

# Essex Pension Fund Board

|              |  |   |
|--------------|--|---|
| <b>14:00</b> | <b>Thursday, 27<br/>September 2012</b> | <b>Committee Room<br/>2,<br/>County Hall, C<br/>Block</b> |
|--------------|--|---|

**Please note that pre-meeting training for all Board members on Investment Performance and risk management will be held in Committee Room 2 between 12 noon and 1.30pm. A sandwich lunch will be provided for those attending.**

**Quorum: 4**

## **Membership**

Councillor R Bass  
Councillor J Aldridge  
Councillor D Finch  
Councillor N Hume  
Councillor M Lager  
Councillor M Mackrory  
Councillor J Archer  
Councillor Mrs P Challis  
Councillor M Healy  
Councillor B Kelly  
Councillor E Johnson  
Councillor S Walsh  
Mr K Blackburn  
Ms J Moore

## **Representing**

Essex County Council (Chairman)  
Essex County Council  
Essex County Council  
Essex County Council  
Essex County Council  
Essex County Council  
Essex County Council  
Maldon District Council  
Castle Point Borough Council  
Thurrock Council  
Southend-on-Sea Borough Council  
Essex Fire Authority  
Essex Police Authority  
Scheme Members  
Smaller Employing Bodies

**For information about the meeting please ask for:**

Graham Hughes , Committee Officer

**Telephone:** 01245 430356

**Email:** [graham.hughes@essex.gov.uk](mailto:graham.hughes@essex.gov.uk)



Essex County Council

## **Essex County Council and Committees Information**

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972.

Most meetings are held at County Hall, Chelmsford, CM1 1LX. A map and directions to County Hall can be found at the following address on the Council's website:  
<http://www.essex.gov.uk/Your-Council/Local-Government-Essex/Pages/Visit-County-Hall.aspx>

There is ramped access to the building for wheelchair users and people with mobility disabilities.

The Council Chamber and Committee Rooms are accessible by lift and are located on the first and second floors of County Hall.

If you have a need for documents in the following formats, large print, Braille, on disk or in alternative languages and easy read please contact the Committee Officer before the meeting takes place. If you have specific access requirements such as access to induction loops, a signer, level access or information in Braille please inform the Committee Officer before the meeting takes place. For any further information contact the Committee Officer.

Induction loop facilities are available in most Meeting Rooms. Specialist head sets are available from Duke Street and E Block Receptions.

The agenda is also available on the Essex County Council website, [www.essex.gov.uk](http://www.essex.gov.uk). From the Home Page, click on 'Your Council', then on 'Committees and Decisions' and select 'View Committees'. Finally, scroll down the list to the relevant Committee, click the 'Meetings' tab and select the date of the Committee.

Please note that an audio recording may be made of the meeting – at the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

## Part 1

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

|    |   | Pages     |
|----|---|-----------|
| 1  | <b>Apologies for Absence</b><br>To report the receipt (if any).   |           |
| 2  | <b>Declarations of Interest</b><br>To note any declarations of interest to be made by Members   |           |
| 3  | <b>Minutes</b><br>To approve as a correct record the minutes of the Board meeting held on 11 July 2012 (attached).  | 7 - 12    |
| 4  | <b>Local Government Pension Scheme update</b><br>To receive an oral update on any developments.   |           |
| 5  | <b>2012 Interim Funding Review</b><br>To consider a joint report (EPB/23/12) by the Fund Actuary and the Group Manager Investments.   | 13 - 46   |
| 6  | <b>Pension Fund Activity Update</b><br><b>A 2012/13 Business Plan</b><br><b>B Risk Management</b><br><b>C Measurement against Fund Objectives</b><br><br>To consider a joint report (EPB/24/12) by the Pensions Services Manager and Group Manager Investments. | 47 - 82   |
| 7  | <b>Essex Police Authority Representative</b><br>To consider a joint report (EPB/25/12) by the Secretary to the Board, the Pensions Services Manager and the Group Manager Investments.  | 83 - 86   |
| 8  | <b>Governance Policy and Compliance Statement</b><br>To consider a joint report (EPB/26/12) by the Secretary to the Board, the Pensions Services Manager and the Group Manager Investments.   | 87 - 100  |
| 9  | <b>Annual Governance Report for the Essex Pension Fund Accounts 2011-12</b><br>To consider a report (EPB/27/12) by the Group Manager Investments.   | 101 - 120 |
| 10 | <b>Investment Steering Committee Quarterly Report</b><br>To consider a report (EPB/28/12) by the Group Manager  | 121 - 124 |

Investments.

- |           |   |                  |
|-----------|---|------------------|
| <b>11</b> | <b>Forward Look</b><br>To consider a report (EPB/29/12) by the Secretary to the Board.  | <b>125 - 128</b> |
| <b>12</b> | <b>Dates of Future Meetings</b><br>To consider a report (EPB/30/12) by the Secretary to the Board.  | <b>129 - 132</b> |
| <b>13</b> | <b>Date of Next Meeting</b><br>After consultation with the Chairman, to note that the next meeting will be held at 2pm on Thursday 13 December 2012.  |                  |
| <b>14</b> | <b>Urgent Business</b><br>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.

- |           |  |
|-----------|--|
| <b>15</b> | <b>Employer Risk Analysis Update</b> <ul style="list-style-type: none"><li>• Information relating to the financial or business affairs of any particular person (including the authority holding that information);</li></ul>  |
| <b>16</b> | <b>Web based facility for Pension Board Members</b> <ul style="list-style-type: none"><li>• Information relating to the financial or business affairs of any particular person (including the authority holding that</li></ul> |

information);

**17**

**Urgent Exempt Business**

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

## Essex Pension Fund Board

**Minutes of a meeting of the Essex Pension Fund Board held at 2.00 pm at County Hall, Chelmsford on 11 July 2012**

| <b>Member</b>   | <b>Representing</b>             |
|-----------------|---------------------------------|
| Cllr R L Bass   | Essex County Council (Chairman) |
| Cllr J Aldridge | Essex County Council            |
| Cllr D M Finch  | Essex County Council            |
| Cllr N J Hume   | Essex County Council            |
| Cllr M CLager   | Essex County Council            |
| Cllr M Mackrory | Essex County Council            |
| Mr K Blackburn  | Scheme Members                  |
| Ms J Moore      | Smaller Employing Bodies        |

The following officers were also present in support:

|          |           |   |
|----------|-----------|---|
| Margaret | Lee       | Executive Director of Finance                     |
| Nicole   | Wood      | Assistant Director – Financial Strategy           |
| Jody     | Evans     | Pensions Services Manager                         |
| Sara     | Maxey     | Senior Contributions Analyst, Investments         |
| Kevin    | McDonald  | Group Manager, Investments                        |
| Karen    | McWilliam | Independent Governance and Administration Adviser |
| Graeme   | Muir      | Fund Actuary (Barnett Waddingham)                 |
| Richard  | Saw       | External Communications                           |
| Peter    | Tanton    | Head of Internal Audit                            |
| Jonathan | Wilson    | Audit Commission                                  |
| Judith   | Dignum    | Governance Team Manager, Secretary to the Board   |
| Graham   | Hughes    | Committee Officer                                 |

### 1. Chairman and Deputy Chairman

The Board noted the election of Councillor R L Bass and the appointment of Councillor D M Finch as Chairman and Vice-Chairman respectively of the Investment Steering Committee and, therefore, Chairman and Vice-Chairman of the Board for the Municipal Year 2012/13.

### 2. Membership/Terms of Reference

The Board received a report (EPB/14/12) by the Secretary to the Board which set out the Board's membership and terms of reference. The Chairman welcomed Councillor Mackrory to his first meeting and confirmed that a substitute Member for the Liberal Democrat group could be nominated if deemed appropriate. It was anticipated that the successor body to the Essex Police Authority would nominate a representative after November 2012.

### 3. Apologies for Absence

Apologies for absence were received from Councillors Mrs P A Challis (Castle Point Borough Council), M Healy (Thurrock Council), E Johnson (Essex Fire Authority), B Kelly (Southend-on-Sea Council) and S Walsh (Essex Police Authority).

In addition, apologies had been received from Martin Quinn, Head of Investments and the Board instructed the Secretary to relay their best wishes to him for his continued recovery.

#### **4. Declarations of Interest**

It was acknowledged that all Councillors under the age of 75 were entitled to join the Local Government Pension Scheme and some Board members had done so.

Councillor Mackory declared a personal interest, in that he was a deferred pensioner of the Essex Pension Fund and his son was an employee of Aviva.

No further declarations of interest were made.

#### **5. Minutes**

##### **Resolved:**

That the minutes of the Essex Pension Fund Board held on 7 March 2012 be approved as a correct record and signed by the Chairman.

Additional information was circulated to update Members on matters arising from minute 9 (2012/13 Treasury Management Strategy).

#### **6. Variation in the Order of Business**

With the prior consent of the Chairman, the order of the agenda was amended so that Item 11 on the published agenda, External Audit 2011/12: Audit Plan, was considered next. Thereafter, the running order of the remaining items on the agenda was to remain unchanged.

#### **7. External Audit 2011/12: Audit Plan**

The Board received a report (EPB/19/12) by the District Auditor which outlined External Audit's programme of work and fees in relation to the audit of the Essex Pension Fund's financial statements for 2011/12.

It was noted that the information had also been considered by the County Council's Audit Committee on 29 June 2012.

The report was **noted**.

##### **Funding**

#### **8. Local Government Pension Scheme Reform update**



The Board received a presentation from the Fund Actuary updating on the proposed reform of the Local Government Pension Scheme. Formal statutory consultation would begin in Autumn 2012. It was proposed that, from 2014, the Local Government Pension Scheme would use a Career Average Formula calculated on years of service from 2014 using a 49<sup>th</sup> accrual rate, with benefits index linked to CPI, and there would be no increase in average member contribution, although higher rate tax payers would pay more. Benefits for past service accrued prior to 2014 would continue to be calculated on the final salary basis. Pension age would mirror that for the State Pension. Projected savings for employers was expected to be 1-2% of pay on average.

The Board sought clarification on certain points of detail and the likely impact of the changes, noting that the revised scheme would remain a positive choice for employees. Members acknowledged that there would need to be a significant communications exercise with pension fund members to explain the changes.

The presentation and oral report was **noted**.

## **Governance**

### **9. Update on Pension Fund Activity**

**A 2011/12 Business Plan**

**B Risk Management**

**C Measurement against Fund Objectives (Scorecard)**

The Board considered a joint report (EPB/15/12) by the Group Manager Investments and the Pensions Services Manager, which provided an update on the 2011/12 Business Plan, risk management and scorecard recording measurement of progress against objectives.

In connection with the business plan, two of the 22 actions agreed by the Board at its meeting on 7 March 2012 were complete, with a further twelve in progress. The remaining eight actions were scheduled to commence later in the year. It was confirmed that Northern Trust had been appointed as the Global Custodian commencing 1 October 2012.

Other key developments as outlined in the report on the Business Plan and Risk Management were noted.

With regard to Annex C (Measurement against Fund Objectives), the Board gave consideration to the scorecard, seeking clarification on points of interest and explanations for areas of concern. Most measures had not changed significantly. Since the last meeting a number of changes had also been made to the scorecard and these were outlined by officers. Given the early stage of introductory training undertaken at that time the future scores for Board member training needs were expected to improve over time. The Annual Return for investments in 2011/12 was 1.5%, however the full comparator data set was not yet available for the group of statistical county neighbours and would be updated for the next Board meeting. The annual return of 1.5% outperformed the 2011/12 benchmark of 0.7% and the five year annualised return equalled the benchmark of 2.8%. However, the five year annualised average annual return on

investments was below the target long term return on investments in the Statement of Investment Principles.

An update paper was tabled clarifying specific matters highlighted during discussion of the liquidation of the East of England Tourist Board at the previous Board meeting. This paper was **noted**.

The score and status for Measure 3.4.2 (Potentially unrecoverable deficit due to employers leaving scheme) reflected the liquidation of the East of England Tourist Board. Members discussed the need for a quantifiable measurement of the risk and possible shortfall in the scorecard for the higher risk employing bodies. Officers advised the Board that this measure was being developed as part of employer risk analysis being undertaken with the Fund Actuary. This work would include identifying if a responsible body for any residual risk for an orphan liability exists.

#### **Resolved**

1. That a quantifiable measurement continue to be developed for higher risk employing bodies for the next Fund valuation with an interim progress update to be provided at the next Board meeting.
2. That the update be noted.

### **10. Pension Fund Board Training Plan**

The Board considered a report (EPB/16/12) by the Independent Governance and Administration Adviser outlining a proposed updated rolling training plan for Board members for 2012/13. Further updates would be made as conferences and external events were announced. Members were concerned that elements of the proposed plan were inflexible as some of the identified events were one-offs and already clashed with commitments in the municipal calendar. The Independent Governance and Administration Adviser assured the Board that alternative training opportunities would be developed as appropriate.

#### **Resolved**

1. That Members advise the Independent Governance and Administration Adviser of potential diary clashes;
2. To develop the training plan at an individual level focussing on specific subject modules;
3. That Members advise the Board Secretary or the Committee Officer by 20 July of their availability to attend LGPC/LGE Pension Fundamentals training in Autumn 2012

### **11. Essex Pension Fund Annual Report 2011/12**

The Board received a report (EPB/17/12) by the Secretary to the Board which presented the Board's Annual Report for 2011/12.

The report was **noted**.

## **12. Internal Audit Report of Pension Fund Work**

The Board considered a report (EPB/18/12) by the Head of Internal Audit which provided a summary of Internal Audit's 2011/12 work and proposals for 2012/13.

Both Pensions Administration and Pension Fund Investment represented major systems in terms of financial control and reporting of the Council's activities and both had received a Full Assurance audit opinion, with the former also displaying an improvement in the control environment since the previous audit. For 2012/13 the total charge to the Pension fund would be £22,500.

Biennial data matching exercises were undertaken by the National Fraud Office to identify inconsistencies or other circumstances that might suggest fraud or error. A further supplementary NFI non mandatory exercise undertaken in December 2011 to provide early identification of potential overpayments in respect of deceased pensioners had identified overpayments of £10,528 with an annual pension value of £53,148.

The outcome of the 2011/12 plan and the planned audits of the Pension Fund for 2012/13 were **noted**.

## **13. Essex Pension Fund Draft Accounts 2011/12**

The Board considered a report (EPB/20/12) by the Executive Director for Finance which provided the draft Pension Fund financial statements included within the draft County Council accounts for 2011/12 and advised of the content and timescale for production of the Pension Fund Annual Report. It was noted that the Draft Accounts had also been considered by the County Council's Audit Committee on 29 June 2012.

It was noted that the liabilities of the Pension Fund stated as the present value of promised retirement benefits in the Draft Accounts met the requirements of International Accounting Standards but did not represent the full actuarial assessment of liabilities calculated on the basis used as part of the triennial valuation of the Pension Fund. It was agreed that consideration should be given to amending the wording of this section to provide further clarity.

The Board acknowledged the considerable amount of work that had gone into preparing the Draft Accounts and expressed their thanks to those concerned.

Members were encouraged to feedback any comments on the Draft Accounts to officers in good time before the Audit Committee meeting on 24 September 2012. The updated Draft Accounts to be presented to the Audit Committee in September would also be circulated to Pension Board members.

**Resolved:**

That the report be noted and consideration given to amending the relevant wording to clarify the position regarding Fund liabilities.

### **Investments**

#### **14. Investment Steering Committee (ISC) Quarterly Report**

The Board received and **noted** a report (EPB/21/12) by the Group Manager Investments which provided an update on ISC activity since the last Board meeting.

#### **15. Forward Look**

The Board received a report (EPB/22/12) by the Secretary to the Board which presented a Forward Look detailing the Board's future business.

The Fund Actuary advised that the results of the interim valuation of funding levels as at 31 March 2012 would be available for presentation at the next Board meeting.

#### **16. Date of Next Meeting**

The following had been scheduled and would begin at 2.00pm (with the exception of the Annual Strategy Day):

|                            |                                  |
|----------------------------|----------------------------------|
| 27 September 2012          | Board meeting                    |
| 14 November 2012           | Annual Strategy Day              |
| 12 December 2012           | Board meeting                    |
| 23 January 2013            | Board member training (all day)* |
| 6 March 2013               | Board meeting                    |
| *Previously afternoon only |                                  |

It was noted that Board meetings would be preceded by a Member Development session between Midday and 1.30pm.

The meeting closed at 3.25pm.

Chairman  
27 September 2012

|                                 |                  |
|---------------------------------|------------------|
| <b>Essex Pension Fund Board</b> | <b>EPB/23/12</b> |
| <b>date: 27 September 2012</b>  |                  |

## **2012 Interim Funding Review**

Joint Report by the Fund Actuary and the Group Manager Investments

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Enquiries to Kevin McDonald on 01245 431401

### **1. Purpose of the Report**

- 1.1 To provide the Board with an update on the Interim Funding Review undertaken by Graeme Muir, Fund Actuary as at 31 March 2012.

### **2. Recommendations**

- 2.1 That the 31 March 2012 Interim Funding Review report be noted.
- 2.2 That no changes, at this time, are made to the Essex Pension Funds' Funding Strategy Statement.

### **3. Background**

- 3.1 All Local Government Pension Scheme Funds are required to have a full Actuarial Valuation every three years. The last such Valuation was as at 31 March 2010, and the next is due as at 31 March 2013.
- 3.2 Alongside Actuarial Valuations, Funds are required to produce, consult on, and publish a Funding Strategy Statement (FSS). The Board agreed the FSS at its meeting on 9 March 2011 and a copy of the FSS is attached at Annex B for information.
- 3.3 The objectives of the FSS include “to determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible”.
- 3.4 In the intervening years between Actuarial Valuations, Funds have the discretion to commission Interim Funding Reviews.
- 3.5 Included within the 2012/13 Business Plan are the following two actions:
  - An interim review of the Fund as at 31 March 2012 will be commissioned from the Actuary;
  - In conjunction with the Interim Review, and in discussion with the Actuary, the Funding Strategy Statement will be reviewed to ensure that it remains appropriate.

### **4. Interim Funding Review 31 March 2012**

- 4.1 The Actuary has now completed this Review, and a summary is attached to this report at Annex A.
- 4.2 At the Board meeting, the Actuary will take Members through a presentation on the Interim Funding Review, with the opportunity for questions and discussion.

### **5. Recommendation**

- 5.1 Following discussion of the Actuary’s presentation Members will be asked to consider the recommendation that, at this time, no change is made to the Funding Strategy Statement.

### **6. Link to Essex Pension Fund Objectives**

- 6.1 One of the Fund’s key objectives is “within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the FSS”.

### **7. Risk Implications**

- 7.1 Both the Interim Funding Review as at 31 March 2012, and reviewing the FSS in conjunction with the Interim Funding Review are intended to monitor progress towards (including risks to that progress) achieving assets equal to 100% of liabilities.

## **8. Communication Implications**

- 8.1 The next Employer Forum will include a presentation on the results of the 31 March 2012 Interim Funding Review.

## **9. Finance and Resources Implications**

- 9.1 Arrangements will be required for communicating the results of the Interim Review at the next Employer Forum.

## **10. Background Papers**

- 10.1 The 2011 Essex Pension Fund Funding Strategy Statement





# Essex Pension Fund

Funding Update Report  
as at 31 March 2012

**Barnett Waddingham**  
Public Sector Consulting

13 August 2012

## Introduction and Summary

We have carried out an assessment of the financial position of the Essex Pension Fund as at 31 March 2012. The purpose of this assessment is to provide an update on the funding position and required employer contribution rates.

This report complies fully with “Technical Accounting Standard R: Reporting Actuarial Information” issued by the Board for Actuarial Standards and this is the only Technical Actuarial Standard which applies to this report. The figures in this report which relate to the 2 year period to 31 March 2012 count as part of a “planning exercise” for the purposes of TAS-R.

We have assessed financial position on 2 bases.

The first approach we have adopted is consistent with the methods and assumptions adopted at the 2010 valuation carried out by Mercers. We have also carried calculations using our own methods and assumptions that we intend using at the forthcoming 2013 valuation.

There are 2 key differences between the 2 approaches which are set out in the following table:

| Feature       | 2010 Valuation<br>(Gilt Plus Model)   | 2013 Valuation<br>(Economic Model)  |
|---------------|---|---|
| Discount Rate | Multiple discount rates based on gilts yields plus an “asset outperformance allowance”                                  | Single discount rate based on expected asset returns, in particular, equity returns derived from economic factors rather than gilts plus an outperformance allowance. |
| Smoothing     | No smoothing adopted – market value of assets at valuation date and assumptions based on spot yields at valuation date. | Asset values and assumptions smoothed over 6 months spanning the valuation date.  |

We have used the results from the 2010 triennial valuation in producing our report.

The results of our assessment indicate that:

- The current estimate of the funding level as at 31 March 2012 using the Economic Model is 73.8% and the average required employer contribution would be 21.1% of payroll assuming a deficit recovery period of 20 years.

- The current estimate of the funding level as at 31 March 2012 using the Gilt Plus Model is 64.5% and the average required employer contribution would be 27.5% of payroll assuming a deficit recovery period of 20 years.
- This compares with the reported (smoothed) funding level of 71.4% and average required employer contribution of 21.4% of payroll at the 2010 funding valuation.

The funding position for each month since the formal valuation is shown in Section "Financial Position since Previous Valuation". It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

The calculations do not make any allowance for the proposed reforms to the LGPS.

We would be pleased to answer any questions arising from this report.



**Graeme D Muir FFA**  
**Partner**

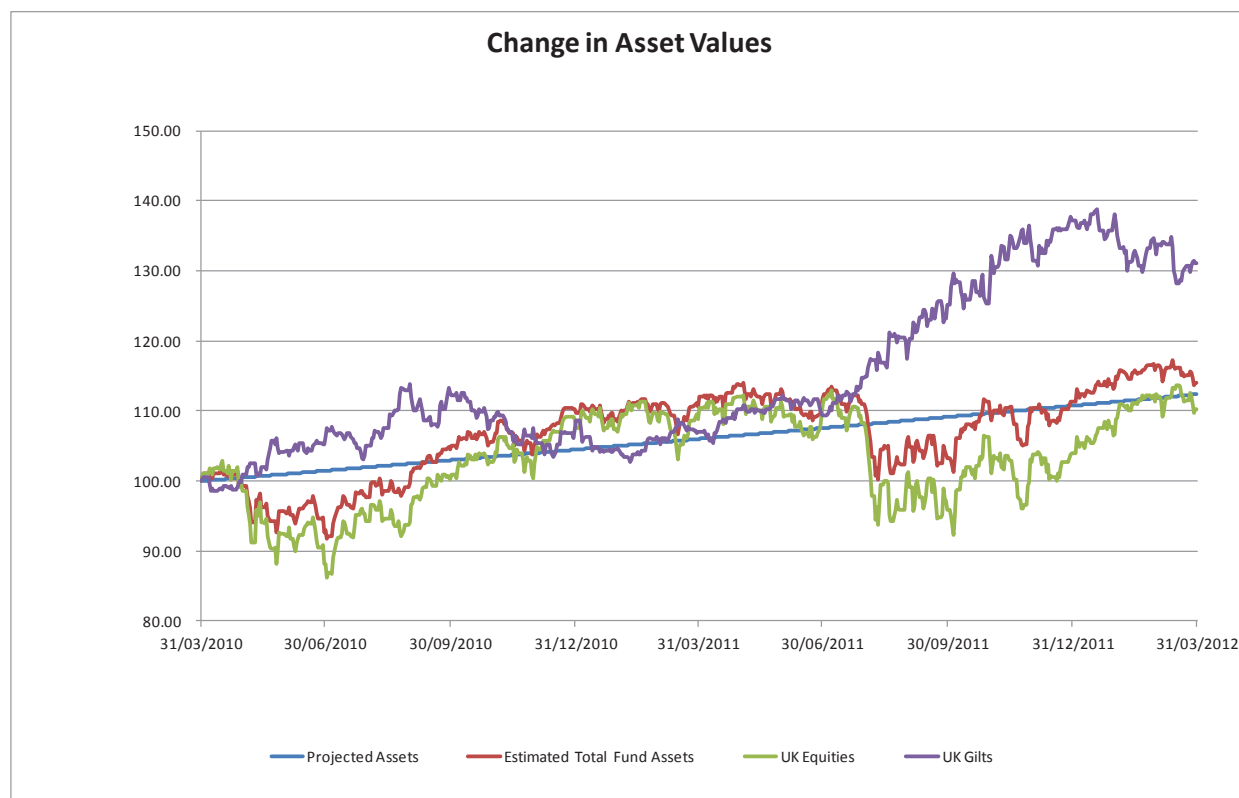
## Assets

The estimated asset allocation of the Essex Pension Fund as at 31 March 2012 is as follows:

| Assets (Market Value) | 31 March 2012    |             | 31 March 2011    |             | 31 March 2010    |             |
|-----------------------|------------------|-------------|------------------|-------------|------------------|-------------|
|                       | £000's           | %           | £000's           | %           | £000's           | £000's      |
| UK Equities           | 368,741          | 10.5%       | 343,945          | 10.1%       | 308,500          | 10.0%       |
| Overseas Equities     | 1,816,866        | 51.6%       | 1,774,914        | 52.0%       | 1,635,050        | 53.0%       |
| Fixed Interest        | 170,600          | 4.8%        | 226,019          | 6.6%        | 37,020           | 1.2%        |
| Property              | 433,905          | 12.3%       | 382,208          | 11.2%       | 370,200          | 12.0%       |
| Index Linked          | 127,446          | 3.6%        | 171,839          | 5.0%        | 117,230          | 3.8%        |
| Corporate Bonds       | 0                | 0.0%        | 0                | 0.0%        | 169,675          | 5.5%        |
| LIBOR+                | 0                | 0.0%        | 0                | 0.0%        | 185,100          | 6.0%        |
| Private Equity        | 154,545          | 4.4%        | 0                | 0.0%        | 185,100          | 6.0%        |
| Infrastructure        | 131,183          | 3.7%        | 0                | 0.0%        | 77,125           | 2.5%        |
| Cash                  | 127,990          | 3.6%        | 96,087           | 2.8%        | 0                | 0.0%        |
| Managed Funds         | 163,410          | 4.6%        | 406,820          | 11.9%       | 0                | 0.0%        |
| Other                 | 25,082           | 0.7%        | 12,180           | 0.4%        | 0                | 0.0%        |
| <b>Total Assets</b>   | <b>3,519,768</b> | <b>100%</b> | <b>3,414,012</b> | <b>100%</b> | <b>3,085,000</b> | <b>100%</b> |

The investment return achieved by the Fund's assets in market value terms for the year to 31 March 2012 is estimated to be 1%. The return achieved since the previous valuation is estimated to be 10.7% (which is equivalent to 5.2% per annum).

The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



As we can see asset values as at 31 March 2012 in market value terms are slightly more than they were projected to be.

## Changes in Market Conditions – Market Yields and Discount Rates

The actual investment returns earned by the Fund will impact on the value of the Fund's assets. The value of the Fund's liabilities however is affected by expectations of future returns represented by the discount rate and inflation.

The following tables show how these assumptions have changed since the last triennial valuation using both funding models.

| Assumptions (Economic Model) | 31 March 2012 |        | 31 March 2011 |        | 31 March 2010 |        |
|------------------------------|---------------|--------|---------------|--------|---------------|--------|
|                              | Nominal       | Real   | Nominal       | Real   | Nominal       | Real   |
|                              | %p.a.         |        | %p.a.         |        | %p.a.         |        |
| RPI Increases                | 3.06%         | 0.00%  | 3.50%         | 0.00%  | 3.49%         | 0.00%  |
| CPI Increases                | 2.56%         | -0.50% | 3.00%         | -0.50% | 2.99%         | -0.50% |
| Salary Increases             | 4.06%         | 1.00%  | 4.50%         | 1.00%  | 4.49%         | 1.00%  |
| Discount Rate (Smoothed)     | 5.41%         | 2.28%  | 5.60%         | 2.04%  | 5.89%         | 2.33%  |

| Assumptions (Gilt Plus Model) | 31 March 2012 |        | 31 March 2011 |        | 31 March 2010 |        |
|-------------------------------|---------------|--------|---------------|--------|---------------|--------|
|                               | Nominal       | Real   | Nominal       | Real   | Nominal       | Real   |
|                               | %p.a.         |        | %p.a.         |        | %p.a.         |        |
| RPI Increases (Unsmoothed)    | 3.31%         | 0.00%  | 3.58%         | 0.00%  | 3.50%         | 0.00%  |
| CPI Increases (Unsmoothed)    | 2.55%         | -0.50% | 2.91%         | -0.50% | 3.00%         | -0.50% |
| Salary Increases (Unsmoothed) | 4.05%         | 1.00%  | 4.41%         | 1.00%  | 4.50%         | 1.00%  |
| Discount Rate (Unsmoothed)    | 4.81%         | 1.45%  | 5.90%         | 2.24%  | 6.00%         | 2.42%  |

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities and vice versa.

As we see the real discount rate using the Economic Model is relatively similar to the rate at the at the 2010 valuation. However under the Gilt Plus Model, the real discount rate is much lower, significantly increasing the value of liabilities used for funding purposes.

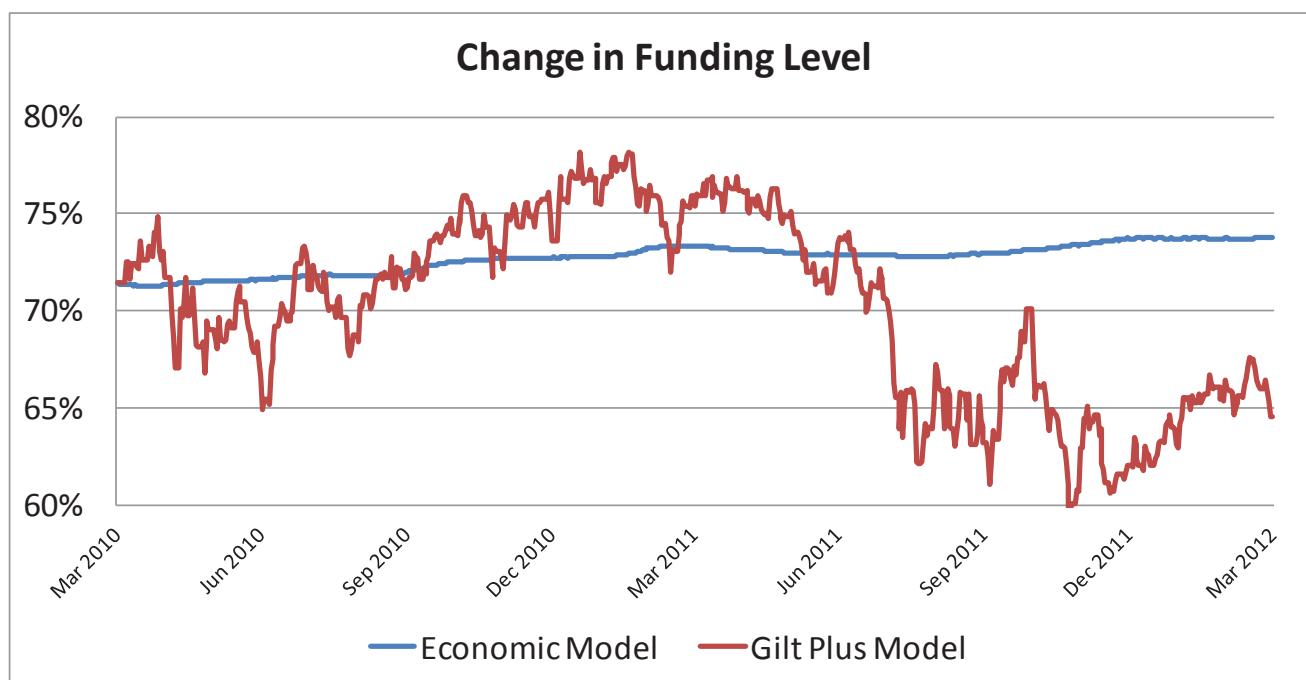
## Financial Position since Previous Valuation

Below we show the financial position on both models for each month since the previous triennial valuation. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures for the previous 3 months are projected numbers and likely to change up until 3 months after the reporting date.

| Economic Model |                  |                       |                           |                    |                                |                      |                              |               |   |
|----------------|------------------|-----------------------|---------------------------|--------------------|--------------------------------|----------------------|------------------------------|---------------|---|
| Valuation Date | Assets<br>£000's | Liabilities<br>£000's | Surplus/Deficit<br>£000's | Funding Level<br>% | Ongoing Cost<br>(% of Payroll) | Past Service<br>Ctbn | Total Ctbn (%<br>of payroll) | Discount Rate | Return<br>required to<br>restore<br>funding level |
| March 2010     | 3,085,000        | 4,319,000             | (1,234,000)               | 71%                | 12.2%                          | 9.2%                 | 21.4%                        | 5.9%          | 7.6%  |
| April 2010     | 3,089,001        | 4,330,228             | (1,241,227)               | 71%                | 12.2%                          | 9.3%                 | 21.5%                        | 5.8%          | 7.5%  |
| May 2010       | 3,118,779        | 4,361,417             | (1,242,638)               | 72%                | 12.2%                          | 9.3%                 | 21.5%                        | 5.8%          | 7.5%  |
| June 2010      | 3,142,172        | 4,387,377             | (1,245,206)               | 72%                | 12.3%                          | 9.3%                 | 21.5%                        | 5.7%          | 7.4%  |
| July 2010      | 3,167,197        | 4,412,475             | (1,245,278)               | 72%                | 12.3%                          | 9.2%                 | 21.5%                        | 5.6%          | 7.3%  |
| August 2010    | 3,218,470        | 4,483,206             | (1,264,736)               | 72%                | 12.5%                          | 9.3%                 | 21.8%                        | 5.6%          | 7.2%  |
| September 2010 | 3,281,812        | 4,559,333             | (1,277,520)               | 72%                | 12.7%                          | 9.3%                 | 22.0%                        | 5.5%          | 7.2%  |
| October 2010   | 3,354,225        | 4,624,311             | (1,270,085)               | 73%                | 12.9%                          | 9.2%                 | 22.1%                        | 5.5%          | 7.2%  |
| November 2010  | 3,411,334        | 4,694,571             | (1,283,237)               | 73%                | 13.1%                          | 9.2%                 | 22.3%                        | 5.5%          | 7.2%  |
| December 2010  | 3,449,021        | 4,741,584             | (1,292,562)               | 73%                | 13.2%                          | 9.2%                 | 22.4%                        | 5.6%          | 7.2%  |
| January 2011   | 3,478,881        | 4,780,531             | (1,301,650)               | 73%                | 13.3%                          | 9.2%                 | 22.5%                        | 5.6%          | 7.2%  |
| February 2011  | 3,509,306        | 4,799,221             | (1,289,915)               | 73%                | 13.3%                          | 9.1%                 | 22.4%                        | 5.6%          | 7.2%  |
| March 2011     | 3,532,108        | 4,814,663             | (1,282,556)               | 73%                | 13.3%                          | 9.0%                 | 22.3%                        | 5.6%          | 7.2%  |
| April 2011     | 3,533,902        | 4,830,657             | (1,296,755)               | 73%                | 13.3%                          | 9.1%                 | 22.4%                        | 5.6%          | 7.2%  |
| May 2011       | 3,493,294        | 4,788,075             | (1,294,781)               | 73%                | 13.0%                          | 9.1%                 | 22.1%                        | 5.7%          | 7.3%  |
| June 2011      | 3,462,374        | 4,749,636             | (1,287,262)               | 73%                | 12.8%                          | 9.1%                 | 21.8%                        | 5.7%          | 7.3%  |
| July 2011      | 3,438,091        | 4,718,408             | (1,280,316)               | 73%                | 12.6%                          | 9.0%                 | 21.6%                        | 5.6%          | 7.2%  |
| August 2011    | 3,417,421        | 4,694,492             | (1,277,071)               | 73%                | 12.4%                          | 9.0%                 | 21.4%                        | 5.6%          | 7.2%  |
| September 2011 | 3,407,688        | 4,670,131             | (1,262,443)               | 73%                | 12.2%                          | 8.9%                 | 21.1%                        | 5.6%          | 7.2%  |
| October 2011   | 3,408,402        | 4,661,243             | (1,252,841)               | 73%                | 12.1%                          | 8.8%                 | 20.9%                        | 5.5%          | 7.1%  |
| November 2011  | 3,463,511        | 4,720,014             | (1,256,503)               | 73%                | 12.2%                          | 8.8%                 | 21.0%                        | 5.4%          | 7.0%  |
| December 2011  | 3,522,375        | 4,777,832             | (1,255,457)               | 74%                | 12.4%                          | 8.7%                 | 21.1%                        | 5.4%          | 6.9%  |
| January 2012   | 3,551,874        | 4,819,169             | (1,267,295)               | 74%                | 12.5%                          | 8.8%                 | 21.2%                        | 5.4%          | 6.9%  |
| February 2012  | 3,561,022        | 4,831,038             | (1,270,017)               | 74%                | 12.4%                          | 8.8%                 | 21.2%                        | 5.4%          | 7.0%  |
| March 2012     | 3,568,174        | 4,835,571             | (1,267,397)               | 74%                | 12.4%                          | 8.7%                 | 21.1%                        | 5.4%          | 6.9%  |

| Gilt Plus Model |                  |                       |                           |                    |                                |                      |                              |               |   |
|-----------------|------------------|-----------------------|---------------------------|--------------------|--------------------------------|----------------------|------------------------------|---------------|---|
| Valuation Date  | Assets<br>£000's | Liabilities<br>£000's | Surplus/Deficit<br>£000's | Funding Level<br>% | Ongoing Cost<br>(% of Payroll) | Past Service<br>Ctbn | Total Ctbn (%<br>of payroll) | Discount Rate | Return<br>required to<br>restore<br>funding level |
| March 2010      | 3,085,000        | 4,319,000             | (1,234,000)               | 71%                | 12.2%                          | 9.2%                 | 21.4%                        | 6.0%          | 7.7%  |
| April 2010      | 3,064,406        | 4,271,979             | (1,207,573)               | 72%                | 11.9%                          | 9.2%                 | 21.1%                        | 6.0%          | 7.7%  |
| May 2010        | 2,953,022        | 4,278,609             | (1,325,588)               | 69%                | 11.9%                          | 10.1%                | 21.9%                        | 5.8%          | 7.7%  |
| June 2010       | 2,869,910        | 4,311,256             | (1,441,346)               | 67%                | 11.9%                          | 10.9%                | 22.8%                        | 5.7%          | 7.8%  |
| July 2010       | 3,013,410        | 4,239,951             | (1,226,541)               | 71%                | 11.5%                          | 9.3%                 | 20.9%                        | 5.8%          | 7.6%  |
| August 2010     | 3,075,513        | 4,495,835             | (1,420,322)               | 68%                | 12.5%                          | 10.5%                | 23.0%                        | 5.3%          | 7.2%  |
| September 2010  | 3,221,666        | 4,525,137             | (1,303,471)               | 71%                | 12.6%                          | 9.6%                 | 22.2%                        | 5.4%          | 7.1%  |
| October 2010    | 3,258,721        | 4,409,712             | (1,150,991)               | 74%                | 12.0%                          | 8.5%                 | 20.6%                        | 5.7%          | 7.2%  |
| November 2010   | 3,201,111        | 4,439,016             | (1,237,905)               | 72%                | 12.1%                          | 9.1%                 | 21.2%                        | 5.8%          | 7.4%  |
| December 2010   | 3,385,039        | 4,599,529             | (1,214,491)               | 74%                | 12.7%                          | 8.8%                 | 21.5%                        | 5.7%          | 7.3%  |
| January 2011    | 3,345,628        | 4,432,150             | (1,086,522)               | 75%                | 11.9%                          | 8.0%                 | 19.9%                        | 6.0%          | 7.4%  |
| February 2011   | 3,423,568        | 4,510,015             | (1,086,447)               | 76%                | 12.1%                          | 7.9%                 | 20.1%                        | 5.9%          | 7.3%  |
| March 2011      | 3,414,012        | 4,530,133             | (1,116,121)               | 75%                | 12.1%                          | 8.1%                 | 20.2%                        | 5.9%          | 7.3%  |
| April 2011      | 3,509,058        | 4,608,857             | (1,099,800)               | 76%                | 12.4%                          | 7.9%                 | 20.3%                        | 5.7%          | 7.1%  |
| May 2011        | 3,491,160        | 4,646,083             | (1,154,922)               | 75%                | 12.4%                          | 8.3%                 | 20.7%                        | 5.7%          | 7.1%  |
| June 2011       | 3,450,844        | 4,696,840             | (1,245,996)               | 73%                | 12.6%                          | 8.9%                 | 21.4%                        | 5.8%          | 7.4%  |
| July 2011       | 3,423,534        | 4,852,099             | (1,428,565)               | 71%                | 13.1%                          | 10.0%                | 23.1%                        | 5.5%          | 7.3%  |
| August 2011     | 3,260,367        | 4,851,265             | (1,590,898)               | 67%                | 13.0%                          | 11.1%                | 24.1%                        | 5.4%          | 7.4%  |
| September 2011  | 3,182,991        | 5,037,233             | (1,854,241)               | 63%                | 13.7%                          | 12.7%                | 26.4%                        | 5.0%          | 7.3%  |
| October 2011    | 3,386,787        | 5,015,033             | (1,628,246)               | 68%                | 13.5%                          | 11.2%                | 24.7%                        | 4.8%          | 6.8%  |
| November 2011   | 3,407,500        | 5,416,073             | (2,008,573)               | 63%                | 15.0%                          | 13.3%                | 28.3%                        | 4.6%          | 6.9%  |
| December 2011   | 3,435,448        | 5,542,446             | (2,106,997)               | 62%                | 15.4%                          | 13.7%                | 29.2%                        | 4.5%          | 6.9%  |
| January 2012    | 3,500,971        | 5,564,052             | (2,063,081)               | 63%                | 15.4%                          | 13.4%                | 28.8%                        | 4.5%          | 6.8%  |
| February 2012   | 3,573,832        | 5,470,708             | (1,896,876)               | 65%                | 15.0%                          | 12.4%                | 27.4%                        | 4.7%          | 6.8%  |
| March 2012      | 3,519,768        | 5,453,213             | (1,933,445)               | 65%                | 14.8%                          | 12.7%                | 27.5%                        | 4.8%          | 7.0%  |

The following chart plots the change in funding level using both models.

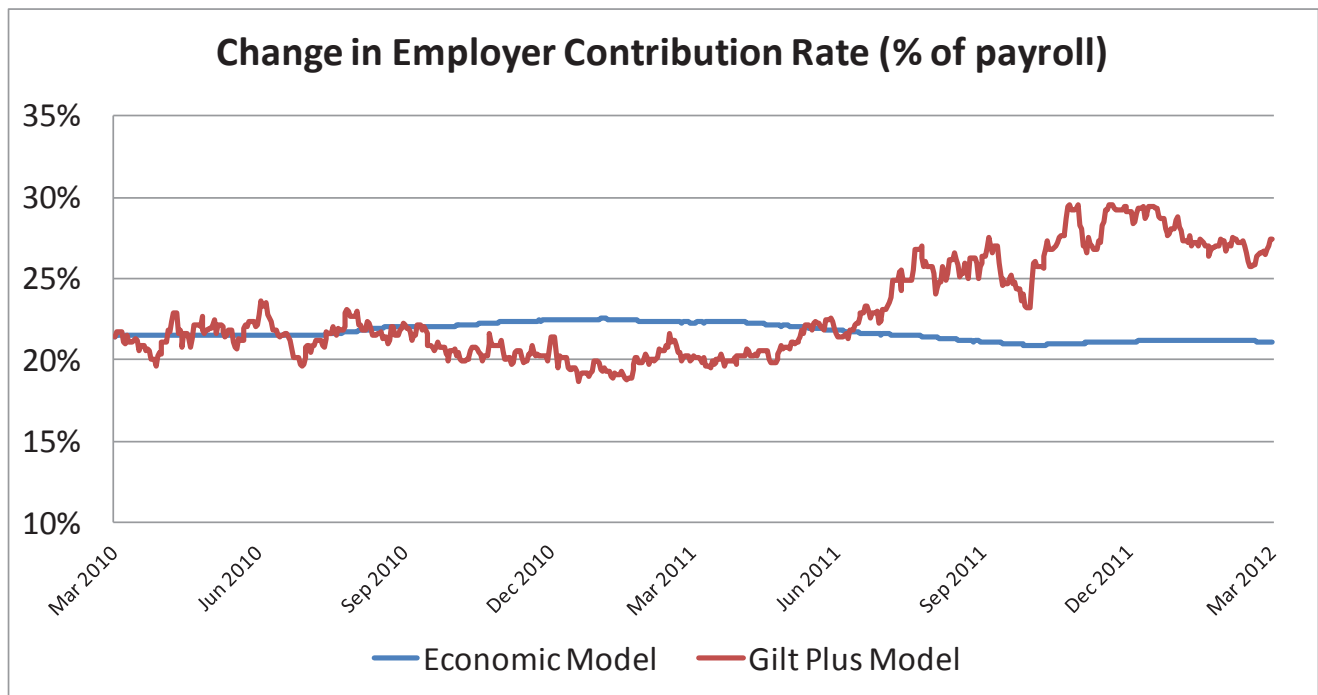


The reduction in funding level under the Gilt Plus Model is primarily due to the reduction in discount rate underlying the liability valuation. The discount rate is a function of gilt yields which have reduced significantly since the previous valuation, some of which is most likely to be due to the Bank of England's "Quantitative Easing" program where they are buying gilts regardless of price to put more cash into the economy.

The discount rate underlying the Economic Model is not based purely on gilt yields and so has not been impacted to the same extent.

From the chart we also see the benefit of not assessing the funding position on a single day with significantly less volatility.

The following chart shows the change in required average employer contribution rate.





# Essex Pension Fund

## Funding Strategy Statement **2011**

As at 31 March 2011

# Essex Pension Fund

## Funding Strategy Statement 2011

*This Statement has been prepared by Essex County Council (the Administering Authority) to set out the funding strategy for the Essex County Council Pension Fund (the Fund), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.*

### 1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:-
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- The FSS must be revised and published whenever there is a material change in the policy on the matters set out in either the FSS or the SIP.

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

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations"). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the Actuary appointed by the Fund, including a rates and adjustments certificate. Contributions to the Fund should be set so as to “secure its solvency”, whilst the Actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The Actuary must have regard to the FSS in carrying out the valuation.

## 2. Purpose of the FSS in policy terms

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

The purpose of this FSS is:

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

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

## 3. Funding Objectives and purpose of the Fund

The funding objectives of the Fund are:

- 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

The purpose of the Fund is to:

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

as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

#### 4. Responsibilities of the key parties

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

The Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund Actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP when necessary.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- pay over all contributions, including their own as determined by the Fund Actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain; and

- notify the Administering Authority promptly of all changes to membership or, other changes proposed, which affect future funding.

The Fund Actuary should:

- prepare valuations, including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

## 5. Solvency issues and target funding levels

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

The key assumptions making up the funding strategy and as adopted for the 2010 actuarial valuation are that:

- our long-term aim is to achieve 100% funding of pension liabilities;
- the Scheme is expected to continue for the foreseeable future;
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term;
- we wish to minimise fluctuations in employers' contributions in order to assist them with their financial planning and to meet their financial responsibilities to the Fund;
- the Fund is relatively immature in terms of its membership profile with a high proportion of contributors and we can therefore take advantage of that fact in setting our investment strategy;
- we have a large number of employing bodies with different characteristics including size and strength of covenant.

The effective date of the current actuarial valuation of the Fund is 31 March 2010. The preliminary results of the valuation indicate that overall the assets of the Fund represented 71% of projected accrued liabilities at the valuation date.

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

- we will set employers' contribution rates to achieve 100% funding of liabilities in the long term;
- employer contribution rates will be made up of two separate elements:
  - an ongoing rate to recover the costs of future service; and
  - a deficit recovery contribution to recover the shortfall revealed by the actuarial valuation;

we will for the purpose of our administration, the calculation of contribution rates and for the setting of maximum deficit recovery periods, deal with town and parish councils (T&PC) as a group;

- the small admitted bodies group (SABG) will be wound up with effect from 1 April 2011. From that date each former member of the group will be treated as a standalone employer in the Fund. As an interim measure, the contributions for the period 1 April 2011 to 31 March 2014 will be calculated on a grouped basis under the previous group rules of operation;
- we will set deficit recovery periods for the T&PC and former SABG that:
  - as far as possible are likely to reduce the level of deficit during the inter-valuation period if all of the Actuary's assumptions prove correct; and
  - safeguard the interests of the Fund by having regard to the strength of covenant and the financial stability of the grouped employers;
- schools, including former grant maintained schools, will be treated as part of the local authority within whose area of responsibility they fall for the purpose of setting contribution rates and deficit recovery periods; any discretions in respect of these matters will fall to the local authority; schools that opt to become academies become stand-alone employers in their own right but inherit responsibility for the share of scheme deficit attributable to the former school(s) from which they were formed and that share of scheme deficit will then be taken into account in calculating their separate contribution rate.

- we will set standard and maximum deficit recovery periods for the remaining employers but will leave them the freedom to decide to repay their share of the deficit over a shorter period should they so choose;
  - the standard deficit recovery periods will be set at levels that safeguard the interests of the Fund by having regard to the Fund's judgement of the strength of covenant and the financial stability of individual employers;
  - individual employers will, at the discretion of the Fund, be able to increase their deficit recovery period up to the maximum deficit recovery period subject to providing assurance of greater strength of covenant and financial stability. (e.g. transferor Scheme employer consent, provision of a bond, a deposit, a parent company guarantee or other surety);
  - no reduction in the level of an employer's contributions will be allowed unless the deficit recovery period adopted by that employer is equal to or less than the standard deficit recovery period.

- The deficit recovery periods for the following employers will be as follows:

| Employer Category        | Deficit Recovery Period  |
|--------------------------|--|
| town and parish councils | 30 years (20 year period for purpose of any possible contribution reductions)                          |
| Small admission bodies   | The average remaining working life of the small admission bodies' group work-forces as at 1 April 2010 |

- The deficit recovery periods for other employers will be as follows:

| Employer Category  | Standard Deficit Recovery Period   | Maximum Deficit Recovery Period |
|--|--|---------------------------------|
| scheme employers   | 20 years   | 30 years                        |
| Arms length management organisations of scheme employers   | 20 years   | 30 years                        |
| care trusts  | 20 years   | 30 years                        |
| admission bodies working on contracts for scheme employers | The period that the contract still has to run.                                     | 30 years                        |
| Other admission bodies                                     | The average remaining working life of the employer's work-force as at 1 April 2010 | 30 years                        |

- that the former small admitted bodies group employers deficit recovery contributions and ongoing rate contributions will be phased in, in steps, over the 6 year period 2011/12 to 2016/17;
- that the T&PC employers will be given the opportunity to phase in the increase in their contributions in steps over the 3 year period 2011/12 to 2013/14;

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer would be due to the Scheme as a termination contribution, unless it was agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer would be transferred within the Scheme to another participating employer. The "least risk" basis of assessment of a termination payment will apply for all admission bodies, except where a successor or guarantor body inherits ongoing responsibility for the orphan liabilities arising on cessation of the admission.
- In certain instances, and in particular for Fund employers which are considered by the Administering Authority to provide a high level of covenant, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the **funding target**. This higher level of return assumed will, in particular, reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in the Appendix.
- All transferee admission bodies (i.e. "best value" contractors delivering services to scheme employers) should be accepted for admission into the Fund so long as all the necessary regulatory requirements for admission are satisfied. No special conditions or requirements will apply for transferee admission bodies given their ultimately close links with the Scheme Employer, although the Fund retains the right to seek special terms or conditions if these are considered warranted in specific cases.  
In the case of a transferee admission body, or any participating employer acting as guarantor in the case of non-transferee admission bodies, implementation of an alternative funding basis or approach (including on termination) will be subject to agreement from the relevant guarantor body/scheme employer. Any special funding arrangements between the scheme employer and transferee admission body should be covered by the commercial arrangements, i.e. outside the Fund and not part of the admission agreement.
- Community admission bodies will be accepted for participation in the Fund, or otherwise, on a case by case consideration of the merits of admission and the associated risks to the Fund. In general, a guarantee or alternative surety will be required for all community admission body cases, with this requirement waived at the Fund's discretion on an exceptions basis.  
For community admission bodies the Fund will consider application of special conditions or requirements as deemed appropriate. Examples of such conditions are:
  - a guarantee from another Fund employer with sufficient covenant strength
  - a surety bond or other contingent asset
  - an independent review of covenant, including the possibility of a parent guarantee.
 All community admission bodies will be allowed flexibility to elect to adopt a funding approach prior to termination in line with the "least risk" exit debt basis, if that is their preference.



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

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

- the responses made to the consultation with employers on the FSS principles;
- the need to balance a desire to attain the target as soon as possible against the major increases in the level of employers' contributions which a shorter period would require; and
- The Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

#### 6. Link to investment policy set out in the SIP

The preliminary results of the 2010 valuation show the liabilities to be 71 % covered by the current assets, with the funding deficit of 29 % being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments that produces a stream of income exactly matching the expected liability payment stream. However, it is possible to construct a portfolio that closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher and the declared funding level would have been correspondingly reduced, to approximately 54%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements or at the minimum contribute to offsetting increases in contributions arising from issues such as increased longevity. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

**In preparation for the 2010 valuation process, the Fund's investment consultants, Hymans Robertson, were asked to update the investment expectations for the Fund. The following is a summary of their findings which will in due course be reflected in an updated version of the SIP to be considered by the ISC later in the year:**

**Expected strategic return on assets**

**At 31 March 2010, Hymans Robertson's assumptions with regard to the long term returns on asset classes were:**

| <b>Asset class</b>              | <b>20 year return (% p.a.)</b> |
|---------------------------------|--------------------------------|
| <b>UK Equity</b>                | <b>7.9%</b>                    |
| <b>Overseas / Global Equity</b> | <b>7.6%</b>                    |
| <b>Private Equity</b>           | <b>9.0%</b>                    |
| <b>Fixed Interest Gilts</b>     | <b>4.7%</b>                    |
| <b>Index-linked Gilts</b>       | <b>4.5%</b>                    |
| <b>Corporate Bonds</b>          | <b>5.5%</b>                    |
| <b>LIBOR+</b>                   | <b>5.0%</b>                    |
| <b>Property</b>                 | <b>5.8%</b>                    |
| <b>Infrastructure</b>           | <b>5.8%</b>                    |

Given the Fund's long term strategic allocation of assets at that time (re-weighting for Private equity) of:

|             |  |
|-------------|--|
| <b>%</b>    |  |
| <b>10.0</b> | <b>UK Equity</b>                           |
| <b>53.0</b> | <b>Overseas / Global Equity</b>            |
| <b>6.0</b>  | <b>Private equity (including activism)</b> |
| <b>1.2</b>  | <b>Fixed Interest Gilts</b>                |
| <b>3.8</b>  | <b>Index-Linked Gilts</b>                  |
| <b>5.5</b>  | <b>Corporate Bonds</b>                     |
| <b>6.0</b>  | <b>LIBOR + (including Company Loans)</b>   |
| <b>12.0</b> | <b>Property</b>                            |
| <b>2.5</b>  | <b>Infrastructure</b>                      |

this would imply a long term strategic expected return of 7.0% p.a. on an arithmetic weighted average of these individual returns. This does not take account of any expected return from active management (including currency) or the benefit we might expect from diversification (which we expect to come through as 'bonuses'). Using Hymans Robertson's internal asset model (which, in this case, also does not take account of active management, but does allow for the benefits of diversification) some analysis was performed with respect to various expected returns and the probability of achieving that return. The model (based on the current structure) calculates a central expected return of 7.9% p.a. The overall expected return on a portfolio of assets does not solely reflect the arithmetic weighted average of the returns on the individual asset classes. This is due to diversification i.e. when you combine a portfolio of assets which are not fully correlated to each other, the expected portfolio return is greater than the arithmetic combination of the individual returns. This reflects the lower volatility of the portfolio compared to the volatility of the sum of the parts. This is sometimes referred to as 'volatility drag'.

The probability of achieving particular levels of out-performance relative to the liabilities is as follows:

|  | <b>1 year</b> | <b>3 years</b> | <b>20 years</b> |
|--|---------------|----------------|-----------------|
| <b>Probability of achieving liabilities + 1.0% p.a</b> | <b>57%</b>    | <b>63%</b>     | <b>77%</b>      |
| <b>Probability of achieving liabilities + 2.5% p.a</b> | <b>53%</b>    | <b>56%</b>     | <b>62%</b>      |
| <b>Probability of achieving liabilities + 3.5% p.a</b> | <b>50%</b>    | <b>52%</b>     | <b>51%</b>      |

The Actuary's current market related assumptions in regard to the 2010 valuation are:

|  |            |
|--|------------|
|  | %          |
| A liability based fixed interest gilt yield of:    | 4.5        |
| A liability based index linked gilt real yield of: | 0.7        |
| Adjustment for inflation risk premium and CPI:     | <u>0.8</u> |
| Therefore implied inflation of:                    | <u>3.0</u> |

His asset out performance assumptions, consistent with previous actuarial valuations are:

|   |                       |
|---|-----------------------|
| <u>Past service liabilities</u>         |                       |
| Pre-retirement =                        | gilts + 2.5%          |
| Post – retirement =                     | gilts + 1%            |
| Total fund =                            | gilts + 1.9%          |
| <br><u>Future service liabilities</u> = | <br>Inflation + 3.75% |

Given the above assumptions as to fixed interest gilt yields and inflation these give the following assumed investment return requirements for the fund relative to conditions as at 31 March 2010:

|   |      |
|---|------|
|   | %    |
| Past service liabilities = 4.5% + 1.9% =    | 6.40 |
| Future service liabilities = 3.0% + 3.75% = | 6.75 |

Examination of the Fund Returns expected by Hymans Robertson shows a long term strategic expected return (for the individual asset classes) of 7.0% and a long term strategic expectation for the whole fund allowing for the benefit of diversification of 7.9%.

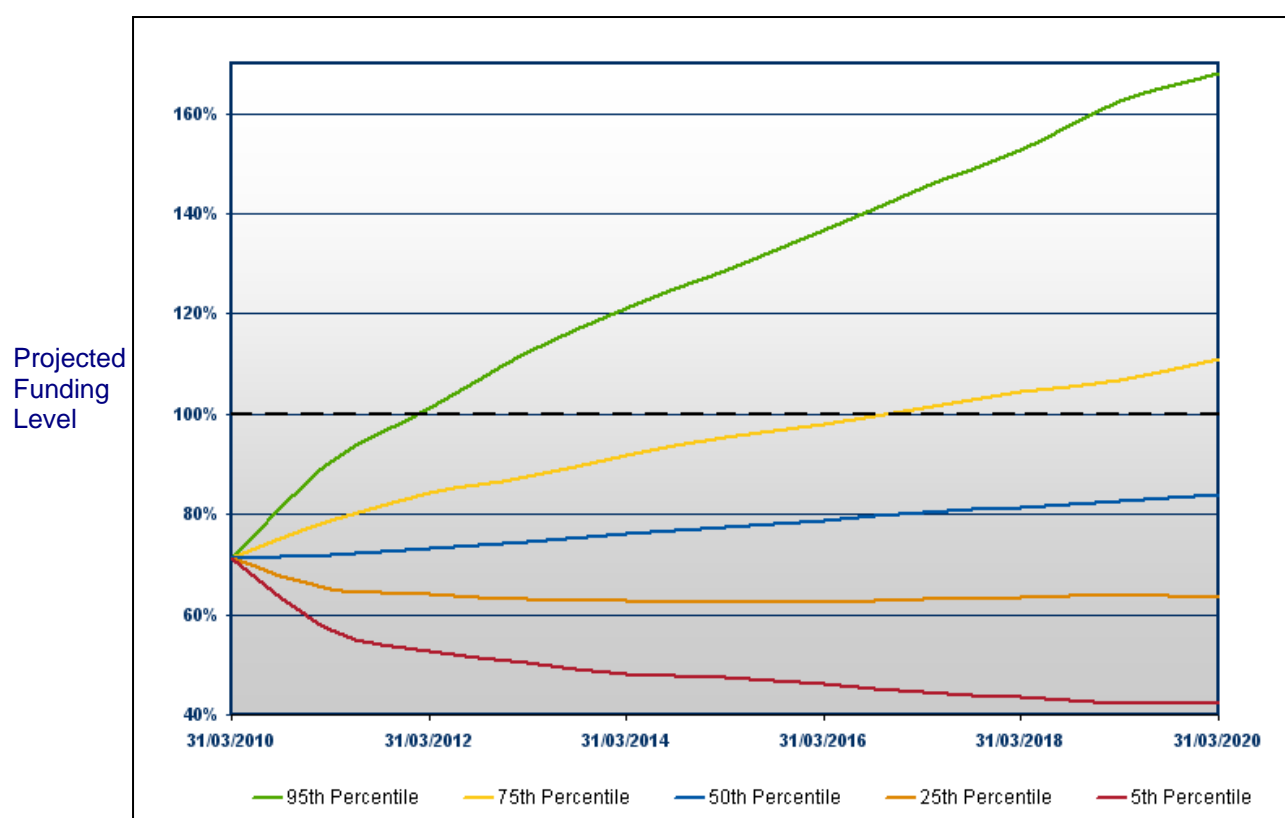
It will be seen that there is a margin between the valuation assumptions required to meet the funding target and the long term investment return expected for the Fund. This gives a degree of comfort in the funding plan, providing a buffer to assist the Fund in riding out periods of adverse experience or other events.

## 7. Identification of risks and counter-measures

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

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

The chart below shows a “funnel of doubt” funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



The Administering Authority has itself undertaken an exercise to identify those risks that are specific to the Fund and the measures to be taken to counter those risks.

The resultant risk assessment is attached to this FSS as Schedule A.

## 8. Monitoring and Review

The Administering Authority has taken advice from the Fund Actuary in preparing this Statement, and has also consulted with its institutional investment advisers Hymans Robertson, its independent investment advisers Keith Neale and Tony Hardy and the Pension Fund's Investment Steering Committee.

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

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

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

## Essex County Council Pension Fund

## Funding Strategy Risk Analysis

| Objectives Area at Risk | Objective at Risk   | Description of Risk of not Achieving the Objectives  | Possible Actions   |
|-------------------------|---|--|--|
| <b>Funding Risks</b>    |   |  |  |
| Funding                 | Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters   | Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions   | Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. At each triennial valuation assess funding position and progress made to full funding. Full annual interim reviews which to allow consideration of the position.  |
| Funding                 | Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters   | Market yields move at variance with actuarial assumptions resulting in increases in liabilities, reduced solvency levels and increased employer contributions  | Full annual interim reviews which to allow consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.   |
| Funding                 | Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters   | Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and increases required in employers' contributions | Diversified investment structure and frequent monitoring against targets with potential for a change of managers where considered appropriate.   |
| Funding                 | Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters   | Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions   | Monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis.   |
| Funding                 | Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters   | Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions  | Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible. |
| Funding                 | To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible | Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant   | At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. Dialogue with employers wherever possible.  |
| Funding                 | To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible | Mismatch in asset returns and liability movements result in increased employer contributions   | Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.  |
| Funding                 | To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible | Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions  | At each triennial actuarial valuation an analysis is carried out to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in the short and long term.   |
| Funding                 | To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible | Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions   | Risk profile analysis performed with a view on the strength of individual employer's covenant being formed when setting terms of admission agreement (inc bonds) and in setting term of deficit recovery whilst attempting to keep employers' contributions as stable and affordable as possible. Pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible                           |
| Funding                 | To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible | Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cashflow requirements.   | Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.   |

|         |  |   |   |
|---------|--|---|---|
| Funding | To manage employers' liabilities effectively by the adoption of employer specific funding objectives | Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase | Ensure that employers are reminded of their responsibilities, monitor and send reminders of employers responsibilities re this where appropriate, investigate the adoption of an administration strategy to clarify employer responsibilities. Risk profile analysis and officer dialogue with employers concerned (including guarantors as appropriate)  |
| Funding | To manage employers' liabilities effectively by the adoption of employer specific funding objectives | Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)  | At each triennial valuation pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.   |
| Funding | To manage employers' liabilities effectively by the adoption of employer specific funding objectives | Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer   | At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. Dialogue with employers wherever possible.   |
| Funding | To manage employers' liabilities effectively by the adoption of employer specific funding objectives | Failure to ensure appropriate transfer is paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.  | Follow the standardised approach to bulk transfers of liabilities as part of admission policy framework, complying with any statutory requirements and protecting the interests of the Fund's employers by measuring the solvency of the Fund and relevant employers before and after transfer.   |
| Funding | To have consistency between the investment strategy and funding strategy                             | Over or under cautious determination of employer funding requirements due to inconsistent approach or failing to recognise the impact of the investment strategy on funding   | Measurement will look at expected return projections vs actuarial assumptions in order to test the continued appropriateness and consistency between the funding and investment strategy.   |
| Funding | Maintain liquidity in order to meet projected net cash-flow outgoings                                | Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due   | Holding liquid assets and maintain positive cashflows. Reviews performed to monitor cashflow requirements   |
| Funding | Maintain liquidity in order to meet projected net cash-flow outgoings                                | Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets  | Holding liquid assets and maintain positive cashflows. Reviews performed to monitor cashflow requirements   |
| Funding | Minimise unrecoverable debt on termination of employer participation                                 | 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            | Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (inc bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through traffic light analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible                                 |
| Funding | Minimise unrecoverable debt on termination of employer participation                                 | Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund   | Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (inc bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through traffic light analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible |



## Actuarial Valuation as at 31 March 2010

### Method and assumptions used in calculating the funding target

#### Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (The Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

#### Financial assumptions

##### Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.5% p.a. for the period pre-retirement and 1% p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

##### Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.5% pa has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

## Inflation

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an allowance for retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, as announced in June 2010. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary.

The overall reduction to the market's expectation for long term RPI inflation at the valuation date is 0.8% per annum.

## Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

## Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

## Mortality

The mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) Bureau, making allowance for future improvements in longevity and the characteristics of the scheme. The mortality tables used are set out below, with an adjustment reflecting the specific characteristics of the EPF membership. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary.

.

Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in longevity 'improvements' year on year in the future in line with the CMI projections, allowing for longer term improvements to be 1% per annum.

## Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

## Summary of key whole Fund financial assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2010 actuarial valuation

|   |            |
|---|------------|
| Long-term gilt yields                             |            |
| Fixed interest                                    | 4.5% p.a.  |
| Index linked                                      | 0.7% p.a.  |
| Adjustment for CPI and IRP                        | 0.8% p.a.  |
| Implied CPI price inflation                       | 3.0% p.a.  |
| Past service Funding Target financial assumptions |            |
| Investment return pre-retirement                  | 7.0% p.a.  |
| Investment return post-retirement                 | 5.5% p.a.  |
| Salary increases                                  | 4.5% p.a.  |
| Pension increases                                 | 3.0% p.a.  |
| Future service accrual financial assumptions      |            |
| Investment return                                 | 6.75% p.a. |
| CPI price inflation                               | 3.0% p.a.  |
| Salary increases                                  | 4.5% p.a.  |
| Pension increases                                 | 3.0% p.a.  |

## Demographic assumptions

The mortality tables adopted for this valuation are as follows:

|                                 | Table   | Adjustment |
|---------------------------------|---|------------|
| Males normal health pensioners  | S1PMA CMI_2009_M [1%]                           | 91%        |
| Female normal health pensioners | S1PFA CMI_2009_F [1%]                           | 85%        |
| Males ill health pensioners     | As for male normal health pensioners +3 years   |            |
| Female ill health pensioners    | As for female normal health pensioners +3 years |            |
| Male dependants                 | S1PMA CMI_2009_M [1%]                           | 110%       |
| Female dependants               | S1DFA CMI_2009_F [1%]                           | 93%        |
| Male future dependants          | S1PMA CMI_2009_M [1%]                           | 96%        |
| Female future dependants        | S1DFA CMI_2009_F [1%]                           | 89%        |

Other demographic assumptions are noted below:

|                    |   |
|--------------------|---|
| Withdrawal         | As for 2007 valuation                   |
| Other demographics | Based on LG scheme specific experience. |

## Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the **funding target**, with the exception that, for certain employers, the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

### Investment return on existing assets and future contributions

An overall additional return of 3.0% pa above the liabilities consistent gilt yield (4.5% pa effective as at the valuation date) reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities. This is equivalent to a total rate of investment return of 7.5% pa effective as at the 2010 valuation date.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

The above variation to assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where the variation in the assumptions does apply, the resultant total contributions implemented following the 2010 valuation will be subject to a minimum of both:

- the contributions originally planned for 2011/12 onwards based on the 2007 actuarial valuation, and
- the normal future service contribution rate for the employer concerned.

|                                 |                  |
|---------------------------------|------------------|
| <b>Essex Pension Fund Board</b> | <b>EPB/24/12</b> |
| <b>Date: 27 September 2012</b>  |                  |

## **Update on Pension Fund Activity**

Joint Report by the Pensions Services Manager and Group Manager Investments

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Enquiries to Jody Evans on 01245 431700 and Kevin McDonald on 01245 431301

### **1. Purpose of the Report**

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

- 2012/13 business plan
- Risk management
- Scorecard – (Measurement against objectives)

### **2. Recommendations**

2.1 That the report be noted.

### **3. Background**

3.1 The following documents accompany this report:

- an update on the 2011/12 business plan is attached at Annex A;
- risks with a residual score of six or above are detailed at Annex B;
- the full scorecard is attached at Annex C.

### **4. Related matters subject to separate agenda items**

4.1 Matters subject to separate agenda items include:

- Local Government Pension Scheme update
- Interim Review as at 31 March 2012
- Employer risk analysis update
- Annual review of Governance Policy
- ISC Quarterly Report
- External Audit – Annual Governance Report

## **5. Key developments**

### **Business Plan**

- 5.1 Reasonable progress is being made with the business plan (Annex A). Of the 22 actions agreed by the Board at its meeting on 7 March, six are now complete with work in progress on a further thirteen. The remaining three are scheduled to commence later in the year.
- 5.2 One area yet to commence relates to the Reform of the LGPS. At the time of writing it is understood that a statutory consultation is expected to commence in October 2012.

### **Risk Register**

- 5.3 There have been no changes to the risks in the risk register since the last Board meeting. Those risks that remain with a residual score of six or more, and detailed at Annex B.

### **Scorecard**

- 5.4 Since the last meeting, a number of changes to the scorecard have been made to the scorecard. These along with measures to note are detailed below:

#### **3.2 Stability of employer contributions**

Two new measures (3.2.1 & 3.2.2) have been included to reflect the stability mechanisms contained within the Funding Strategy and the impact on offered contribution rates to each of the main tax raising / precepting bodies.

#### **3.4 Employer's liabilities**

A bond payment totalling £340,000 has been received in respect of Connaught Partnership Ltd, leaving a residual deficit of £17,800 outstanding with the liquidators. Payment of this amount is now considered doubtful, which is reflected in the amber status of measure 3.4.2.

The liquidation of Chelmsford Agency for Volunteering, reported to the last Board meeting, has now been completed. Payment of £11,000 has been received leaving a £172,000 as unrecoverable. This is reflected in the reflected in the amber status of measure 3.4.3

#### **4.1 High quality, friendly & informative service**

Measures 4.1.1 through to 4.1.13 have now all been populated with 2011/12 data. This therefore shows comparative data for the first time.

#### **5.1 & 5.2 Communications**

These measures appear on the scorecard for the first time

## **6. Link to Essex Pension Fund Objectives**

- 6.1 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

## **7. Risk Implications**

7.1 Key risks are identified at Annex B.

## **8. Communication Implications**

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

## **9. Finance and Resources Implications**

9.1 The business plan for 2011/12 is challenging and labour intensive, particularly around some of the improvements to governance areas. The remainder of 2011/12 will require significant input by officers and advisers to bring some of the actions to conclusion.

## **10. Background Papers**

10.1 None.



## **Essex Pension Fund Business Plan 2012/13**

### **Governance**

#### **Objectives:**

- Provide a high quality service whilst maintaining value for money
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk and compliance
- Continually measure and monitor success against our objectives

#### **Actions:**

| <b>Action</b>                                 | <b>How will this be achieved?</b>   | <b>Officer managing action*</b> | <b>Progress as at September 2012</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 2012. | PSM/Hol                         | Complete                             |

| Action   | How will this be achieved?  | Officer managing action* | Progress as at September 2012  |
|--|---|--------------------------|--|
| 2. Further roll out of training and training needs assessments | Ongoing review of training needs and implementation of a training programme to fill any knowledge gaps for PFB, ISC and officers, with reference to the CIPFA Knowledge and Skills Framework.   | IGA                      | In progress -<br>Training plan agreed at July 2012 Board and individual modular approach now being developed.<br><br>Progress for officers delayed until restructure is implemented. |
| 3. Board members' knowledge centre                             | A web based facility for Members to replace the handbook will be identified and put in place.   | PSM                      | A separate item on this matter appears elsewhere on the 27 September 2012 agenda.  |
| 4. Annual review of governance policy                          | Review governance policy to ensure it is relevant and up to date, including the governance compliance statement therein.  | Hol, PSM and GTM         | A separate item on this matter appears elsewhere on the 27 September 2012 agenda.  |
| 5. Annual review of Pension Fund Board                         | Review the effectiveness of the Pension Fund Board and the services supplied to it. The 2011/12 review was deferred to 2012/13.   | GTM and IGA              | Not started –<br>Planned for autumn 2012   |
| 6. Commence procurement of Independent Investment Adviser      | Of the two Independent Investment advisers to the ISC, one contract will end in July 2012, and the ISC has agreed not to make a further re appointment<br>The remaining Independent Investment adviser is due to end his contract mid way through 2013. Arrangements will be made to ensure that a successor is in place when required. | Hol and GMI              | Not started –<br>Planned to commence in December 2012  |

## 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?   | Officer managing action* | Progress as at September 2012   |
|---|--|--------------------------|---|
| 7. Monitor compliance with statutory guidance on investment decision making and disclosure. | Annually review the Statement of Compliance.   | GMI                      | In progress – Final version will be included within Annual Report & Accounts. |
| 8. Review of asset allocation   | Annual review of asset allocation as part of the annual review of strategy & structure at the July 2012 ISC. | Hol                      | Complete. The ISC meeting on 25 July 2012 undertook this review.              |
| 9. Review of Statement of Investment Principles (SIP)                                       | Annual review of SIP   | Hol                      | Complete. The ISC meeting on 13 June approved the SIP                         |
| 10. To review investment management fees  | Ensure that fee monitoring arrangements form part of the annual review of performance.                       | Hol                      | Complete. The ISC meeting on 25 July 2012 undertook this review.              |

# 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 September 2012  |
|---|--|--------------------------|--|
| 11. 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. | Hol and PSM              | A report on this matter appears elsewhere on the September 2012 Board agenda   |
| 12. Interim Review as at 31 March 2012.                   | An interim review of the Fund as at 31 March 2012 will be commissioned from the Actuary.   | GMI and PSM              | A report on this matter appears elsewhere on the September 2012 Board agenda   |
| 13. Admission/employer participation/bulk transfer policy | A framework structure and associated documentation will be agreed with the Fund Actuary and implemented.                                   | GMI and PSM              | In progress –<br>Work being undertaken with Fund Actuary.<br><br>A report on employer risk analysis appears elsewhere on the September 2012 Board agenda |

## 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 September 2012  |
|---|---|--------------------------|--|
| 14. Reform of LGPS  | Pending outcomes, review and put in place a plan to deliver any requirements (e.g. revised processes, systems, etc).    | PSM                      | Not started – Statutory consultation is currently expected to commence in the October 2012.                                |
| 15. Complete the annual end of year data exercise as at 31 March 2012 | Complete year end accounting, gather information from employer and update Axise, and produce annual benefit statements. | PSM                      | Complete. The annual benefits statements for both Deferred and Active members have been dispatched in line with deadlines. |
| 16. Review the provision of AVC arrangements                          | The outcomes of the AVC review will be implemented.   | PSM and GMI              | In progress - Invitations have been issued to prospective providers to present to Fund officers.                           |
| 17. Administration Strategy   | Carry out consultation exercise, approve and publish agreed strategy.   | PSM                      | In progress – Employer Consultation to take place during autumn 2012.  |

| Action   | How will this be achieved  | Officer managing action* | Progress as at September 2012  |
|--|--|--------------------------|--|
| 18. Integration of Pensions Services and Investment Team | A review will be carried out of the two teams that currently service the Pension Fund, with a view to integrating structures.  | EDfF and ADFM            | In progress – Timetable in place for restructure which will include a new post of Head of Pensions   |
| 19. Procurement of Global Custodian                      | The market testing of the Funds Global Custody services will be completed.   | GMI                      | Complete.<br>ISC agreed to the appointment Northern Trust at its meeting on 13 June 2012.  |
| 20. 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) | PSM                      | In progress –<br>Ongoing liaison with employers including gathering staging dates.<br>Training sessions for Pension & Investment staff undertaken. |



## 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 September 2012   |
|--|---|--------------------------|---|
| 21. Reform of LGPS                         | Pending outcomes, review and put in place a plan to deliver any communication requirements including delivery of key messages   | PSM                      | <p>In progress –<br/>A Prime newsletter for employees was published in late August 2012 (with the Annual Benefit Statements).</p> <p>Further communications will commence after receipt of Statutory consultation in the October 2012.</p>  |
| 22. Implement agreed Communications Policy | Implement in accordance with detailed provided in report on 7 March Board agenda, including consideration of implementation of on line facilities (subject to appropriate business case). | PSM                      | <p>In progress -<br/>Discussions ongoing with ECC Communications Team around the development of a clear identity for the Fund as set out in the Communications Policy.</p> <p>Involved in national framework for procurement of Administration system, which will include online employer and scheme member access.</p> <p>Other elements of implementing policy in progress.</p> |

Officer Managing Action Key:

- PSM – Pension Services Manager
- HoI – Head of Investments
- GMI – Group Manager Investments
- GTM – Governance Team Manager
- IGA – Independent Governance and Administration Adviser
- ADFM – Assistant Director Financial Management
- EDfF - Executive Director for Finance

## ANNEX B

| Category    | Objective   | Risk Ref: | Description of Risk of not Achieving the Objective   | Residual Impact | Residual Probability | Residual Risk | Previous Risk Score | Risk Owner     | Comments, Actions and Recommendations   |
|-------------|---|-----------|--|-----------------|----------------------|---------------|---------------------|----------------|---|
| Governance  | Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise                          | G7        | Failure of succession planning for key roles on PFB  | 3               | 2                    | 6             | 6                   | Judith Dignam  | 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                   | Jody Evans     | A review is underway of the two teams that currently service the Pension Fund with a view to integrating structures. Resources may need to be revisited as a result of the review of Public Sector Pension Provision.   |
| 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     | Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters   | F2        | Market yields move at variance with actuarial assumptions resulting in increases in liabilities, reduced solvency levels and increased employer contributions  | 3               | 3                    | 9             | 9                   | Martin Quinn   | 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 determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible | F7        | Mismatch in asset returns and liability movements result in increased employer contributions   | 3               | 2                    | 6             | 6                   | Martin Quinn   | Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.   |

## ANNEX B

| Category       | Objective   | Risk Ref: | Description of Risk of not Achieving the Objective   | Residual Impact | Residual Probability | Residual Risk | Previous Risk Score | Risk Owner                  | Comments, Actions and Recommendations   |
|----------------|---|-----------|--|-----------------|----------------------|---------------|---------------------|-----------------------------|---|
| Funding        | 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                   | Martin Quinn                | Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (inc bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through traffic light analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible                                 |
| 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                   | Martin Quinn                | Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (inc bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through traffic light analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible |
| 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                   | Jody Evans / Kevin McDonald | 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        | Lack or reduction of skilled resources. Significant increase in the number of employing bodies e.g. academies.   | 3               | 3                    | 9             | 9                   | Jody Evans                  | Continually monitor staffing position. Continually monitor the impact of the volume of employers admitted to the Fund. Short term resourcing arranged to address absence of Martin Quinn.   |

| Essex Pensions Funding Board - MI Scorecard   |   |
|---|---|
| <b>Guidance:</b> Measures are grouped around key objectives identified by the Board. For some objectives there are several indicators monitoring progress. The number of measures which are red, amber and green for each objective are displayed on the scorecard. Key areas of focus are highlighted in the commentary box below. Details of individual measures, including performance, targets, contextual commentary, definition and scope are given in the attached drill down pack.<br>Measures which are still in development have not been displayed on the scorecard but are outlined in the drill down pack  |   |
| <div>1. GOVERNANCE</div> <div><div>1.1 - Provide a high quality service whilst maintaining value for money</div><div>5</div></div> <div><div>1.2 - Ensure the Pension Fund is managed by people who have the appropriate knowledge and expertise</div><div>1321</div></div> <div><div>1.3 - Evolve and look for new opportunities, ensuring efficiency at all times:Progress against business plan</div><div>1</div></div> <div><div>1.4 - Act with integrity and be accountable to our stakeholders (complaints against EPFB, robustness of decisions, contract management, accountability)</div><div>3</div></div> <div><div>1.5 - Understand and monitor risk and compliance</div><div>5</div></div> | <div>2. INVESTMENTS</div> <div><div>2.1 - Maximise returns from investments within reasonable risk parameters</div><div>112</div></div> <div><div>2.2 - Ensure the Pension Fund is properly managed (ISC attendance, skills and governance arrangements)</div><div>121</div></div> <div><div>2.3 - Ensure investment issues are communicated appropriately to the Fund's stakeholders</div><div>5</div></div>         |
| <div>3. FUNDING</div> <div><div>3.1 - Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters and Funding Strategy timescales</div><div>1</div></div> <div><div>3.2 - To recognise in drawing up its Funding Strategy, the desirability of employer contributions that are as stable as possible</div><div>2</div></div> <div><div>3.3 - Consistency between Investment and Funding strategies</div><div>1</div></div> <div><div>3.4 - Minimise unrecoverable debt on termination of employer participation</div><div>21</div></div> <div><div>3.5 - Maintain liquidity in order to meet projected net cashflow outgoings</div><div>1</div></div>               | <div>4. ADMINISTRATION</div> <div><div>4.1 - Deliver a high quality, friendly and informative service</div><div>1391</div></div> <div><div>4.2 - Data is protected to ensure security and authorised use on</div><div>2</div></div> <div><div>4.3 - Ensure proper administration of financial affairs</div><div>11</div></div> <div><div>4.4 - Compliance with Fund's governance arrangements</div><div>5</div></div> |
| <div>5. COMMUNICATIONS</div> <div><div>5.1 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.</div><div>4</div></div> <div><div>5.2 - Ensure our communications are simple, releveant and have impact and deliver information in a way that suits all types of stakeholder.</div><div>21</div></div> <div><div>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.</div><div>2</div></div>  | <div>Key</div> <div><div><div></div><div>= on or exceeding target</div></div><div><div></div><div>= missing target but within agreed tolerance</div></div><div><div></div><div>= missing target, by more than agreed tolerance</div></div><div><div></div><div>= data not currently available / work in progress</div></div></div>  |
| <div>Key</div> <div><div></div><div>= on or exceeding target</div></div> <div><div></div><div>= missing target but within agreed tolerance</div></div>  | <div></div> <div>= missing target, by more than agreed tolerance</div> <div><div></div><div>= data not currently available / work in progress</div></div>   |

## 1.1 - Provide a high quality service whilst maintaining value for money

Data as at: 27 September 2012

**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 (Aug) |
| 1.1.2 Number of scheme member complaints           | 1     |          | G               | G              | 5                | 20               | Low      | Quarterly    |
| 1.1.3 Number of scheme member compliments          | 26    |          | G               | G              | 15               | 60               | High     | Quarterly    |
| 1.1.4 Scheme member survey - % of positive answers | 97.7% | %        | G               | G              | 95%              | 95%              | High     | Annual (Nov) |
| 1.1.5 Employer survey - % of positive answers      | 100   | %        | G               | G              | 95%              | 95%              | High     | Annual (Nov) |

### Rationale for performance status and trend

1.1.1. Cost per member was £18.57 in 2011/12 (£19.05 in 2010/11) compared to the CIPFA Benchmarking average of £21.49 (£22.14 in 2010/11). This Fund remains in the second quartile.

1.1.2. The number of complaints received in the 3 months to 30 June 2012 was 1. (Previous quarter 2)

1.1.3. The number of compliments received in the 3 months to 30 June 2012 was 26. (Previous quarter 20)

1.1.4. 400 employees were invited to participate in a survey by Pensions Services in November 2011. Of the 43 responses, 1 negative anonymous response was received. The remainder were 22 were "very happy" with the services over the previous 12 months, and 20 were "happy".

1.1.5. 100 employers were invited to participate in a survey conducted in November 2011. Of the 32 responses, none were negative with 65.6% stating they were extremely satisfied and 34.4% moderately satisfied

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

Data as at: 27 September 2012

**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:** Judith Dignum/Jody Evans/Martin Quinn **Data lead:** Judith Dignum/Jody Evans/Martin Quinn

### Status

|   | Value | Units | Previous Status | Current Status | Target | Annual target | Polarity | Frequency    |
|---|-------|-------|-----------------|----------------|--------|---------------|----------|--------------|
| 1.2.1 Board Member attendance at training   | 70    | %     | A               | A              | 80%    | 80%           | High     | Quarterly    |
| 1.2.2 Board Members with adequate skills - average scores for <b>comprehensive</b> training need analysis (TNA) | 37    | %     | A               | A              | 50%    | 50%           | High     | Annual (Jun) |
| 1.2.3 Board Members with adequate skills - average skills for <b>introductory</b> training needs analysis (TNA) | 67    | %     | A               | A              | 70%    | 70%           | High     | Annual (Jun) |
| 1.2.4 Board Members completing training needs analysis (TNA)  | 57    | %     | R               | R              | 90%    | 90%           | High     | Annual (Jun) |
| 1.2.5 Board Member attendance at Board meetings   | 83    | %     | G               | G              | 80%    | 80%           | High     | Quarterly    |
| 1.2.6 Officer training plans and My performance Objectives in place   | 100   | %     | A               | G              | 100%   | 100%          | High     | Annual (May) |
| 1.2.7 Measure of officer knowledge and expertise - to be developed  |       |       | Gy              | Gy             |        |               |          |              |

### Rationale for performance status and trend

1.2.1. The data relates to the calendar year until the date of the current meeting and includes both internal and external training opportunities. In calculating attendance rates, distinction is made between events where attendance is expected and those for which it is optional. There has been an improvement since the last meeting but the serious ill-health suffered by a former Board member continues to be a contributing factor.

1.2.2. The training requirements relate to six separate subject matters. These are the average scores for all Board Members completing this Training Needs Analysis (TNA) relating across all sections. The grading reflects the difficulty of this TNA (i.e. 50+% shown as green, 30+% shown as amber, below 30% shown as red).

1.2.3. The training requirements relate to six separate subject matters. These are the average scores for all Board Members completing this Training Needs Analysis (TNA) relating across all sections. The grading reflects the difficulty of this TNA (i.e. 70+% shown as green, 60+% shown as amber, below 60% shown as red).

1.2.4. The grading for this measure is 90+% shown as green, 70+% shown as amber, below 70% shown as red.

1.2.5. This represents attendance at the previous four Board meetings covering the period June 2011 - June 2012. Target has been met.

1.2.6. My Performance objectives have been agreed for all Pension Administration & Pension Investment officers.

1.2.7. This measure has been deferred until the new staff structure is in place.

### 1.3 - Evolve and look for new opportunities, ensuring efficiency at all times

Data as at: 27 September 2012

Measure Purpose: To evolve and look for new opportunities, ensuring efficiency at all times

Scope: Actions listed in Business Plan

Measure Owner: Jody Evans Data lead: Kevin McDonald/David Tucker

| Status   | Value                         | Previous status | Current status | Target                        | Annual target | Polarity | Frequency |
|--|-------------------------------|-----------------|----------------|-------------------------------|---------------|----------|-----------|
| 1.3.1 Fund Business Plan quarterly review - actions on track | 27% Complete, 59% in progress | A               | A              | 30% Complete, 50% in progress | 100% complete | High     | Quarterly |

| Rationale for performance status and trend  |
|---|
| <div>1.3.1 Against a total of 22 actions or projects for the year:<div>6 (27%) are complete<br/>13 (59%) are in progress<br/>3 (14%) are yet to commence</div><div>The business plan is detailed in Annex A of this report.</div></div> |



## 1.4 - Act with integrity and be accountable to our stakeholders

Data as at: 27 September 2012

**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:** Judith Dignum/Kevin McDonald **Data lead:** Colin Ismay/ Kevin McDonald

| Status   | Value | Units | Previous status | Current status | Target | Polarity | Frequency |
|--|-------|-------|-----------------|----------------|--------|----------|-----------|
| 1.4.1 Number of complaints made  | 0     |       | G               | G              | 0      | Low      | Ongoing   |
| 1.4.2 Number of complaints upheld  | 0     |       | G               | G              | 0      | Low      | Ongoing   |
| 1.4.3 Annual review of key decisions, based on criteria relating to good governance and robust decision making - to be developed |       | N/A   | Gy              | Gy             | N/A    | N/A      | N/A       |
| 1.4.4 The Board has provision for representatives of employers and scheme members. Appointees are currently in place.            | Yes   |       | g               | G              | Yes    | High     | Quarterly |
| 1.4.5 Measure of effective and robust contract management - to be developed  |       | N/A   | Gy              | Gy             | N/A    | N/A      | N/A       |

### Rationale for performance status and trend

- 1.4.1 Reflects performance over the previous 12 months as at 27 September 2012
- 1.4.2 Reflects performance over the previous 12 months as at 27 September 2012
- 1.4.3 This measure will be defined when the Pension Board effectiveness review is completed later in 2012/13
- 1.4.4 This is measured on an ongoing basis. Yes = green; No = red.
- 1.4.5 Work on this measure is underway.
- Scheme member and employer survey measurements shown in section 1.1 also provide an indication of accountability to stakeholders.

## 1.5 - Understand and monitor risk and compliance

Data as at: 27 September 2012

**Measure Purpose:** Understand and monitor risk and compliance

**Scope:** Ongoing reporting and discussion of key risks to the Fund. Output from internal audit reviews.

**Measure Owner:** Martin Quinn/Kevin McDonald/Jody Evans **Data lead:** Martin Quinn/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      | Ongoing        |
| 1.5.2 Number of internal audit recommendations outstanding                                       | 0     |       | G               | G              | 0      | N/A           | Low      | Ongoing        |
| 1.5.3 Percentage of risks on the risk register with a residual score that is classified as amber | 11.25 | %     | G               | G              | <20%   | <20%          | High     | Quarterly      |
| 1.5.4 Percentage of risks on the risk register with a residual score that is classified as red   | 0     | %     | G               | G              | 0%     | 0%            | High     | Quarterly      |
| 1.5.5 Number of matters raised by external auditors relating to 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. As reported to the July meeting of the Board, the 2011/12 internal audit reports for both Pensions Administration and Pensions Investment received full assurance.

**1.5.2** The 2011/12 internal audit reports for both Pensions Administration and Pensions Investment contained a total of three "advice & best practice" recommendation. None are outstanding.

**1.5.3** The Fund currently has 80 risks in its register, of which 9 have a residual score that is classified as amber. These are detailed in Annex B of this report. Measurement: below 15% amber: = green; 15%-20% amber = amber; above 20% amber = red

**1.5.4** The Fund currently has 80 risks in its register, none of which have a residual score that is classified as red. Measurement: 0% red = green; under 2% red = amber; above 2% red = red

**1.5.5** There were no recommendations in the 2011/12 Annual Governance Report (AGR) from the Audit Commission (None in 2010/11). The 2011/12 AGR appear elsewhere on the 27 September 2012 Pension Board agenda.

## 2.1 - Maximise returns from investments within reasonable risk parameters

Data as at: 31 March 2012

**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:** Martin Quinn **Data lead:** Kevin McDonald

| Status  | Value | Units   | Previous Status | Current Status | Target | Annual target | Polarity |
|---|-------|---------|-----------------|----------------|--------|---------------|----------|
| 2.1.1 Annual return compared to Peer Group  | 5th   | ranking | gy              | A              | 1st    | 1st           | High     |
| 2.1.2 Annual Return compared to Benchmark   | 1.5   | %       | G               | G              | 0.7%   | 0.7%          | High     |
| 2.1.3 Five year (annualised) return compared to Benchmark                           | 2.8   | %       | G               | G              | 2.8%   | 4.2%          | High     |
| 2.1.4 Five year (annualised) return compared to Investment Return assumption in SIP | 2.8   | %       | R               | R              | 7.9%   | 7.9%          | High     |

### Rationale for performance status and trend

**2.1.1** Essex's annual return in 2011/12 was 1.5%, resulting in a ranking of fifth out of the six LGPS Funds in our selected group of statistical neighbours, comprising of Suffolk, Hertfordshire, Cambridgeshire, Norfolk and Kent. Highest was Kent with 2.7%, lowest was Cambridgeshire with 0.5%. In 2010/11, Essex was 1st in this group.

The investment returns shown in the remaining measures are as at 31 March 2012

**2.1.2** The annual return of 1.5% outperformed the 2011/12 benchmark of 0.7%.

**2.1.3** The five year annualised return equalled the benchmark of 2.8%.

**2.1.4** The five year annualised Average annual return on investments for April 2006 - March 2011 was below the target long term return on investments in the Statement of Investment Principles.

## 2.2 - Ensure the Fund is properly managed

Data as at: 27 September 2012

Measure Purpose: To ensure that the Fund is properly managed

Scope: Attendance at ISC and ISC member skills and knowledge

Measure Owner: Martin Quinn Designer: Martin Quinn

| Status  | Value | Units | Previous status | Current status | Target | Annual target | Polarity | Frequency    |
|---|-------|-------|-----------------|----------------|--------|---------------|----------|--------------|
| 2.2.1 ISC Member attendance at ISC meetings   | 85.0  | %     | G               | G              | 80%    | 80%           | High     | Ongoing      |
| 2.2.2 ISC Members with adequate skills - average scores for <b>comprehensive</b> training need analysis (TNA) | 37.0  | %     | A               | A              | 50%    | 50%           | High     | Annual (Jun) |
| 2.2.3 ISC Members with adequate skills - average skills for <b>introductory</b> training needs analysis (TNA) | 67.0  | %     | A               | A              | 70%    | 70%           | High     | Annual (Jun) |
| 2.2.4 ISC Members completing training needs analysis (TNA)  | 57.0  |       | R               | R              | 90%    | 90%           | High     | Annual (Jun) |

### Rationale for performance status and trend

|        |   |
|--------|---|
| 2.2.1  | Between March September 2011 and September 2012 the ISC held five meetings. The attendance was 85.0%.   |
| 2.2.2  | The training requirements relate to six separate subject matters. These are the average scores for all ISC Members completing this Training Needs Analysis (TNA) relating across the three sections that are investment related. The grading reflects the difficulty of this TNA (i.e. 50+% shown as green, 30+% shown as amber, below 30% shown as red). |
| 2.2.3  | The training requirements relate to six separate subject matters. These are the average scores for all ISC Members completing this Training Needs Analysis (TNA) relating across the three sections that are investment related. The grading reflects the difficulty of this TNA (i.e. 70+% shown as green, 60+% shown as amber, below 60% shown as red). |
| 2.2.4. | The grading for this measure is 90+% shown as green, 70+% shown as amber, below 70% shown as red.   |

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

Data as at: 27 September 2012

**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:** Martin Quinn **Designer:** Martin Quinn

### Status

|  | Value | Units | Previous status | Current status | Target | Annual target | Frequency |
|--|-------|-------|-----------------|----------------|--------|---------------|-----------|
| <b>2.3.1</b> % of ISC agendas sent out 5 working days before meetings                                    | 100   | %     | G               | G              | 100%   | High          | Quarterly |
| <b>2.3.2</b> % of ISC committee agendas sent out 5 working days before meetings with all papers attached | 100   | %     | G               | G              | 100%   | High          | Quarterly |
| <b>2.3.3</b> % of draft ISC minutes sent out 7 working days after meetings                               | 100   | %     | G               | G              | 100%   | High          | Quarterly |
| <b>2.3.4</b> % of draft ISC minutes uploaded to internet 12 working days after meetings                  | 0     | %     | R               | G              | 100%   | High          | Quarterly |
| <b>2.3.5</b> Number of communication and governance arrangements for the ISC not in place                | 0     |       | G               | G              | 0      | High          | Ongoing   |

### Rationale for performance status and trend

**2.3.4** The red measure displayed for the previous quarter relates to the draft minutes of the 13 June 2012 meeting being uploaded onto the internet 13 days (rather than 12 days) after that meeting. For the latest quarter this measure was fulfilled, thereby producing the green score.

**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
- Pensions Fund Business Plan in place and renewed at the beginning of the financial year
- SIP to be reviewed and published annually
- Annual Report & Accounts published by 30 November
- Two independent advisers and 1 institutional investment consultant attended or were available to attend the last ISC meeting N.B This measure will change as a result of the decision to move to one independent investment adviser w.e.f. 1 August 2012
- 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 timescales

Data as at: 31 March 2012

**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:** Martin Quinn **Data leads:** Martin Quinn

#### Status

|   | Value | Units | Previous status | Current status | Target | Annual target | Polarity | Frequency    |
|---|-------|-------|-----------------|----------------|--------|---------------|----------|--------------|
| 3.1.1 Probability of hitting 30-year funding target | 53    | %     | G               | G              | 50%    | 50%           | High     | Annual (Sep) |

#### Rationale for performance status and trend

3.1.1 As at the 31 March 2012 Interim Funding Review, the Actuary determined that the probability of achieving a 100% funding level at the end of the 30-year period was 53%. (2011 Interim Valuation - 53%).

## 3.2 - To recognise in drawing up its Funding Strategy the desirability of employer contributions that are as stable as possible

Data as at: 27 September 2012

**Measure Purposes:** To recognise the desirability of employer contributions that are as stable as possible

**Scope:** Fund Employers

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

### Status

|  | Value | Units | Previous status | Current status | Target | Annual target | Polarity | Frequency |
|--|-------|-------|-----------------|----------------|--------|---------------|----------|-----------|
| <b>3.2.1</b> Stability mechanisms are included within the current Funding Strategy   | Yes   |       | Gy              | G              | Yes    | Yes           | High     | 3 yearly  |
| <b>3.2.2</b> 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   |       | Gy              | 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 2011 Funding Strategy, each of the 17 major presenting bodies were offered typically three options for employer contributions. These options included a set of contributions which would increased by no more than 1% per year and 3% per valuation. 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

Data as at: 22 February 2012

**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:** Martin Quinn **Data leads:** Martin Quinn

| Status                                | Value | Units | Previous status | Current status | Target | Annual target | Polarity | Frequency    |
|---------------------------------------|-------|-------|-----------------|----------------|--------|---------------|----------|--------------|
| 3.3.1 Long term return assumed by SIP | 6.1   | %     | A               | A              | 6.4%   | 6.4%          | High     | Annual (Feb) |

#### Rationale for performance status and trend

##### 3.3.1 Long term return assumed by Funding Strategy

The ongoing assumptions used for the valuation as at 31 March 2010 were calculated referencing the gilt yield of 4.5% p.a. and were as follows:

Pre retirement investment return = 7.0% p.a. (Gilts plus 2.5% p.a.)

Post retirement investment return = 5.5% p.a. (Gilts plus 1.0% p.a.)

The return assumption therefore changes as the Fund matures (and as more members become pensioners). However, the relevant composite rate to use in the short term period to the next valuation would be **6.4%\*** p.a.

\* In one instance, where a Fund employer is considered by the Administering Authority to provide a high level of covenant, an allowance has been made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. This higher level of return assumed will, in particular, reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period.

##### Long term strategic expected return in the draft Statement of Investment Principles agreed by ISC on 22 February = 6.1%

The draft SIP approved by the ISC for consultation on 22 February 2012 sets out a central expectation, from the end December 2011, for the absolute return on the Fund assets of 6.1% p.a. This is below the assumption set out in the 2010 Actuarial Valuation of the Fund.

Whilst this suggests that the current asset allocation will generate insufficient return to meet the assumptions underlying the funding position for the Fund, this is a symptom of the current unusual market conditions where gilt yields are at very low levels. It is expected that gilt yields will return to more normal levels (i.e. increase) over time, which other things being equal is expected to lead to a fall in the assessed value of the liability which will assist in closing the funding gap in relative terms.

In addition, the funding of the Fund will be reassessed during 2013 as part of the triennial valuation.



## 3.4 - Manage employers' liabilities effectively

Data as at: 27 September 2012

**Measure Purpose:** To manage employers' liabilities effectively by the adoption of employer specific funding objectives

**Scope:** All employers contributing to the scheme

**Measure Owner:** Martin Quinn **Data leads:** Martin Quinn

### Status

|  | Value | Units | Previous status | Current status | Target   | Annual target | Polarity | Frequency |
|--|-------|-------|-----------------|----------------|----------|---------------|----------|-----------|
| <b>3.4.1</b> Percentage of employers' liabilities which are high risk  |       | %     | Gy              | Gy             | 10%      | 10%           | Low      | Annual    |
| <b>3.4.2</b> Potentially unrecoverable deficit due to employers leaving scheme (as a percentage of Total Fund deficit) | 0.002 | %     | A               | A              | on track | on track      | Low      | Quarterly |
| <b>3.4.3</b> Deficit unrecoverable due to employers leaving scheme (as a proportion of Total Fund deficit)             | 0.014 | %     | G               | A              | 0.00%    | 0.00%         | Low      | Quarterly |

### Rationale for performance status and trend

**3.4.1** A report on employer liabilities appears elsewhere on this 27 September Pension Board agenda.

**3.4.2** Scoring:

0% = Green.

Below 0.02%(£250,000) = Amber.

Above 0.02% = Red

Connaught Partnership Ltd were placed into liquidation in late 2010, and a termination deficit of £457,800 (0.037% of the Fund's total deficit) was filed as a creditor with the liquidators. Connaught had provided a Bond. Following a claim against that Bond the Fund has now received a payment of £440,000 (the full value of the Bond). This now leaves a total of £17,800 outstanding, (0.002% of the Fund's total deficit) and although a payment is still due from the liquidators, it is not expected to cover this amount in full. In view of this, the score is amber.

**3.4.3** Scoring:

0% = Green.

Below 0.02%(£250,000) = Amber.

Above 0.02% = Red

At the last Board meeting it was reported that Chelmsford Agency for Voluntary Services had been placed into liquidation. The termination deficit of £183,000 (0.004% of the Fund's total liabilities) had been filed as a creditor with the liquidators. The Fund has now received a payment from the liquidators £11,000 in settlement. This results in an unrecoverable deficit of £172,000 (0.014% of the Fund's total deficit. In view of this, the score is amber.

The Fund's total deficit as at 31 March 2010 Actuarial Valuation was £1,234bn.

### 3.5 - Maintain liquidity in order to meet projected net cashflow outgoings

**Data as at:**  
**Measure Purpose:** Maintain liquidity in order to meet projected net cash-flow outgoings  
**Scope:** All investments and funding  
**Measure Owner:** Martin Quinn **Data leads:** Martin Quinn

| Status   | Value | Units | Previous status | Current status | Target   | Annual target | Polarity | Frequency |
|--|-------|-------|-----------------|----------------|----------|---------------|----------|-----------|
| 3.5.1 Projection of contribution and investment income less benefit expenditure over next 15 years |       |       | Gy              | Gy             | Positive | Positive      | High     | Annual    |

Rationale for performance status and trend

3.5.1 Work on this measure is in progress.

4.1 - Deliver a high quality, friendly and informative service

All measures as at: 27 September 2010

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              | Annual target       | Polarity | Frequency    |
|--|-------|--------|-----------------|----------------|---------------------|---------------------|----------|--------------|
| 4.1.1 Letter detailing transfer in quote issued within 10 working days (631cases)  | 86.0% | %      | A               | A              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.2 Letter detailing transfer out quote issued within 10 working days (462 cases)  | 87.3% | %      | G               | A              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.3 Letter detailing process of refund and payment made within 5 working days (141 cases)  | 85.5% | %      | R               | A              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.4 Letter notifying estimated retirement benefit amount within 10 working days (4634 cases)                                     | 96.2% | %      | G               | G              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.5 Letter notifying actual retirement benefits and payment made of lump sum retirement grant within 5 working days (1940 cases) | 95.1% | %      | G               | G              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.6 Letter acknowledging death of active /deferred / pensioner member within 5 working days (857 cases)                          | 99.7% | %      | G               | G              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.7 Letter notifying the amount of dependent's benefits within 5 working days (832 cases)  | 96.0% | %      | G               | G              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.8 Calculate and notify deferred benefits within 10 working days (5843 cases)   | 82.6% | %      | R               | R              | 95.0%               | 95.0%               | High     | Annual (Aug) |
| 4.1.9 Annual benefit statements issued to active members by 30 September.  | Yes   |        | G               | G              | Yes                 | Yes                 | High     | Annual (Sep) |
| 4.1.10 Annual benefit statements issued to deferred members by 30 June.  | Yes   |        | G               | G              | Yes                 | Yes                 | High     | Annual (Jun) |
| 4.1.11 Number of payments errors   | 0     | number | G               | G              | 0                   | 0                   | Low      | Quarterly    |
| 4.1.12 New IDRP appeals during the year  | 1     |        | G               | G              | Below CIPFA average | Below CIPFA average | Low      | Annual (Aug) |
| 4.1.13 IDRP appeals - number of lost cases   | 0     |        | G               | G              | Below CIPFA average | Below CIPFA average | Low      | Annual (Aug) |
| 4.1.14 Employer survey - feedback on training and educational materials - % of positive responses                                  |       |        | Gy              | Gy             |                     |                     |          |              |

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. It should be noted that the Fund already compares favourably with other funds and is aiming even higher. In the 2011 CIPFA Benchmarking the Fund's turnaround times averaged 92.5% compared to the benchmarking average of 88.94%.

4.1.1 & 4.1.2 Changes to regulations and to factors required to calculate transfers were subject to a delay by the Government Actuarial Department this led officers to postpone processing and therefore impacted the turnaround times.

4.1.3 Turnaround times for processing and paying of refunds improved from 84% (2010/11) to 85.5% (2011/12) due to the additional measures that were implimented during 2011/2012 as agreed with the board. This measure should continue to improve.

4.1.4 Estimates of retirement benefits processed during 2011/2012 more than doubled to 4634 cases from the previous figure in 2010/2011 of 2233 cases. In addition bulk exercises were carried out for Employers which produced a further 9237 cases. bulk exercises are not captured by the measure.

4.1.8 Turnaround times for this measure improved from 78% (2010/11) to 82.6% (2011/12) At the board strategy day in November 2011 discussions took place regarding moving the turnaround time from 10 to 20 working days for 2012/2013 . This is an area of high demand due to levels of employee turnover within our many employers.

4.1.9 The 2011/12 Annual benefits statements for Active members were dispatched in late August 2012.

4.1.10 The last dispatch of these statements to Deferred members was in June 2012. The previous dispatch was in June 2011.

4.1.11 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. Procedural checks are in place to measure this on a quarterly basis.

4.1.14 Data to be gathered.

10-11. No new IDRP appeals during previous 12 months

4.2 - Data is protected to ensure security and authorised use only

Data as at: 27 September 2012  
Measure Purpose: Data is protected to ensure security and authorised use only  
Scope: All service area budgets within the directorate  
Measure Owner: Jody Evans Data leads: Anna Casbolt

| Status  | Value | Units | Previous status | Current status | Target                   | Annual target            | Polarity | Frequency |
|---|-------|-------|-----------------|----------------|--------------------------|--------------------------|----------|-----------|
| 4.2.1 Number of information security breaches | 0     |       | G               | G              | 0                        | 0                        | Low      | Quarterly |
| 4.2.2 Actions in place for all breaches       | 0     |       | G               | G              | Actions in place for all | Actions in place for all | N/A      | Quarterly |

| Rationale for performance status and trend   |
|--|
| <p>4.2.1 There have been no information security breaches this quarter.</p> <p>Green = 0 breaches<br/>Amber = 1 or more medium or minor breaches<br/>Red = 1 or more major or critical breaches</p> <p>4.2.2 No breaches in quarter resulted in no actions required.</p> |

### 4.3 - Ensure proper administration of financial affairs

Data as at: 30 June 2012

Measure Purpose: To ensure proper administration of the Fund's financial affairs

Scope: Investments and Borrowing

Measure Owner: Martin Quinn Data leads: Kevin McDonald

| 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 | 55    | %     | G               | G              | 0% (Q1)        | 100%          | High     | Quarterly |
| 4.3.2 % of contributing employers submitting timely payments                               | 97.3  | %     | A               | A              | 100%           | 100%          | High     | Quarterly |

#### Rationale for performance status and trend

|  |
|--|
| <p>4.3.1 Performance over quarter ending June March 2012 was 55%:(Green). Given workload for closure of accounts the target for the June quarter is 0%.</p> <p>Subsequent quarter targets:<br/>Quarter ending September: 75%<br/>Quarter ending December: 100%<br/>Quarter ending March: 100%</p> <p>4.3.2 For the quarter ending June 2012 the performance was amber as payments from 97.3% of the 357 contributing employers were received within the month they fell due (March Quarter 98.4%) . In cash terms this equated to 99.8% of a total employer contribution of £38.6m. (March quarter 99.7% of £38.6m).</p> |
|--|

## 4.4 - Compliance with the Fund's governance arrangements

Data as at: 27 September 2012

**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:** Jody Evans/Martin Quinn/Judith Dignum **Data leads:** Judith Dignum, 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 agendas sent out 5 working days before meetings with all papers attached      | 100   | %      | R               | G              | 100%   | 100%          | High     | Quarterly |
| 4.4.3 % of draft Board minutes sent out 7 working days after meetings                          | 100   | %      | G               | G              | 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     | Ongoing   |

### Rationale for performance status and trend

**4.4.2** For the Board Meeting on 7 March 2012, one item - the draft 2012/13 Business Plan - was a "to follow" item. This was in order to allow the latest information available to included within the report.

**4.4.5.** Essex County Council's Membership for the Board was agreed by the Council at its meeting on 8 May 2012. All other nominees are now in place, including the representative of the Smaller Employers was elected at the Fund Forum on 20 January 2012.

Measure will flag as red if one of the following governance arrangements is not in place, as agreed at Full Council meeting on 6 May 2008:

- Board membership consists of 6 representatives of ECC (also members of the ISC), 2 representatives of the District and Borough Councils in Essex (1 of whom also serves as an observer on the ISC), 2 representatives of Essex's unitary authorities, 1 representative of Essex Fire Authority, 1 representative of Essex Police Authority, 1 representative of Scheme Members (who also serves as an observer on the ISC) and 1 representative of Smaller Employing Bodies - Fund is not currently compliant
- 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

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

Data as at: 27 Sepetmber 2012  
Measure Purpose: Communicate in a friendly, expert and direct eay to our stakeholders, treating all our stake holders equally.  
Scope: All scheme members and employers  
Measure Owner: David Tucker Data leads: Matt Mott

Status

|  | Value | Units | Previous status | Current status | Target | Annual target | Polarity | Frequency    |
|--|-------|-------|-----------------|----------------|--------|---------------|----------|--------------|
| 5.1.1. % of positive responses from the Employee Survey. - <i>Helpfulness of the Pensions Teams.</i>           | 97    | %     | Gy              | G              | 95%    | 95%           | High     | Annual (Mar) |
| 5.1.2. % of positive reponses from the Employer Survey. - <i>Expertness of Pensions Teams.</i>                 | 100   | %     | Gy              | G              | 95%    | 95%           | High     | Annual (Mar) |
| 5.1.3. % of positive responses from the Employer Survey. - <i>Pensions Teams are friendly and Informative.</i> | 100   | %     | Gy              | G              | 90%    | 90%           | High     | Annual (Mar) |
| 5.1.4. A Communication Plan is in place for the current year.  | Yes   |       | Gy              | G              | Yes    | Yes           | High     | Annual (Mar) |

Rationale for performance status and trend

5.1.1 - 5.1.4  
In November 2011 an Employer and an Employee survey was issued to gather information to allow us to measure our effectiveness in communicating with all our stakeholders, in line with the board requirements. The results are reflected in 5.1.1 - 5.1.4  
  
These surveys will be repeated on an annual basis.

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

All measures as at:27 Spetember 2012

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 leads: Matt Mott

| Status   | Value  | Units | Previous status | Current status | Target   | Annual target | Polarity | Frequency    |
|--|--------|-------|-----------------|----------------|----------|---------------|----------|--------------|
| 5.2.1. % of positive responses from the Employee Survey - <i>Clarity of website information.</i>                                   | 91.0%  | %     | Gy              | A              | 95.0%    | 95.0%         | High     | Annual (Mar) |
| 5.2.2. % of positive responses from the Employee Survey - <i>Understandable Annual Benefit Statements.</i>                         | 88.0%  | %     | Gy              | A              | 95.0%    | 95.0%         | High     | Annual (Mar) |
| 5.2.3. % of positive responses from the Scheme Member Survey - <i>Communications that suit needs, and are simple and relevant.</i> |        | %     | Gy              | Gy             | 95.0%    | 95.0%         | High     | Annual (Mar) |
| 5.2.4. % of positive responses from the Employer Survey - <i>Clarity of Website information.</i>                                   | 100.0% | %     | Gy              | G              | 95.0%    | 95.0%         | High     | Annual (Mar) |
| 5.2.5. Increase in response of the Scheme Member Survey compared to last year.   |        | %     | Gy              | Gy             | Increase | Increase      | High     | Annual (Mar) |
| 5.2.6. Increase in response rate of the Emplyer Survey compared to last year.  |        | %     | Gy              | Gy             | Increase | Increase      | High     | Annual (Mar) |

5.2.1; 5.2.2 & 5.2.4

In November 2011 an Employer and an Employee survey was issued to gather information to allow us to measure our effectiveness in communicating with all our stakeholders, in line with the board requirements. The results are reflected in 5.2.1; 5.2.2 and 5.2.4

These surveys will be repeated on an annual basis. In the next survey a question will be inlcuded to reflect 5.2.3, and it will then be possible to also populate 5.2.5 and 5.2.6.



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

Data as at:  
**Measure Purpose:** Aim for a full appreciation of the pension scheme benefits and changes to the Scheme by all scheme members, prospective scheme members  
**Scope:** All scheme members and employers  
**Measure Owner:** David Tucker **Data leads:** 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      | Quarterly |
| 5.3.2. %of positive responsesfrom the Employer Survey -<br><i>Information available is helpful in them understanding their responsibilities</i> |       | %     | gy              | gy             | 95%    | 95%           |          |           |

Rationale for performance status and trend

Measures 5.3.1 & 5.3.2 are under development.



|                                 |                  |
|---------------------------------|------------------|
| <b>Essex Pension Fund Board</b> | <b>EPB/25/12</b> |
| <b>date: 27 September 2012</b>  |                  |

## **Pension Fund Board Representative for Essex Police Authority**

Joint Report by the Secretary to the Board, the Pensions Services Manager and the Group Manager Investments

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Enquiries to Judith Dignum on 01245 430044, Jody Evans on 01245 431700 and Kevin McDonald on 01245 431301

### **1. Purpose of the Report**

- 1.1 To highlight the forthcoming changes to the Essex Police Authority and how this impacts the Essex Pension Fund and its Board.
- 1.2 To ask the Pension Fund Board to consider recommending changes to the Constitution of Essex County Council (ECC) in relation to the Board's Police Authority representative following the Authority's abolition and the creation of the Police & Crime Commissioner and the Chief Constable, each as a separate entity known as a "corporation sole".

### **2. Recommendations**

- 2.1 To note the abolition of the Essex Police Authority and the movement of liabilities and notional assets to its successor body, the Essex Police & Crime Commissioner (EPCC).
- 2.2 To recommend changes to the ECC's Constitution with effect from 22 November 2012 to replace the employer representative on the Pension Fund Board from the "Essex Police Authority" to the "Essex Police & Crime Commissioner".
- 2.3 To note that further actions and decisions will be required upon subsequent transfer of some staff to the Essex Chief Constable and that a further report will be brought to the Board when the date of transfer and details are known.

### **3. Background**

- 3.1 Police civilians are currently employees of the Essex Police Authority. Accordingly they are eligible to be members of the LGPS in the Essex Pension

Fund. Uniformed Police Officers are not members of the Essex Pension Fund – they are members of the Police Pension Scheme which is not a responsibility of the Essex Pension Fund Board.

- 3.2 As a result of the Police Reform and Social Responsibility Act 2011, existing Police Authorities will cease to exist and will be replaced in each area by two new corporations sole which is a legal entity consisting of a single incorporated office held by an office holder. These will be a Police & Crime Commissioner (PCC) and a Chief Constable.
- 3.3 Existing Chief Constables will remain in post, under their new legal entity. Elections for Police & Crime Commissioners will take place on 15 November 2012, with the successful candidates taking office on 22 November 2012. At that time, the Essex Police Authority civilian employees will transfer to the employment of the EPCC.
- 3.4 Before 31 March 2014, each PCC must decide which members of staff will transfer to the Chief Constable.
- 3.5 There is one key element to note and one key element to consider as a result of the first stage of the reorganisation:
  - 1. The reallocation of liabilities and notional assets in relation to the movement of the police civilian LGPS members, and
  - 2. the membership of the Pension Fund Board currently held by a Police Authority Employer Representative.
- 3.5 In due course, upon the second stage of the reorganisation, these elements will require further consideration.

#### **4. Reallocation of Liabilities and Notional Fund Assets**

- 4.1 The initial transfer from the Police Authority to the EPCC is a straightforward transfer where all existing LGPS members are moving without any complications. As a result, the Board is asked to note that the accrued liabilities for these LGPS members will move with them and the assets that have been ring-fenced for the Police Authority will be reallocated to the EPCC.

#### **5. Police Authority Employer Representative on the Essex Pension Fund Board**

- 5.1 Initially, following abolition of the Police Authority and transfer of the staff to the EPCC, the ECC Constitution will need to be amended to update the existing reference. The Board is asked to consider the change suggested below:

##### **Current Constitution**

*Membership: 14 members consisting of six Members of the Council (in the ratio of five Conservatives, and one Liberal Democrat) two members representing District and Borough Councils in Essex, one member representing Southend-on-Sea Borough Council, one member representing Thurrock Council, **one member representing Essex Police Authority**, one member representing Essex Fire Authority, one member representing Scheme Members nominated by Unison and one representing Smaller Employing Bodies nominated by the Employer Forum.*

### **Recommended Revised Constitution**

*Membership: 14 members consisting of six Members of the Council (in the ratio of five Conservatives, and one Liberal Democrat) two members representing District and Borough Councils in Essex, one member representing Southend-on-Sea Borough Council, one member representing Thurrock Council, **one member representing Essex Police & Crime Commissioner**, one member representing Essex Fire Authority, one member representing Scheme Members nominated by Unison and one representing Smaller Employing Bodies nominated by the Employer Forum.*

## **6. Future Actions and Decisions**

- 6.1 Before 31 March 2014, each PCC must decide which members of staff will transfer to the Chief Constable. Accordingly, at a later date, it is expected that some or all of the EPCC LGPS members, who are in the Essex Pension Fund, will be transferred from the EPCC to the Essex Chief Constable. These bodies will be separate entities.
- 6.2 When it is decided which employees will transfer to the Essex Chief Constable, potentially two further considerations will then arise for the Pension Board:
  1. In accordance with the LGPS, the liabilities will follow each transferring member. In practice, it is possible that the EPCC could have a different employer contribution rate from the Essex Chief Constable. However, central discussions are underway with a view to formation of a national approach which LGPS Funds may be required to adopt. It is anticipated that this will result in the PCC and Chief Constable being pooled and hence having the same employer contribution rate.
  2. With regard to membership of the Pension Fund Board, consideration will be needed of any further changes the Board wishes to recommend to ECC. Upon transfer of some or all of the police civilians from the EPCC to the Essex Chief Constable there will be two police organisations in the Essex Pension Fund rather than the existing one.

Options could include having one Board Member representing both the EPCC and the Essex Chief Constable.

- 6.3 The Board is asked to note that a further report will be brought to the Board when the date of transfer and details are known.

## **7. Link to Essex Pension Fund Objectives**

7.1 This paper has relevance to the following Fund objectives:

- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise

## **8. Risk Implications**

8.1 Changes to the membership of the Pension Fund Board can result in a reduction of expertise and knowledge, which in turn could impact on decision making.

## **9. Communication Implications**

9.1 The officers of the Fund will communicate any changes to the Police Authority and EPCC.

## **10. Finance and Resources Implications**

10.1 There are no financial or resource implications.

## **11. Background Papers**

11.1 None.

|                                 |                  |
|---------------------------------|------------------|
| <b>Essex Pension Fund Board</b> | <b>EPB/26/12</b> |
| <b>date: 27 September 2012</b>  |                  |

## **Governance Policy and Compliance Statement**

Joint Report by the Secretary to the Board, the Pensions Services Manager and the Group Manager Investments

---

Enquiries to Judith Dignum on 01245 430044, Jody Evans on 01245 431700 and Kevin McDonald on 01245 431301

### **1. Purpose of the Report**

- 1.1 To ask the Pension Fund Board to agree the Fund's updated Governance Policy and Compliance Statement.
- 1.2 To ask the Pension Fund Board to note that a Fund Conflicts of Interest Policy will be developed and brought back to the Board for approval at a later date.

### **2. Recommendations**

- 2.1 To agree the Fund's updated Governance Policy and Compliance Statement.

### **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 29 June 2011. Only minor changes are necessary to the Policy as shown on the attached version. As you can see from the final section in the policy, the Fund fully complies with the Secretary of State's guidance.

4.2 Guidance has recently been issued by CIPFA stating that LGPS Administering Authorities should have in place a Policy on Conflicts of Interest. Officers are intending to develop a draft Conflicts of Interest Policy for agreement by the Board which will be incorporated into the Governance Policy. However, as some members of the Board may know, Essex County Council is currently considering its position in relation to its own Code of Conduct (which includes elements relating to Conflicts of Interest). It would therefore be more appropriate to defer the development of a Fund policy until the Essex County Council approach has been agreed.

### **5. Link to Essex Pension Fund Objectives**

5.1 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

### **6. Risk Implications**



6.1 None.

**7. Communication Implications**

7.1 The Policy will be published on the Fund's website.

**8. Finance and Resources Implications**

8.1 There are no financial or resource implications.

**9. Background Papers**

9.1 None.



# **Governance Policy and Compliance Statement**

as at 27 September 2012

## Introduction

This Policy and Compliance Statement outlines the governance arrangements for the Essex Pension Fund, maintained by Essex County Council, as required by regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

Under that provision all LGPS Funds in England and Wales are required to produce a Governance Compliance Statement, revise it following any material change in their delegation arrangements and publish it. 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.

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 paragraph (3); and
- c. if revisions are made—
  - i. publish the statement as revised, and
  - ii. send a copy of it to the Secretary of State.

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 27 September 2012. There are no material changes to the delegation arrangements since the previous Policy and Statement.

## About The Essex Pension Fund

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

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 400 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 (all as amended):

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
- The Local Government Pension Scheme (Administration) Regulations 2008
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- 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 2008 employee contributions have been banded according to employees' whole time equivalent annual pensionable pay. The rates payable vary from 5.5% to 7.5% of annual pensionable pay.

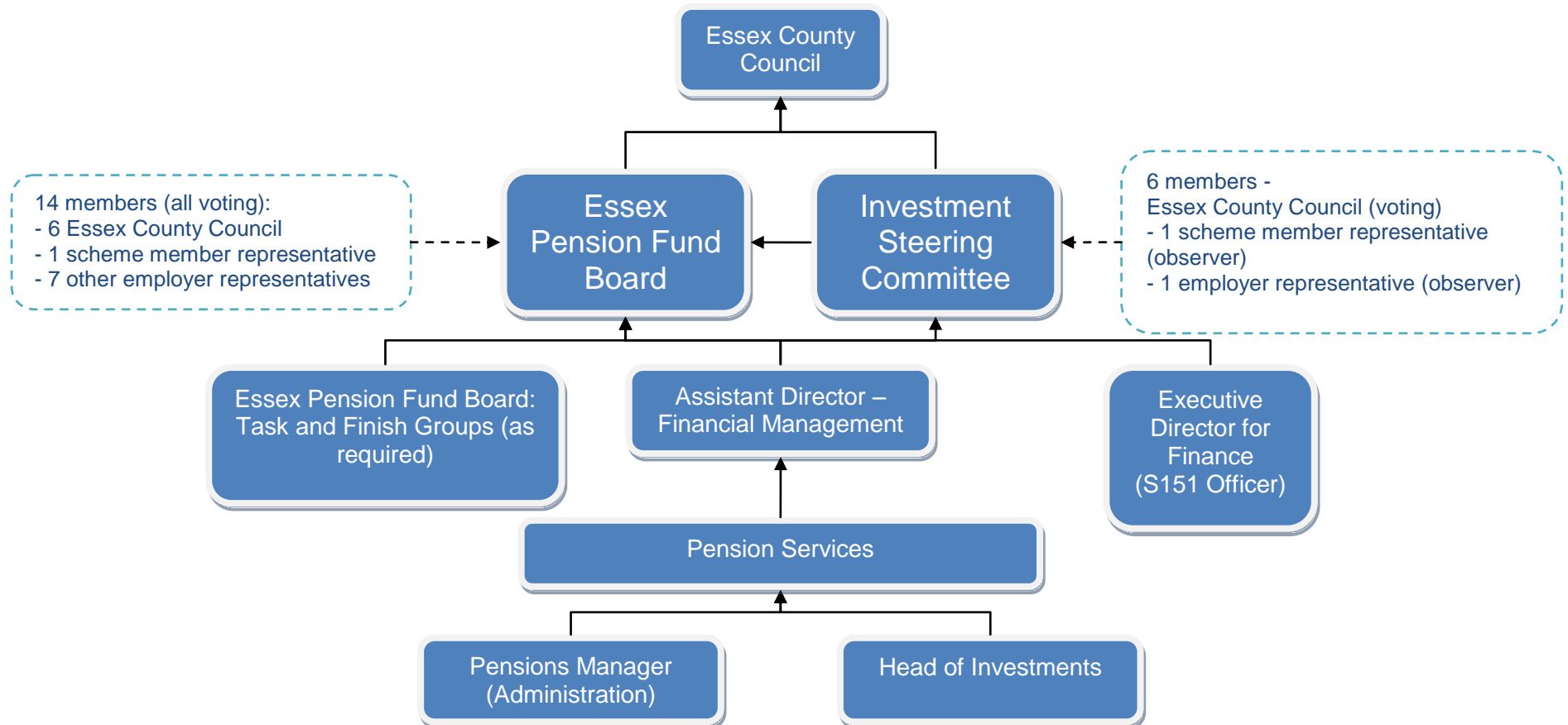
| Membership Summary as 31 March 2012 |         |
|-------------------------------------|---------|
| Active Members                      | 42,315  |
| Pensioner/Dependants                | 32,269  |
| Deferred Members                    | 38,101  |
| Total                               | 112,685 |

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

At the last triennial valuation of the Fund as at 31 March 2010 Fund assets were £3.085 billion, which represented 71% 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 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:



## **Scheme of delegations for the Essex Pension Fund**

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

1. To 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; this 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 the benefit regulations and payment of pensions and their day to day administration including the Internal Disputes Resolution Procedures, and ensure that it delivers best value and complies with best practice guidance where considered appropriate.
    - 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 Investment Steering Committee:
  - 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.

2. To the Executive Director for Finance:

- i. To exercise the functions of the Council in relation to pensions as specified in Schedule 1H of the Regulations 2000.
- ii. Subject to the agreement of the Chief Executive in any case involving a Tier 1 Officer, the County Solicitor, the Monitoring Officer or the Executive Director for Finance, to exercise discretion under the Local Government Pensions Regulations, the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 and the Teachers Pension Regulations or any regulations replacing or amending the same.
- iii. To manage the Pension Fund including the power to seek professional advice and to devolve day-to-day handling of the Fund to professional advisers within the scope of the Pensions Regulations.

Note 1: The Executive Director for Finance is not empowered to change the managers of the Pension Fund.

Note 2: The operational procedures related to these functions are carried out by the Pensions Team comprising Pension Services and the Investments Team.

3. To the County Solicitor:

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



## The Pension Board

The Pension Board is composed as follows:

| Representing                       | No        | Term of Office  | Comments  |
|------------------------------------|-----------|---|---|
| Essex County Council               | 6         | 4 years (from 16.06.09 until 2013 County Council Elections)           |   |
| District/Borough Councils in Essex | 2         | 4 years (from May 2011 until 2015 District/Borough Council elections) | Nominated by Essex Borough and District Leaders"/Chief Executives" Meeting          |
| Unitary Councils in Essex          | 2         | 4 years (from May 2011 until 2015 Unitary Authority elections)        | One each for Southend-on-Sea and Thurrock Councils                                  |
| Essex Police Authority             | 1         | 4 years, from June 2011 until end June 2015                           |   |
| Essex Fire Authority               | 1         | 4 years, from June 2011 until end June 2015                           |   |
| Scheme Members                     | 1         | 4 years from September 2011 until September 2015                      | Nominated by UNISON,  |
| Smaller Employing Bodies           | 1         | 2 years, from date of appointment (January 2012)                      | To be nominated following voting by eligible employers attending the Employer Forum |
| <b>Total</b>                       | <b>14</b> |   |   |

All members of the Board have equal voting rights.

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

The 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 Board also has a dedicated training plan which includes specific internal training sessions.

### **The Investment Steering Committee**

The Investment Steering Committee is composed as follows:

| <b>Representing</b>                | <b>No</b> | <b>Term of Office</b>   | <b>Comments</b>  |
|------------------------------------|-----------|---|--|
| Essex County Council               | 6         | 4 years (from 16.06.09 until 2013 County Council Elections)           |  |
| Employer representative (observer) | 1         | 4 years (from May 2011 until 2015 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,   |
| <b>Total</b>                       | <b>8</b>  |   |  |

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

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

## Governance Compliance Statement

As can be seen, Essex Pension Fund governance arrangements are almost entirely compliant with the latest guidance issued by the Secretary of State for Communities and Local Government.

| Principle   | Not Compliant | Partially Compliant | Fully Compliant              |
|---|---------------|---------------------|------------------------------|
| <b>A Structure</b><br>(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<br>(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<br>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.<br>(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. |               |                     | ✓<br><br>✓<br><br>✓<br><br>✓ |
| <b>B Representation</b><br>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include<br>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)<br>(ii) scheme members (including deferred and pensioner scheme members)<br>(iii) independent professional observers<br>(iv) expert advisers (on an ad hoc basis)<br>(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.  |               |                     | ✓<br>✓<br>✓<br>✓<br>✓        |
| <b>C Selection and Role of Lay Members</b><br>(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.   |               |                     | ✓                            |

| Principle   | Not Compliant | Partially Compliant | Fully Compliant   |
|---|---------------|---------------------|-------------------|
| <b>D Voting</b><br>(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.   |               |                     | ✓                 |
| <b>E Training/ Facility Time/ Expenses</b><br>(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.<br>(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.   |               |                     | ✓<br><br>✓        |
| <b>F Meetings – Frequency</b><br>(a) that an administering authority's main committee or committees meet at least quarterly.<br>(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.<br>(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. |               |                     | ✓<br>✓<br><br>N/A |
| <b>G Access</b><br>(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.   |               |                     | ✓                 |
| <b>H Scope</b><br>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.   |               |                     | ✓                 |
| <b>I Publicity</b><br>(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.   |               |                     | ✓                 |

|                                 |                  |
|---------------------------------|------------------|
| <b>Essex Pension Fund Board</b> | <b>EPB/27/12</b> |
| date: 27 September 2012         |                  |

## **Annual Governance Report for the Essex Pension Fund Accounts 2011-12**

Report by the Group Manager Investments

Enquiries to Kevin McDonald on 01245 431301

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### **1. Purpose of the Report**

- 1.1 To submit for Members' information the Annual Governance Report for the Pension Fund (AGR) by the District Auditor.

### **2. Recommendation**

- 2.1 That the Board should note the report.

### **3. Background**

- 3.1 The Audit Commission's Code of Practice and International Standard of Auditing (UK & Ireland), requires the Council's External Auditor, Rob Murray, District Auditor for the Audit Commission ("the District Auditor"), to submit a report to the Council's Audit Committee on various matters relating to the audit work that he has undertaken on the Pension Fund accounts in an Annual Governance Report.

### **4. Annual Governance Report Summary**

- 4.1 The District Auditor's Annual Governance Report (AGR) on the Essex Pension Fund was considered by the Audit Committee on 24 September 2012. This document is attached for Members' information.
- 4.2 The key messages are shown on page 3 of the attached AGR. These highlight that the 2011/12 financial statements accounts will receive an unqualified audit opinion and that no important weaknesses were found in the internal control environment.
- 4.3 The AGR highlights no recommendations for Members to note.

### **5. Pension Fund Annual Report & Accounts 2011-12**

- 5.1 As reported to the Board on 11 July 2012 when work has been completed, a final draft of the Pension Fund Annual Report & Accounts will be submitted to the Chairman of the Board for approval. Subsequently a copy of the approved Annual Report will be made available to all Board Members.

### **6. Background Papers**

- 6.1 The Local Government Pension Scheme (Administration) Regulations 2008
- 6.2 The Audit Commission's Code of Practice and International Standard of Auditing (UK & Ireland)

# Annual governance report

Essex Pension Fund

Audit 2011/12



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# Key messages

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**This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.**

As at 1 August 2012 I expect to issue an unqualified audit opinion.

There have been no material audit adjustments to the primary statements identified from the audit. I was notified of a number of reclassifications within the notes to the accounts which officers have amended. The working papers received were reasonable and all queries have been answered promptly by management.

# Before I give my opinion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

## **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Pension Fund before I issue my opinion.

# Financial statements

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**The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

## **Uncorrected errors**

There were no uncorrected errors identified.

## **Corrected errors**

Officers identified a number of reclassifications within the notes to the financial statements – two of these were material reclassifications within the financial instruments note. These amendments do not impact on the primary financial statements and all items were corrected.

I identified a small number of additional disclosures required to comply with the Code of Practice on Local Authority Accounting and these have now been included in the financial statements.

## **Significant risks and my findings**

There were no significant risks identified in my audit plan presented to you on 19 March 2012.

### **Significant weaknesses in internal control**

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

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

We have not identified any weaknesses in internal control with respect to those I have identified during the audit that are relevant to preparing the financial statements.

### **Pension Fund Annual Report**

The Pension Fund prepared its Annual Report on 17 July 2012. As a result I have completed my review and reported on the financial statements included in the Annual Report. There were no issues noted from my audit work.

# Fees

## I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee.

Table 1: **Fees**

|                | Planned fee 2011/12 (£) | Expected fee 2011/12 (£) |
|----------------|-------------------------|--------------------------|
| Audit          | 45,000                  | 45,000                   |
| Non-audit work | 0                       | 0                        |
| <b>Total</b>   | <b>45,000</b>           | <b>45,000</b>            |

# Appendix 1 – Draft independent auditor's report

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

### Opinion on the financial statements

I have audited the financial statements of Essex County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Executive Director for Finance and auditor

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

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Essex County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

### **Opinion on the pension fund financial statements**

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Executive Director for Finance and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and

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- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Essex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

*[Signature]*

Rob Murray  
District Auditor  
  
3rd Floor, Eastbrook  
Shaftesbury Road  
Cambridge, CB2 8BF

*[Date]*

# Appendix 2 – Draft letter of management representation

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## **Essex Pension Fund - Audit for the year ended 31 March 2012.**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of officers and members of Essex Pension Fund, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and

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- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Essex Pension Fund

I confirm that this letter has been discussed and agreed by the Audit Committee on 24 September 2012.

Signed

Name

Position

Date

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# Appendix 3 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Internal control**

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Pension Fund Annual Report**

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

## **Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.





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|---------------------------------|------------------|
| <b>Essex Pension Fund Board</b> | <b>EPB/28/12</b> |
| <b>date: 27 July 2012</b>       |                  |

## **Investment Steering Committee (ISC) Quarterly Report**

Report by the Group Manager Investments

Enquiries to Kevin McDonald on 01245 431301

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### **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 the constitution of the Essex Pension Fund 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 July 2012. This meeting was specifically designed for the consideration of Fund strategy.

### **4. Report of meeting of ISC on 25 July 2012**

- 4.1 The ISC received a presentation from Hymans Robertson summarising the investment performance to 31 March 2012 of the investment managers of the Fund along with a synopsis of market conditions during this time.
- 4.2 A report was presented on which summarised the current views of Hymans Robertson on the capabilities of each of the Fund's managers relative to their individual peer group universe.
- 4.3 Following a presentation and detailed discussion on investment strategy the ISC agreed that:
- the assets of the pooled portfolio with Marathon (totalling around £66m as at 30 June 2012) be transferred to the segregated portfolio with Marathon (totalling around £211m prior to the transfer);
  - the total amount of assets with Marathon be rebalanced from c. 8% of the total fund as at 30 June 2012, to its strategic benchmark allocation of 7%;
  - this 1% of assets (expected to be between £30m-£35m) be transferred from Marathon to Legal & General, the Fund's passive manager;
  - equity manager arrangements be reviewed in light of Marathon developments and the preferred style mix in prolonged volatile market conditions;
  - the private equity portfolio unchanged;
  - the currency mandate remain unchanged;
  - consideration of global property would be ended at this time;
  - officers, in conjunction with advisers, undertake work on the feasibility of ground rents and secured income property funds;
  - officers, in conjunction with advisers, investigate NAPF / PPF infrastructure proposals;
  - the ISC consider investment in Stafford Timberland VII fund when proposals for the launch are clarified;
  - the residual allocation from M&G loans fund be allocated to the Alpha Opportunities fund;
  - the cash flow model be noted and that further development continue;
  - after the Actuary has completed the 31 March 2012 Interim Review, officers in conjunction with advisers, undertake work on developing de-risking triggers;
  - the proposed target investment strategies be implemented on de-risking triggers; and

- officers, in conjunction with advisers, investigate the appropriateness of overlay and discretionary macro approaches for Fund structure.

4.4 Independent Investment Adviser, Tony Hardy attended his last ISC meeting. The Chairman made a presentation to Mr Hardy to in recognition of his contribution to the ISC over the 12 years of his appointment.

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

## **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 meeting 25 July 2012– Agenda and draft minutes.



|                                 |                  |
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| <b>Essex Pension Fund Board</b> | <b>EPB/29/12</b> |
| <b>date: 27 September 2012</b>  |                  |

## **Forward Look**

Report by the Secretary to the Board

Enquiries to Judith Dignum, Governance Team Manager, 01245 430044, ext 20044

### **1. Purpose of the Report**

- 1.1 To present a Forward Look detailing the Board's future business.

### **2. Recommendations**

- 2.1 That the Forward Look attached at Appendix A be noted and approved.

### **3. Updated Format**

- 3.1 For ease of reference, the format of the Forward Look has been updated to include the training sessions and external events highlighted on the training plan.

### **4. Link to Essex Pension Fund Objectives**

- 4.1 The Forward Look assists the Board in achieving the following Fund Objectives:
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
  - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
  - Continually measure and monitor success against our objectives

### **5. Risk Implications**

- 5.1 Failure to plan its business carefully may cause the Board to approach its work in an unstructured way and to make ineffective use of its Members', Officers' and Professional Advisers' time.

### **6. Communication and Finance and Resources Implications**

- 6.1 None

**Essex Pension Fund Board  
Forward Look**

| <b>Meeting</b>          | <b>Agenda Item</b>   | <b>Type</b>  |
|-------------------------|--|--|
| <b>16 October 2012</b>  | <b>External Training:</b> LGPC/LGE Trustee Fundamentals  | Day 1 – useful for recently-appointed members          |
| <b>6 November 2012</b>  | <b>External Training:</b> LGPC/LGE Trustee Fundamentals  | Day 2 – useful for recently-appointed members          |
| <b>14 November 2012</b> | Annual Strategy Day  |  |
| <b>11 December 2012</b> | <b>External Training:</b> LGPC/LGE Trustee Fundamentals  | Day 3 – useful for recently-appointed members          |
| <b>12 December 2012</b> | Board meeting:<br>Financial Services procurement & relationship management<br>Update on Pension Fund Activity: Business Plans, Risks and Measurement against Fund Objectives<br>Annual Review of Pension Fund Board<br>Admission/Employer participation/bulk transfer policy<br>Implementation of Communication Policy<br>Investment Steering Committee (ISC) Quarterly Report | Pre-Board Training<br>Every meeting<br><br>Annual item |
| <b>23 January 2013</b>  | Board Member Training:<br>Pensions legislative & governance context<br>Actuarial methods, standards & practices  | For all Board members                                  |

|                               |   |  |
|-------------------------------|---|--|
| <b>March 2013</b>             | <b>Conference:</b> LGC Investment Seminar   | Exact date tbc – for all ISC members unless attending LGC Investment Summit                      |
| <b>6 March 2013</b>           | Board meeting:<br>Accounting & auditing standards<br>Update on Pension Fund Activity: Business Plans, Risks and Measurement against Fund Objectives<br>2013/14 Business Plan<br>Record of Member Attendance<br>Treasury Management Strategy<br>Administration Policy (final version for approval)<br>Investment Steering Committee (ISC) Quarterly Report | Pre-board training<br>Every meeting<br><br>Annual item<br>Annual item<br>Annual item             |
| <b>May 2013</b>               | <b>Conference:</b> NAPF Local Authority Pensions Conference   | Exact date tbc – for all Board members unless attending LGE Trustees Conference                  |
| <b>June 2013</b>              | <b>Conference:</b> LGPS (LGE) Trustees Conference   | Exact date tbc – for all Board members unless attending NAPF Local Authority Pensions Conference |
| <b>2/3 October 2013</b>       | <b>External Training Event:</b> Baillie Gifford Local Authority Investment Training and Seminar   | Desirable for ISC members  |
| <b>Issues to be scheduled</b> |   |  |
|                               | LGPS Pension Reform (ongoing)<br>Induction Training for New Board Members   | Likely item for each Board meeting<br>Post CC Elections May 2013                                 |





|                                 |                  |
|---------------------------------|------------------|
| <b>Essex Pension Fund Board</b> | <b>EPB/30/12</b> |
| <b>date: 27 September 2012</b>  |                  |

## **Dates of Future Meetings**

Report by the Secretary to the Board

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Enquiries to Judith Dignum, Governance Team Manager, 01245 430044, ext 20044

### **1. Purpose of the Report**

- 1.1 To agree a schedule of meetings for the Municipal Year 2013/14.

### **2. Recommendation**

- 2.1 That a schedule of meetings for the Municipal Year 2013/14 be agreed.

### **3. Background**

- 3.1 A proposed schedule of meetings for the Municipal Year 2013/14 is set out below for the Board's consideration. As in the current year, in addition to the usual four Board meetings, provision has also been made for an annual strategy day in November 2013 and half day training sessions in June 2013 and January and May 2014. An additional half day session may be arranged in due course once the results of the training needs analysis are known.

| <b>Day</b> | <b>Date</b>       | <b>Time</b> | <b>Event</b>            |
|------------|-------------------|-------------|-------------------------|
| Wednesday  | 22 May 2013       | 2.00pm      | Training<br>(Induction) |
| Wednesday  | 10 July 2013      | 2.00pm      | Board Meeting           |
| Wednesday  | 25 September 2013 | 2.00pm      | Board Meeting           |
| Wednesday  | 13 November 2013  | 10.00am     | Strategy Day            |
| Wednesday  | 11 December 2013  | 2.00pm      | Board Meeting           |
| Wednesday  | 22 January 2014   | 2.00pm      | Training                |
| Wednesday  | 5 March 2014      | 2.00pm      | Board Meeting           |
| Wednesday  | 21 May 2014       | 2.00pm      | Training                |

- 3.2 Members are reminded that training sessions are also held on Board meeting days from 12.00pm to 1.30pm, with a sandwich lunch provided.

### **4. Link to Essex Pension Fund Objectives**

- 4.1 This information will assist the Board in achieving the following Fund objective:
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
  - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based

### **5. Risk Implications**

- 5.1 Failure to schedule dates in advance may have an adverse effect on Members' and Officers' attendance at meetings and training/development sessions, leading to inquorate meetings, ineffective use of resources and difficulties in ensuring that Members have the opportunity to acquire the knowledge and skills they need to exercise their role effectively.

### **6. Communication Implications**

6.1 None

**7. Finance and Resources Implications**

7.1 None

**8. Background Papers**

8.1 None

