the investment consultants to carry out an asset liability study for the Fund and coordinate the reporting of its findings to the ISC.
11. Review of Statement of Investment Principles (SIP)	Annual review of SIP following the annual review of strategy & structure.
12. To determine whether value for money is being obtained from the investment management fees being paid and to identify any areas where efficiencies can be achieved.	Ensure that new fee monitoring arrangements agreed as part of strategy & structure review are implemented by investment consultant as part of their annual review of performance and reported to the ISC.

# Funding

## **Objectives**

- Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters
- To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible
- To have consistency between the investment strategy and funding strategy
- To manage employers' liabilities effectively by the adoption of employer specific funding objectives
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- Minimise unrecoverable debt on termination of employer participation

## **Actions:**

Action	How will this be achieved?
13. Review Funding Strategy Statement	In conjunction with the interim review and in discussion with the Actuary, the FSS will be reviewed to ensure that it remains appropriate.
14. Interim Review as at 31 March 2011.	An interim review of the Fund as at 31 March 2011 will be commissioned from the Actuary.
15. Admission/employer participation/bulk transfer policy	The agreed framework structure and associated documentation will be developed and implemented during the year.

# 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
16. Independent Review of Administration	The Independent Governance Adviser will complete the review of administration services.
17. Hutton Review	Pending outcomes, review and put in place a plan to deliver any requirements
18. Complete the annual end of year data exercise as at 31 March 2011	Provide data to the Fund Actuary in order that any necessary calculations may be carried out.
19. Review the provision of AVC arrangements	Investigate current and alternative arrangements available. Ensure stakeholders have choices.
20. Staff resources will be monitored to ensure that appropriate support can be provided to the Board, the ISC and other stakeholders.	As part of the ongoing general management of the service, workloads, resources and priorities are monitored and discussed at team meetings. The support arrangements for the Pension Fund, the Board and the ISC will need to be kept under review as new arrangements and policies are introduced.
21. Administration Strategy	Investigate and develop an action plan for the implementation of an administration strategy, following the completion and outcome of the administration review.
22. Procurement of Actuary	The position of Fund Actuary will be subject to market testing
23. Procurement of Global Custodian	The position of Global Custodian will be subject to market testing

## 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 impactful
- Deliver information in a way that suits all types of stakeholder
- Aim for full appreciation of the pension scheme benefits by all scheme members and prospective scheme members

### **Actions:**

Action	How will this be achieved?
24. Hutton Review	Pending outcomes, review and put in place a plan to deliver any communication requirements
25. Improve employer engagement	Review and put in place a plan to improve engagement with employers of the fund. This will be undertaken as part of a review of the communication strategy.
26. Improve engagement with other stakeholders	Review and put in place a plan to improve engagement with other stakeholders within the Fund. This will be undertaken as part of a review of the communication strategy
27. Further develop website	Investigate ways of increasing use of the website, including an area for Employers.
28. Instigate joint communications	Instigate joined up communications covering Administration and Investment issues