

Essex Pension Fund Board

Annual Report 2013/14

1. Introduction

- 1.1 This is the fifth Annual Report of the Essex Pension Fund Board, covering the period from 1 April 2013 until 31 March 2014.

2. Roles and Functions

- 2.1 The Essex Pension Fund Board was established by the County Council in May 2008 to ensure that the Pension Scheme complied with the best practice principles for governance as required by the amended Local Government Pension Scheme Regulations 1997.

- 2.2 The Board's terms of reference, as approved by the County Council, are as follows:

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

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

- 2.3 The Board met four times during the period covered by this report; on 10 July, 18 September and 9 December 2013 and 15 March 2014.

3. Membership

3.1 The Board has 14 members. These represent Essex County Council, the other local authorities in Essex (including Unitary Councils), the Essex Police and Crime Commissioner, Essex Fire Authority, Scheme members and Smaller Employing Bodies (i.e. those which are not already specifically represented on the Board).

3.2 The membership of the Board as at 31 March 2014 was as follows:

Essex County Council (6)

| | |
|------------------------------------|---------------|
| County Councillor Susan Barker | |
| County Councillor Rodney Bass | Chairman |
| County Councillor Karen Clempner | |
| County Councillor Norman Hume | Vice-Chairman |
| County Councillor Nigel Le Gresley | |
| County Councillor Jon Whitehouse | |

District/Borough Councils in Essex (2)

| | |
|---------------------------------------|--------------|
| District Councillor John Archer | Maldon |
| Borough Councillor Mrs Pamela Challis | Castle Point |

Unitary Councils in Essex (2)

| | |
|----------------------------------|-----------------|
| Borough Councillor Gerard Rice | Thurrock |
| Borough Councillor Andrew Moring | Southend-on-Sea |

Essex Police and Crime Commissioner(1)

Mr Charles Garbett

Essex Fire Authority (1)

County Councillor Mike Danvers

Scheme Members (nominated by UNISON) (1)

Mr Keith Blackburn

Smaller Employing Bodies (1)

Mrs Jenny Moore

4. Dimensions of the Fund

4.1 Based on the draft accounts, as at 31 March 2014 the value of the Fund's assets was £4.337 billion.

4.2 The total value of pensions paid during 2013/14 was £162.5m, together with other benefits totalling £41.5m. The average value of pension paid was £4,612.

4.3 The total number of beneficiaries are as follows:

| | 2013 | 2014 |
|-----------------------|-------------|-------------|
| Contributors | 45,001 | 49,516 |
| Pensioners/dependents | 33,873 | 35,254 |
| Deferred Members | 42,092 | 43,693 |
| Total | 120,966 | 128,463 |

*Provisional numbers

(Deferred Members are former employees who had chosen not to transfer their pension rights.)

4.4 The Board exercises on behalf of the Council the management of the Pension Fund whose membership comes from around 530 separate Employing Bodies, including:

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

5. Work of the Board

5.1 The following major issues were considered by the Board between 1 April 2013 and 31 March 2014:

Reform of the Local Government Pension Scheme

The Board has kept up-to-date with the latest developments regarding the Government's proposals for the reform of the Local Government Pension Scheme. The Board has responded to consultations on the draft Regulations and the continued membership of councillors in the Scheme. The Board has also given evidence to the Department of Communities and Local Government on the future structure of the Scheme.

The Chairman of the Board wrote to the Parliamentary Under-Secretary of State in the Department for Communities and Local Government expressing serious concerns about the co-ordination, clarity and timeliness of the development of new Regulations that would apply to the Scheme. The continued delay in the publication of the Regulations could adversely impact on the timely implementation of required updates to Fund systems and processes and an entry was added to the Risk Register to reflect this.

Reviewing the Funding Strategy Statement

The Funding Strategy Statement establishes a clear and transparent fund-specific strategy which identifies how employer pension liabilities are to be met going forward. The Statement has been reviewed in the light of the Actuarial Valuation as at 31 March 2013 and the consultation exercise with the Fund's

Employer bodies. The feedback received from the consultation had not required any significant changes to be made to the draft FSS.

All Employer Bodies have been notified of their revised contribution results (a further review for Academies will take place later this year in the light of potential pooling proposals). The Funding level valuation was 80% compared to 71% at the time of the last valuation. The improved funding level reflected better investment returns and the use of an economic model for discount rate calculations rather than a gilts plus model. However, the ongoing cost of the future service increased to 14.3% of pensionable pay compared to 12.2% at the time of the last valuation - due partly to more cautious actuarial assumptions on future investment returns and the anticipated increasing cost of implementing transitional arrangements arising from the new Career Average scheme.

The key points of the proposed FSS were:

- There would normally be no net reduction in payments where a deficit existed;
- The aim would be to provide payment options based on stability of contributions (generally within 1% of payroll rate);
- The starting point for consideration of the length of time over which deficit would be payable was the 2010 deficit duration less three years;
- Annual up-front payment of deficit allowable;
- Triennial up-front payment of deficit allowable;
- Stepped introduction of new rates would be permissible if required.

Recovery periods for each Employer body were variable reflecting each unique employer profile and different joining dates. The majority of major tax raising Employer bodies had opted for an annual up-front payment to be made in April each year.

There would be the opportunity for interim reviews of the FSS prior to the next Triennial valuation.

Other Issues

Amongst the other issues considered by the Board have been:

- approval of proposals to appoint a new pensions administration software provider from a collaborative procurement framework;
- reports to each meeting providing an update on Pension Fund activity with regard to the Business Plan, risk management and measurement of progress against objectives (scorecard);
- reviewed of the Fund's Governance Policy and Compliance Statement;
- approval of a response to the Department for Communities and Local Government's consultation on pooling arrangements for Academies with the Local Government Pension Scheme;

- agreement to the extension of the contract with Hymans Robertson as Independent Governance and Administration Adviser to the Board and agreement to the process for proceeding with the procurement of the contract;
- reports from Internal Audit (Essex County Council) reviewing their previous year's work with regard to the Pension Fund and Pensions Administration and outlining their planned work for the coming year. The Board was pleased to note the positive outcome from the two audits undertaken during 2012/13 with the award of Full Assurance in respect of Pension Services Administration and Pension Investment; and
- the receipt of quarterly reports on the work of the Essex Pension Fund Investment Steering Committee (ISC).

Award

Essex won the award for "Pension Fund of the Year" at a ceremony in London organised by *Local Government Chronicle*. In a two stage process, 10 finalist Funds from throughout the Local Government Pension Scheme were initially selected, followed by a shortlist which saw Essex joined by the larger Greater Manchester Fund and Strathclyde (the biggest Fund in the country). It was particularly pleasing that the judges recognised Essex's achievements against other Funds across the following criteria:

1. the Fund's annual report and other communications with its members and employing authorities;
2. the degree to which the Fund had met all its objectives, including performance objectives; and
3. innovations introduced during the year which improved the service provided to pensioners and/or contributors.

Member Training

The Board has continued to demonstrate its commitment to training and development, with a view to ensuring that Members are able to fulfil their roles effectively. An updated training strategy and plan has been approved based on targeted training that is timely and directly relevant to the Board's activities as set out in the Fund's 3-year business plan. New members of the Board have received induction training and all members have been strongly encouraged to participate in a range of training courses and events, both internal and external. In addition, the calendar of meetings included a separate training session and ISC Members attended a training seminar in October arranged by Baillie Gifford.

Details of Members' attendance at Essex Pension Fund Board and Investment Steering Committee meetings and training events (internal and external) are recorded throughout the year and will be presented to the Board at its July 2014

meeting. They are also reported on an ongoing basis as part of the Board's assessment of its performance against objectives identified in the Business Plan.

During 2013/14, internal training sessions have covered the following issues:

- induction training for new Members
- Actuarial Valuations
- Funding Strategies
- governance
- financial services procurement

6. Future Work Programme

- 6.1 The Board maintains a forward plan of its forthcoming work (the Forward Look) which identifies items to be brought before Members over time and programmes tasks for future years. The document is reported to each Board meeting.
- 6.2 In addition to the regular standing items, the reform of the Local Government Pension Scheme remains an issue for consideration in 2014/15.