

Essex Pension Fund Board

Annual Report 2015/16

1. Introduction

This is the seventh Annual Report of the Essex Pension Fund Board(s), covering the period from 1 April 2015 until 31 March 2016.

On 28 January 2015, new regulations were laid before Parliament which required the Council to establish a Local Pension Advisory Board by 1 April 2015. A statutory body, the Essex Pension Fund Advisory Board does not have decision-making powers. The Board does not replace the existing decision-making structure of the Essex Pension Fund. Management of the Essex Pension Fund is delegated to two bodies:

- the Essex Pension Fund Strategy Board (PSB) and
- the Investment Steering Committee (ISC).

A Pension Advisory Board with stakeholder representation was one of the recommendations of Lord Hutton's 2011 report of the Independent Public Services Pension Commission. This was followed by the Public Service Pension Act 2013 and the LGPS Regulations laid at the end of January 2015.

2. Roles and Functions

Essex Pension Fund Strategy Board

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 four times during the period covered by this report: on 8 July, 16 September and 16 December 2015 and 16 March 2016.

Membership

During the period covered by this report the Board had 11 members. They represented Essex County Council, the other local authorities in Essex (including Unitary Councils), 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 2016 was as follows:

Essex County Council (7)

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

District/City/Borough Councils in Essex (1)

Councillor Colin Riley	Castle Point Borough Council
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Unitary Councils in Essex (1)

Councillor Ronald Woodley	Southend-on-Sea
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Scheme Members (nominated by UNISON) (1)

Mrs S Child

Smaller Employing Bodies (1)

Mrs Jenny Moore

Essex Pension Fund Advisory Board

The Essex Pension Fund Advisory Board is appointed by Essex County Council as its Local Pensions Board in accordance with section 5 of the Public Service Pensions Act 2013 and Part 3 of the Local Government Pension Scheme Regulations 2013.

The Board has the following remit:

- (i) To assist the Scheme Manager to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS and to secure compliance with requirements imposed in relation to the LGPS by the Pension Regulator.
- (ii) To secure the effective and efficient governance and administration of the LGPS for the Essex Pension Fund (EPF).
- (iii) To help ensure that the EPF is managed and administered effectively and efficiently and complies with the code of practice.
- (iv) To assist the Scheme Manager with such matters as the scheme regulations may specify.
- (v) To be a “critical friend” to the PSB and the Investment Steering Committee (ISC).
- (vi) The Board may review any decision made by or on behalf of the Scheme Manager.
- (vii) The Board will adopt a policy statement on reporting breaches.
- (viii) At the invitation of the PSB, the Board may also undertake other tasks.
- (ix) Appointing Observers to attend meetings of the PSB and the ISC.

Membership

During the period covered by this report the Advisory Board had 9 members. They represented employer and scheme representatives and an independent Chairman.

The membership of the Advisory Board as at 31 March 2016 was as follows:

Scheme Representatives (4)

Keith Flowers	Trade unions
Paul Hewitt	Deferred member
Jenny Hunt	Deferred member
Mark Paget	Active member

Employer Representatives (4)

James Durrant	All other employers
Cllr John Galley	District, City and Borough Councils of Essex
Cllr Barry Johnson	Southend-on-Sea and Thurrock Unitary Authorities
Cllr Simon Walsh	Essex County Council

Independent Chairman (1)

Nicola Mark	Head of Norfolk Pension Fund
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3. Dimensions of the Fund

Based on the draft accounts, as at 31 March 2016 the value of the Fund's assets was £5.037 billion.

The total value of pensions paid during 2015/16 was £177.5m, together with other benefits totalling £38.3m.

The total number of beneficiaries is as follows:

	2015	2016*
Contributors	50,965	61,543
Deferred Pensioners	44,038	47,041
Pensioners	35,455	37,666
Total	130,458	146,250

*Provisional numbers

(Deferred Pensioners 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 640 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.

4. LGPS Asset Pooling Arrangements

A significant amount of work has been undertaken in relation to the Government's pooling agenda. The key milestones reached, and the major stages later in 2016 are set out in the paragraphs below.

In the July 2015 budget the Chancellor announced the following:

2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.

During the autumn, Fund officers were involved in a collaboration (known as Project POOL) which involved over 30 LGPS Funds. Regular updates were given to the Investment Steering Committee and Pension Strategy Board, and the final report was published in January 2016.

With the Autumn statement in November 2015, DCLG issued the following criteria for pooling:

- asset pools that achieve the benefits of **scale** (minimum size £25bn as at 31 March 2015 values)
- strong **governance** & decision making
- reduced **costs** and excellent value for money
- improved capacity to invest in **infrastructure**.

Initial proposals were required in February with detailed submissions to be submitted by 15 July 2016.

At the start of the year meetings took place first amongst officers, subsequently amongst Fund Chairmen, around the possibility of forming an asset pool consisting of Funds in East Anglia and the South East. This became known as ACCESS (A Collaboration of Central, Eastern & Southern Shires). These meetings agreed a set of principles and involved the following Council's LGPS Funds (March 2015 values):

Authority	£b
Cambridgeshire County Council	2.27
East Sussex County Council	2.74
Essex County Council	4.91
Hampshire County Council	5.11
Hertfordshire County Council	3.53
Isle of Wight Council	0.48
Kent County Council	4.52

Norfolk County Council	2.93
Northamptonshire County Council	1.85
Suffolk County Council	2.19
West Sussex County Council	2.96
Total	33.42

At its meeting on 22 February, the Investment Steering Committee agreed that the Fund be a joint signatory to the ACCESS initial proposal. Meetings of the Chairmen of each ACCESS Fund have continued to take place on a monthly basis. These have enabled the Chairmen:

- to consider the Government's response to the February proposal, and an exchange of letters with the Minister took place in April; and
- to review progress and give direction to the work undertaken by officers from the ACCESS Funds.

Central to the focus of this work has been consideration of the form of structure that the ACCESS pool will adopt. Whilst the initial preference had been for a Regulated Investment Management Company, developments in May followed by discussions with legal advisers Eversheds, led to the Chairmen agreeing to the pursuing of a Collective Investment Vehicle (CIV).

A detailed submission to Government for the July deadline has been drafted and will be considered by the PSB at its meeting on 13 July 2016.

Further work on the Collective Investment Vehicle is planned over the summer, and proposals are expected to be presented to Funds in the autumn as details of the pool's structure are finalised.

It is the intention that the decision to formalise Essex's participation in the finalised ACCESS structure is brought to a future meeting of Council.

5. Work of the Pension Strategy Board

In addition, the following major issues were considered by the Board between 1 April 2015 and 31 March 2016.

Interim Actuarial Review

Every three years the Fund is required to commission a full actuarial Valuation by an Independent Actuary. The 2016/17 valuation is currently underway and revised employer contributions will apply from 1 April 2017.

In preparation for the forthcoming triennial Valuation, the Pension Strategy Board received interim reviews at meetings in September 2015 and March 2016.

The Board noted that since the publication of the 2013 Valuations, work had been undertaken by the Government Actuary's Department (GAD) on behalf of the national Scheme Advisory Board to analyse all Valuations across each of the 89 LGPS Funds in England & Wales using a standard (as opposed to Fund specific) set of assumptions.

It was also noted that changes were announced in the Chancellor's March 2016 budget to the discount rate applicable to unfunded public sector schemes from 2019. Although the LGPS is a funded (as opposed to unfunded) scheme it is possible that the revised rate influences the GAD's expectations of LGPS assumptions to be used later in 2016.

The Fund's investment performance in the three years 1 April 2013 – 31 March 2016 was 8.8% per annum. Whilst progress had been made on the 2013 funding level of 80%, it is acknowledged that the factors highlighted in the paragraphs above will form part of the likely background against which the 2016 Valuation unfolds.

The Pension Strategy Board expects to receive the overall Fund level indicative result in September 2016.

HM Treasury consultation on a proposed exit payment cap

On 31 July 2015 the HM Treasury issued a consultation on a proposed £95,000 cap on payments to exiting public sector employees. The four-week consultation period closed on 27 August 2015.

The key concern with the proposal centred on financial strain payments made by employers to LGPS Funds.

When an employer agrees to a retiring employee receiving early payment of their LGPS benefits, a financial strain (sometimes known as "actuarial strain") is payable to the Pension Fund. This most often occurs if an employee is made redundant or leaves on efficiency grounds and is age 55 or over, the LGPS regulations provide the member with immediate payment of their benefits. Financial strain is paid by the employer to the LGPS Fund. These are not payments to existing employees yet their inclusion within the cap's definition raises issues for both Pension Funds and employers facing future restructuring exercises.

In the absence of a PSB meeting during the consultation period, the key theme of the response was discussed and agreed with both Councillor Bass, Chairman of the Strategy Board, and Margaret Lee, Section 151 Officer for both Essex County Council and the Essex Pension Fund.

Year-end data submissions and Annual Benefit Statements

The Board noted plans for the 2015/16 year-end data submissions and Annual Benefit Statements exercise and were asked to approve a charging policy for late 2015/16 year-end data return submissions.

At its December 2014 meeting the Board received a report on year-end data submissions, the issues caused by late submissions by employers given the requirement to send out annual benefit statements by 31 August and HMRC annual allowance requirements. As a result the Board agreed a policy which enabled a charge of £250 to be issued to employers who neither provided the data on time nor engaged with the Fund.

At its July 2015 meeting the Board received a further report on the progress of the 2014/15 year-end data exercise and the anticipated impact on the issue of annual benefit statements to all active members by the statutory deadline of 31 August. Members agreed a target for 95% of active members to receive their annual benefit statements by the 31 August statutory deadline.

The 2014/15 year-end data exercise did not go as smoothly as had been hoped, despite the introduction of the £250 charge for employers not engaging with the Fund. Members agreed this had not been a sufficient deterrent for employers and a revised approach to this was needed for 2015/16. Therefore it was agreed charges would apply to returns up to one month late and thereafter doubled and further infringements would be reported to the Strategy Board. Any charges levied against the Fund by the Pension Regulator due to specific Employers non-compliance of provision of statutory data will be passed on.

Other Issues

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

- Quarterly reports on the work of the Essex Pension Fund Investment Steering Committee
- The Essex Pension Fund Audit Plan which described the approach to be adopted for the external audit of the 2014/15 Essex Pension Fund Accounts
- Reports from Internal Audit regarding the control environment of the Pension Fund and Administration
- A review of the Governance Policy & Compliance Statement
- A review of the Communications Policy.

7. Member Training

There is a firm 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 Boards and Investment Steering Committee meetings and training events (internal and external) are monitored throughout the year and reviewed annually at the Strategy Board's July meeting.

Member training is predominately delivered within the Board meetings.

8. Three-Year Business Plan

The Strategy 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.

Councillor Rodney L Bass
Chairman of the Essex Pension Strategy Board and of the ISC