

Essex Pension Fund Board

Annual Report 2014/15

1. Introduction

This is the sixth Annual Report of the Essex Pension Fund Board, covering the period from 1 April 2014 until 31 March 2015.

2. Roles and Functions

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.

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.

The Board met five times during the period covered by this report: on 9 July, 17 September and 10 December 2014 and 19 January and 4 March 2015.

3. Membership

During the period covered by this report the Board had 14 members. They represented 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).

The membership of the Board as at 31 March 2015 was as follows:

Essex County Council (6)

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

District/City/Borough Councils in Essex (2)

Councillor John Archer	Maldon
Councillor John Galley	Chelmsford

Unitary Councils in Essex (2)

Councillor Gerard Rice	Thurrock
Councillor Ronald Woodley	Southend-on-Sea

Essex Police and Crime Commissioner(1)

Mr Charles Garbett

Essex Fire Authority (1)

County Councillor Colin Seagers

Scheme Members (nominated by UNISON) (1)

Mr Keith Blackburn

Smaller Employing Bodies (1)

Mrs Jenny Moore

4. Dimensions of the Fund

Based on the draft accounts, as at 31 March 2015 the value of the Fund's assets was £4.933 billion.

The total value of pensions paid during 2014/15 was £170.9m, together with other benefits totalling £36.3m. The average value of pension paid was £4,820.

The total number of beneficiaries are as follows:

	2014	2015*
Contributors	49,516	50,965
Pensioners/dependents	35,254	35,455
Deferred Members	43,693	44,038
Total	128,463	130,458

*Provisional numbers

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

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

The following major issues were considered by the Board between 1 April 2014 and 31 March 2015.

A Local Government Pension Scheme (LGPS) Reform

Understandably much of the work of the Board during the year has been focussed on the impact of the Government's plans for pension reform.

LGPS 2014 Regulations

As highlighted in correspondence from the Chairman of the Essex Pension Fund Board to the Parliamentary Under Secretary of State there were significant delays in finalising the LGPS 2014 regulations in particular, the key transitional elements affecting existing members which were only received in March 2014.

One of the highest profile changes with effect from 1 April 2014 was the removal of the provision of a pension arrangement for Local Councillors within the LGPS. Transitional arrangements for current Councillor Members who were contributing on 31 March 2014 are in place allowing them to continue membership of the LGPS until the end of their current term of office.

Following debate in Parliament the regulation changes are to remain in place and the Essex Pension Fund has written to all Councillor Members informing them of the future changes to their pension arrangements.

DCLG Consultation: “Opportunities for collaboration, cost saving and efficiencies”

The Board agreed its response to the consultation. It welcomed the opportunity to participate in a consultation that was central to how the LGPS invests for its future. The Board was encouraged that some common themes raised in a large number of responses to the previous year’s call for evidence had formed the basis for proposals both:

- to keep asset allocation with local fund authorities and
- to enable the availability of transparent and comparable data.

The consultation was set against a backdrop of concern that the LGPS:

- is in deficit
- pays active fees, but
- experiences passive investment performance in aggregate.

These were concerns the Board shared – and took seriously. However, in considering these challenges the Essex Fund had developed an approach that differed markedly from the direction in which some of the Consultation’s proposals appeared to be heading. In particular, the Essex approach led the Board strongly to oppose any proposals for LGPS Funds to be compelled:

- to join Collective Investment Vehicles (CIVs);
- to end successful active mandates.

The response discussed the Essex Pension Fund’s consideration of the three concerns highlighted above. It highlighted the approach Essex had adopted. It responded to the specific questions posed by the Consultation and closed with details of Essex’s approach.

Local Government Pension Scheme (LGPS) Reform: Scheme Governance

The Board had concerns over the creation of the local Board. A working group was, therefore, established to explore all options.

It was also agreed that a response to the consultation be submitted. The Essex Pension Fund welcomed the opportunity to participate in this consultation on revised governance arrangements for the Local Government Pension Scheme (LGPS). It agreed that good governance reduced the risks associated with administering the LGPS.

However it had also been clear that the requirements of the Public Service Pensions Act 2013 impacted the LGPS in a unique way. Whilst many public sector schemes’ governance arrangements were starting afresh, in contrast there was already an established governance landscape within the LGPS.

The regulations allowed for the possibility of administering authorities combining an existing s101 committee with the new Local Pension Board (LPB). The Board’s view was that these bodies had separate functions. Section 101 committees exercised delegated powers on behalf of the administering authority. The new LPB’s role was to assist the administering

authority in complying with legislation. It did not appear to be intended to be the primary decision-making body. This led the Board to conclude that s101 Committees should not be combined with the new Local Pension Boards.

Given the points made above, the Board did not feel that authorities should use the existing s101 arrangements for setting up the new LPBs. It favoured the alternate approach which allowed administering authorities discretion to establish the procedures applicable to the new LPBs such as voting rights, the formation of joint committees and the payment of expenses.

Given the existing governance landscape and the different roles carried out by s101 committees and the new LPBs it was considered sensible to allow joint LPBs to operate across a small number of administering authorities. This would not only promote best practice and strengthen governance standards, but also limit costs. In recent years there had been significant steps taken in terms of joint working, collaboration between funds and the use of frameworks – joint Local Pension Boards build on this.

The requirement to have LPBs in place by 1 April 2015 was understood, however given that Regulations would not be published before autumn 2014 left little time to make the necessary arrangements and populate the new LPBs. The Board therefore suggested that both DCLG and the Pension Regulator regard sympathetically those Funds whose arrangements were evidently “work in progress” at 1 April 2015, and do not formally complete until sometime during 2015/16.

The Board noted that a requirement to hold an AGM was being considered as part of the Regulations. The Essex Pension Fund holds an Employer Forum every year – and so is already in compliance with the existing DCLG statutory guidance. However, dialogue with stakeholders is a continuing commitment that takes a variety of forms. As a result confining engagement to one AGM appeared restrictive.

The Local Pension Board

The Board agreed the proposals of the working group on the Fund’s Governance structure incorporating the formation of a new Local Pension Board. These proposals were subsequently approved by Essex County Council in February 2015 to take effect from 1 May.

The size of the Investment Steering Committee will be increased from 6 to 7 (this will continue to reflect the political balance of the County Council).

The current Essex Pension Board will be retained and renamed as the Essex Pension Fund Strategy Board (PSB) to reflect its strategic role. In light of the membership arrangements for the new PAB the size of the PSB will be reduced from 14 to 11.

The remit of the new Local Pension Advisory Board will be:

- to assist the Essex County Council Administering Authority as Scheme Manager to secure

- a) compliance with the Local Government Pension Scheme regulations and any other legislation relating to the governance and administration of the LGPS
- b) compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
- to ensure that the Essex Pension Fund is managed and administered effectively and efficiently.

The Pension Advisory Board will meet sufficiently regularly to discharge its duties and responsibilities effectively. It will be made up of 9 Members as follows:

- 4 employer representatives made up of Essex County Council (1), Borough/City District (1), Unitary (1), other employers (1)
- 4 scheme member representatives of which 1 will be nominated by the trade unions and the rest drawn from the total scheme membership
- 1 independent non-voting chairman, Nicola Mark, Head of Norfolk Pension Fund.

The PAB will be a new body. It will not be possible for an individual to be a Member of both the PSB and PAB although existing Members could transfer to the PAB to ensure there is sufficient experience.

B Other Issues

The following are some of the other issues considered by the Board.

- Quarterly reports on the work of the Essex Pension Fund Investment Steering Committee.
- The decision to procure the Civica UPM (Universal Pension Management) software. A significant amount of Officer involvement resulted in its successful implementation and 'go live' status on 5 November 2014.
- Successful Employer and Academy Forums held on 9 May and 5 December 2014 with excellent feedback from attendees.
- The Board agreed the method for setting the academies' employer contribution rates for the remaining two years of the current valuation period.
- The results of the 31 March 2014 Interim Review were brought to the Board in September 2014. These showed an encouraging increase in funding level (ahead of target) and no change to the funding strategy was required. A further review (as at 31 March 2015) will be considered in September 2015. Initial indications from the Actuary are also positive.

6. Awards

Essex won the award for “Pension Fund of the Year” at a ceremony in London organised by the *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.

In February the Fund was named as the “Defined Benefit Pension Scheme of the Year” at a prestigious awards event organised by the publication “Pensions Age”. This was the third major national award won by the Fund in the past 15 months.

7. 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.

Details of Members’ attendance at Essex Pension Fund Board and Investment Steering Committee meetings and training events (internal and external) are monitored throughout the year and reviewed annually at the Board’s July meeting.

Training sessions were held on 17 September and 10 December 2014 and 19 January and 4 March 2015.

The Board has agreed that future Member training be delivered within the Board meeting on a trial basis.

8. Three-Year Business Plan

The Board has developed a 3-year Business Plan which provides a high level summary of key work streams and feeds into more detailed annual business plans.