

# Essex Pension Fund Board

<b>14:00</b>	<b>Wednesday, 17 September 2014</b>	<b>Committee Room 2, County Hall, Chelmsford, Essex</b>
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**Please note that there will be pre-meeting training on infoBOARD for all Board Members in Committee Room 2 at 12.30pm. Lunch will be provided.**

**Quorum: 4**

## **Membership**

Councillor R Bass  
Councillor S Barker  
Councillor K Clempner  
Councillor N Hume  
Councillor N Le Gresley  
Councillor J Whitehouse  
Councillor J Archer  
Councillor R Woodley  
Councillor G Rice  
Councillor C Seagers  
Mr K Blackburn  
Ms J Moore  
Mr C Garbett

## **Representing**

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

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

Ian Myers, Senior Committee Officer

**Telephone:** 01245 430481

**Email:** [ian.myers@essex.gov.uk](mailto:ian.myers@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 'Meetings and Agendas'. Finally, select the relevant committee from the calendar of meetings.

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)

		<b>Pages</b>
<b>1</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>Declarations of Interest</b> To note any declarations of interest to be made by Members	
<b>3</b>	<b>Minutes</b> To approve as a correct record the minutes of the Board meeting held on 9 July 2014.	<b>5 - 12</b>
<b>4</b>	<b>Interim Review: 31 March 2014</b> To consider a joint report (EPB/23/14) by the Fund Actuary, the Director for Essex Pension Fund and the Head of Essex Pension Fund	<b>13 - 32</b>
<b>5</b>	<b>Local Government Pension Scheme Reform</b>	
<b>5a</b>	<b>Structural Reform</b> To receive a verbal update from the Director for Essex Pension Fund on the DCLG Consultation on 'Opportunities for collaboration, cost saving and efficiencies'.	
<b>5b</b>	<b>Governance Reform</b> To consider a joint report (EPB/24/14) from the Director for Essex Pension Fund and the Independent Governance & Administration Adviser.	<b>33 - 38</b>
<b>6</b>	<b>Update on Pension Fund Activity</b>	<b>39 - 78</b>
<b>7</b>	<b>Essex Pension Fund 2013/14 Accounts</b> To note a report (EPB/26/14) by the Executive Director for Corporate Services and Customer Operations	<b>79 - 126</b>
<b>8</b>	<b>External Auditors Report</b> To note report (EPB/27/14) by EY, External Auditors of the Essex Pension Fund.	<b>127 - 138</b>

- |           |   |                  |
|-----------|---|------------------|
| <b>9</b>  | <b>Admin Authority Discretions for the 2014 Scheme</b><br>To consider a report (EPB/28/14) by the Employers Liaison Manager   | <b>139 - 164</b> |
| <b>10</b> | <b>Investment Steering Committee (ISC) Quarterly Report</b><br>To note a report (EPB/29/14) by the Director for Essex Pension Fund  | <b>165 - 168</b> |
| <b>11</b> | <b>Date of Next Meeting</b><br>To note that the next meeting will be held on Wednesday 10 December 2014 at 2.00pm, Committee Room 2, County Hall (preceded by training - timing TBC)              |                  |
| <b>12</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>13</b> | <b>Procurement 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>14</b> | <b>Urgent Exempt Business</b><br>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.    |

**Minutes of a meeting of the Essex Pension Fund Board held at 2.00 pm at County Hall, Chelmsford on 9 July 2014**

Present:

**Member**

**Essex County Council**

Cllr R L Bass (Chairman)

Cllr S Barker

Cllr K Clempner

Cllr N J Hume

Cllr N Le Gresley

Cllr J Whitehouse

**District/Borough Councils in Essex**

Cllr J Archer Maldon District Council

**Unitary Councils**

**Essex Fire**

**Authority**

**Scheme Members**

Mr K Blackburn

**Smaller**

**Employing Bodies**

J Moore

The following officers were also present in support:

Annemarie	Allen	Senior Pensions Consultant (Barnett Waddingham)*
Jody	Evans	Head of Essex Pension Fund
Kevin	McDonald	Director for Essex Pension Fund
Barry	Mack	Independent Governance and Administration Adviser (Hymans Robertson LLP)*
Sara	Maxey	Employer Relationship Manager
Ian	Myers	Secretary to the Board
Sarah	Harris	Senior Audit Manager
David	Tucker	Employer Liaison Manager

\*present for items 1 to 18

**1. Appointment of Chairman**

The appointment of Cllr Bass, Chairman, and Cllr Hume, Vice-Chairman, of the Essex Pension Fund Board and Investment Steering Committee were noted.

**2. Board Membership and Terms of Reference**

The Chairman informed Members of the following changes to membership:

Southend Borough Council – Cllr Ron Woodley  
Essex Fire Authority - Cllr Colin Seagers  
Essex Leaders and Chief Executives Group – nomination awaited.

The Chairman has written to Cllr Pam Challis thanking her for her service on the Board

The revised membership and terms of reference of the Board were noted.

**3. Apologies for Absence**

Apologies for absence were received from Cllrs Woodley, Rice and Seagers.  
Apologies were also received from Margaret Lee.

**4. Declarations of Interest**

The Chairman requested Members declare any interests as appropriate.

**5. Minutes****Resolved:**

That the minutes of the Essex Pension Fund Board held on 9 December 2013 be approved as a correct record and signed by the Chairman.

**6. Local Government Pension Scheme Reform****A Local Government Pension Scheme (LGPS) Reform**

The Board considered a report (EPB/09/14) by the Head of Essex Pension Fund which outlined transitional arrangements for Councillor Pensions.

**Resolved:**

That the report be noted.

**B DCLG Consultation: 'Opportunities for collaboration, cost saving and efficiencies'**

The Board considered a report (EPB/10/14) by the Director for Essex Pension Fund which gave an update on the consultation issued by DCLG and a draft response to the consultation.

Members considered in detail the report noting it had previously been reported to the Investment Steering Committee. It was reported that a response to the consultation was due by Friday 11 July 2014.

Following discussion it was proposed that the Director for Essex Pension Fund draft a response based on paragraph 5 of his report and also copy that response to Kent and Greater Manchester for information.

**Resolved:**

That the report be noted and the draft response, included as Annex A to the report, be agreed.

**C Local Government Pension Scheme (LGPS) Reform Draft Regulations on Scheme Governance**

The Board considered a report (EPB/11/14) by the Director for Essex Pension Fund and the Independent Governance & Administration Adviser.

Members received a presentation from the Independent Governance & Administration Adviser which outlined the details of the consultation process on LGPS Governance Regulations.

Members discussed in detail the proposed arrangements expressing their concerns over the creation of the local Board.

It was agreed a working group be established, consisting of Cllr Susan Barker, Cllr Jon Whitehouse, Jenny Moore, Barry Mack and two Officers to explore all options. Work to commence after the next Pension Board meeting. An update report on the progress of the LGPS Governance Regulations will be brought to the 17 September Board meeting. Ultimately it is expected a recommendation will be made to full Council on 9 December 2014.

**Resolved:**

- (i) That the report be noted and a response to the consultation submitted
- (ii) That the arrangements outlined for the workinggroup to explore implementation of the Local Pension Board be agreed

**7. Update and Pension Fund Activity**

**A(i) 2014/15 Business Plan**

**A(ii) Three Year Business Plan**

**B Risk Management**

**C Scorecard (measurement against objectives)**

The Board considered a joint report (EPB/12/14) by the Director for Essex Pension Fund and Head of Essex Pension Fund, which provided an update on the 2014/15 Business Plan, three year Business Plan, Risk Management and Scorecard.

Members were appraised of the objectives, the risks and progress against made against the objectives, noting in particular areas of concern.

**Resolved:**

That the report be noted.

**8. External Audit Programme of Work and Fees**

The Board considered a report (EPB/13/14) by Peter O'Neill, Ernst & Young LLP

**Resolved:**

That the report be noted.

**9. Internal Audit Annual Report of Pension Fund Work**

The Board considered a report (EPB/14/14) by the Head of Internal Audit

**Resolved:**

- (i) That the outcomes of the 2013/14 plan be noted
- (ii) That the outcomes of the main 2012/13 NFI and supplementary exercises be noted.
- (iii) That the planned audits of the pension fund for 2014/15 be noted

**10. Draft Pension Fund Accounts**

The Board considered a report (EPB/15/14) by the Executive Director for Corporate Services & Customer Operations.

It was highlighted that a footnote needed to be added to the related party note to the accounts to reflect the part year membership of Councillors Finch, Lager and Walsh as members of the Essex Pension Fund Board and Investment Steering Committee. Their membership ended in May 2013.

Also it was agreed that an additional sentence should be included to reflect that from the 1 April 2014 any Councillors would no longer be able to join the LGPS and existing Councillors would no longer be able to remain in the LGPS after the expiry of their current term of office.

**Resolved:**

That the report be noted.

**11. Administering Authority Discretions**



The Board considered a report (EPB/16/14) by the Director of the Essex Pension Fund concerning the need to review the Fund's Statement of Policy.

**Resolved:**

- (i) That the report outlining the ongoing work being undertaken by Officers be noted
- (ii) That the Board note that a revised Statement of Policy be brought to its meeting on 17 September for approval.

**12. Investment Steering Committee (ISC) Quarterly Report**

The Board considered a report (EPB/17/14) by the Director of the Essex Pension Fund concerning ISC activity since the last Board meeting.

The Chairman made reference to Essex being successful at the annual Professional Pensions awards having been judged Public Sector Scheme of the Year. Members agreed this was a significant achievement and requested their appreciation be conveyed to appropriate staff. It was requested the logo be incorporated into all future employer notifications.

**Resolved:**

That the report be noted.

**13. Employer Forum**

The Board considered a report (EPB/18/14) by the Director and Head of the Essex Pension Fund detailing feedback from the employer forum held on 9 May 2014. Members noted the positive feedback received and were informed a similar event will be arranged for Academies in the future.

**Resolved:**

That the report be noted.

**14. Essex Pension Fund Board Annual Report**

The Board considered a report (EPB/19/14) by the Secretary to the Board detailing the Annual Report

**Resolved:**

That the report be noted.

**15. Annual Review of Member Attendance**

The Board considered a report (EPB/20/14) by the Secretary to the Board detailing Member attendance at the Board and Investment Steering Committee.

**Resolved:**

That the report be noted subject to minor adjustments affecting the attendance of Cllrs Hume and LeGresley

**16. Forward Look**

The Board considered a report (EPB/21/14) by the Secretary to the Board which presented a Forward Look detailing the Board's future business.

**Resolved:**

That the report be noted and approved

**17. Date of Next Meeting**

The next Board meeting will be held at 2.00pm on Wednesday 17 September 2014 in Committee Room 2, preceded by a Member training session (details to be confirmed)

**18. Urgent Business**

There was no urgent business.

**19. Exclusion of the Press and Public****Resolved:**

That, having reached the view that, in each case, the public interest in maintaining the exemption (and discussing the matter in private) outweighed the public interest in disclosing the information, the public (including the press) be excluded from the meeting during consideration of the following item of business on the grounds that they involved the likely disclosure of exempt information as specified in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

**20. Procurement Update**

(Exempt under paragraph 3 – information relating to the financial business affairs of a particular person)

The Board considered a report (EPB/22/14) concerning the re-tender of the position of Independent Governance & Administration Adviser.

**Resolved:**

- (i) That the report be noted
- (ii) That the recommendations concerning the re-tender arrangements be agreed

There being no further business, the meeting closed at 3.50pm.

Chairman



<b>Essex Pension Fund Board</b>	<b>EPB/23/14</b>
<b>date: 17 September 2014</b>	

## **2014 Interim Review & Funding Strategy Statement**

Joint report by the Director for Essex Pension Fund and the Head of Essex Pension Fund

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Enquiries to Kevin McDonald on 01245 431401

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

- 1.1 To present to the Board with an update on the Interim Review undertaken by Graeme Muir, Fund Actuary as at 31 March 2014.
- 1.2 To allow the Board to consider the impact of the Interim Review on the Funding Strategy.

### **2. Recommendations**

- 2.1 That the 31 March 2014 Interim Review report be noted.
- 2.2 That no changes, at this time, are made to the Essex Pension Fund's 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 2013, and the next is due as at 31 March 2016.
- 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 5 March 2014.
- 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 Reviews.
- 3.5 Included within the 2014/15 Business Plan are the following two actions:
  - An interim review of the Fund as at 31 March 2014 will be commissioned from the Actuary;
  - Consideration will be given to whether the Funding Strategy requires review in the light of the results of the Interim Review.

### **4. Interim Review 31 March 2014**

- 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. Funding Strategy Statement**

- 5.1 The full Funding Strategy Statement including details of the link with the Fund’s investments strategies and risk register, is 22 pages and can be found both on infoBOARD and at <http://www.essexpensionfund.co.uk/pensionsWeb%20Documents/STATEMENTfundingstrategy%202013.pdf>
- 5.2 The section of the FSS entitled “*Solvency issues and Target Funding Levels*” which includes the maximum deficit recovery period for each category of employer is shown at Annex B.

### **6. Recommendation**

- 6.1 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.

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

- 7.1 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".

## **8. Risk Implications**

- 8.1 Both the Interim Funding Review as at 31 March 2014, and reviewing the FSS in conjunction with the Interim Review are intended to monitor progress towards (including risks to that progress) achieving assets equal to 100% of liabilities.

## **9. Communication Implications**

- 9.1 The next Employer Forum will include a presentation on the results of the 31 March 2014 Interim Funding Review.

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

- 10.1 Maintaining the existing Funding Strategy (as is proposed at 2.2 and 6.1) will mean there is no change to the financial arrangements determined by the 2013 Actuarial valuation.

## **11. Background Papers**

- 11.1 The 2014 Essex Pension Fund Funding Strategy Statement





**Barnett Waddingham**



# **Essex Pension Fund**

**Funding Update Report**

**as at 31 March 2014**

**Graeme D Muir FFA  
Barnett Waddingham LLP**

**2 September 2014**

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## 1. Introduction

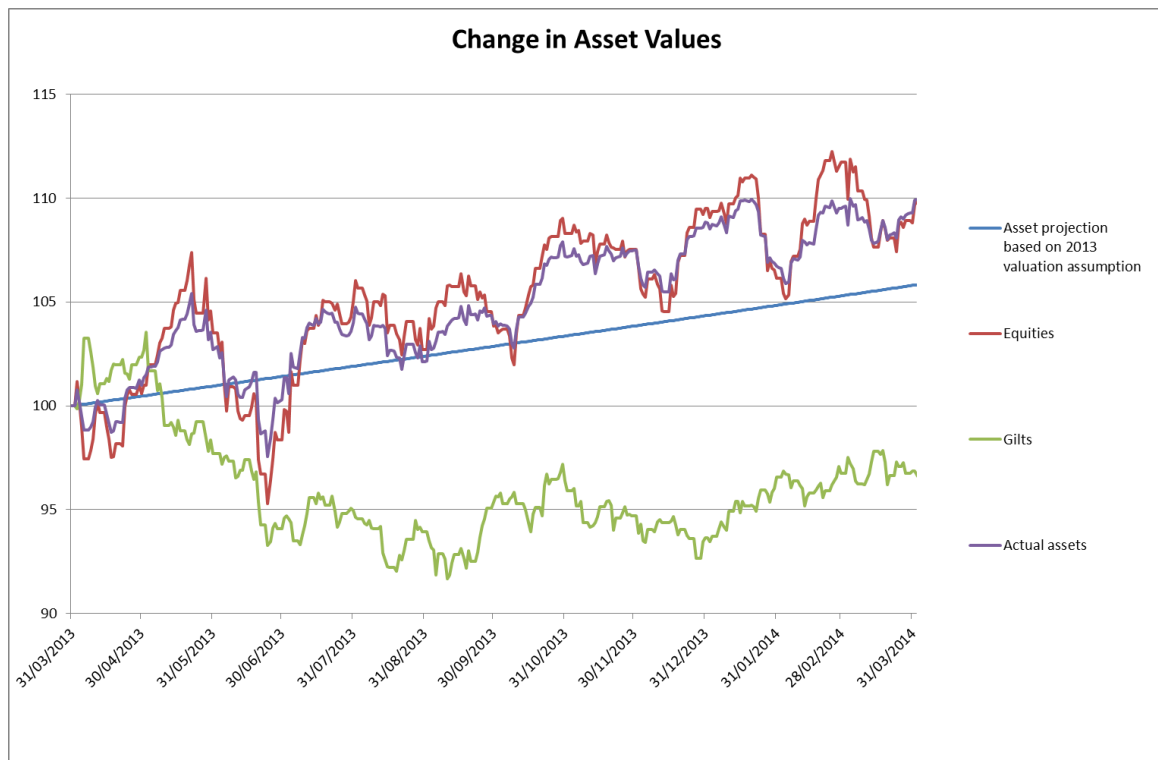
- 1.1. We have carried out an annual monitoring assessment of the Essex Pension Fund as at 31 March 2014. The purpose of this assessment is to provide an update on the funding position.
- 1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.
- 1.3. In addition, and for information, we have also assessed the funding position on an alternative “gilts plus” basis where assets are taken at market value and discount rates are a fixed premium over gilt yields (we have assumed a 2% premium). This is the model typically used in the private sector and also by some LGPS Funds.

## 2. Assets

- 2.1. The estimated asset allocation in market value terms of the Essex Pension Fund as at 31 March 2014 is as follows:

Assets (Market Value)	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Global Equities	2,856,327	66%	2,628,196	66%
Property	468,964	11%	418,595	11%
Index Linked Gilts	344,996	8%	264,371	7%
Corporate Bonds	371,627	9%	336,050	8%
Infrastructure	127,236	3%	113,567	3%
Financing Fund	14,806	0%	16,213	0%
Timber	34,705	1%	30,972	1%
Cash	118,713	3%	150,509	4%
<b>Total Assets</b>	<b>4,337,374</b>	<b>100%</b>	<b>3,958,473</b>	<b>100%</b>

- 2.2. The net investment return achieved by the Fund's assets in market value terms for the annual to 31 March 2014 is estimated to be 9.2%.
- 2.3. 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:



- 2.4. As we can see the asset value in market value terms as at 31 March 2014 in market value terms is slightly more than where it was projected to be at the previous valuation.

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

- 3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities however is dependent on the assumptions used to value the future benefits payable. The following tables show how the assumptions under our BW Economic Funding Model have changed since the last triennial valuation:

Assumptions BW Economic Model	31 March 2014		31 March 2013	
	Nominal %p.a.	Real	Nominal %p.a.	Real
Pension Increases	2.78%	-	2.74%	-
Salary Increases	4.58%	1.80%	4.54%	1.80%
Discount Rate	5.88%	3.10%	5.80%	3.06%

- 3.2. 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.
- 3.3. As we see the real discount rate under the BW Economic Model is broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.

- 3.4. The following table shows how assumptions have changed under the alternative “gilt plus” model with a 2% risk premium.

Assumptions Gilt Plus Model	31 March 2014		31 March 2013	
	Nominal %p.a.	Real	Nominal %p.a.	Real
Pension Increases	2.83%	-	2.80%	-
Salary Increases	4.63%	1.80%	4.60%	1.80%
Discount Rate	5.62%	2.79%	5.14%	2.34%

- 3.5. As we see the real discount rate under the gilt plus model has increased as gilt yields have increased following the Bank of England’s announcement that the program of “quantitative easing” is to be relaxed and is now closer to the Economic Model which is largely immune from the “QE effect”.

## 4. Summary of Results

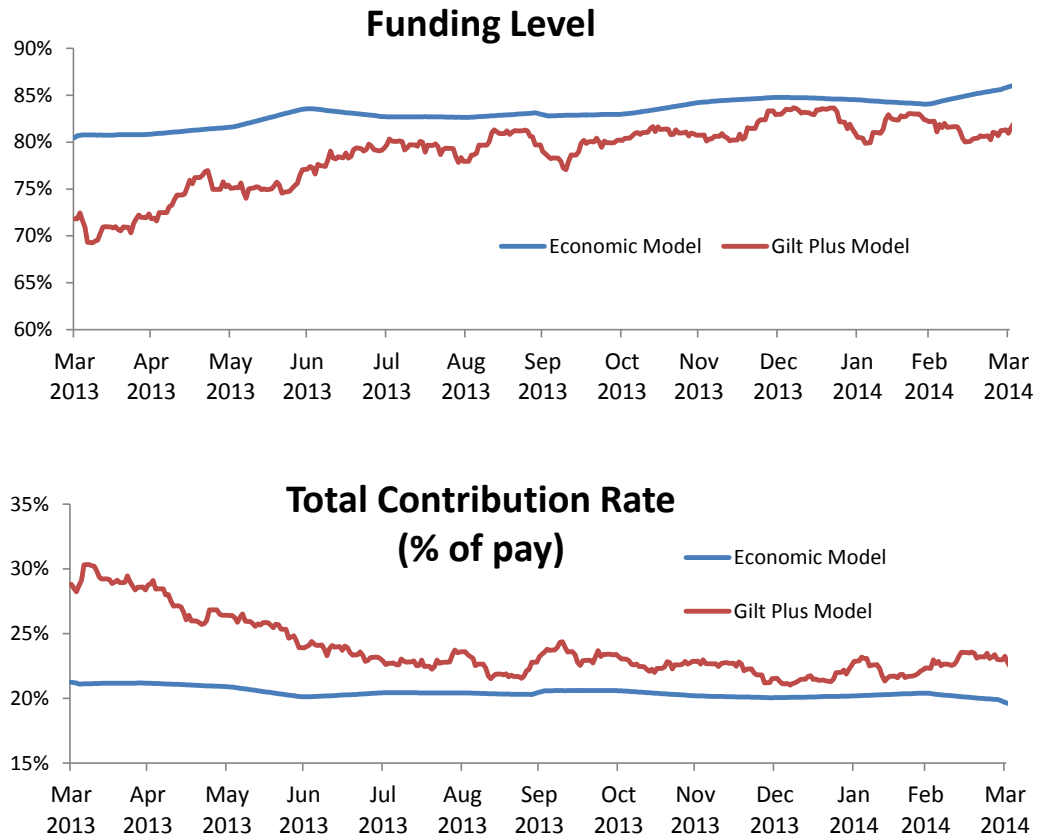
- 4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2014 is 86% and the average required employer contribution would be 19.7% of payroll assuming the deficit is to be paid by 2033.
- This compares with the reported (smoothed) funding level of 80% and average required employer contribution of 21.7% of payroll at the 2013 funding valuation.

- 4.2. The discount rate underlying the smoothed funding level as at 31 March 2014 is 5.9% per annum. The investment return required to restore the funding level to 100% by 2033, without the employers paying deficit contributions, would be 6.7% per annum.

- 4.3. More detailed results are included in the appendix.

4.4. The following charts show how the funding position and average required employer contribution rate has changed under both funding models since the last valuation date.



4.5. The 2 key observations are

- The Economic Model continues to deliver more stable funding levels and employer contribution rates.
- The narrowing of the gap between the two models.

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

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

## Appendix 1 Detailed Valuation Results

Economic Model										
Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing Cost (% of Payroll)	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Discount Rate	Return required to restore funding
March 2013	3,925,714	4,878,393	(952,679)	80%	14.5%	14.3%	7.2%	21.7%	5.8%	6.9%
April 2013	3,949,259	4,886,071	(936,812)	81%	14.4%	14.2%	6.9%	21.2%	5.9%	6.9%
May 2013	3,993,852	4,896,855	(903,003)	82%	14.4%	14.2%	6.7%	20.9%	5.9%	6.9%
June 2013	4,097,214	4,899,393	(802,179)	84%	14.3%	14.1%	6.0%	20.1%	5.9%	6.8%
July 2013	4,059,381	4,910,205	(850,824)	83%	14.2%	14.1%	6.4%	20.5%	5.9%	6.9%
August 2013	4,062,355	4,915,543	(853,188)	83%	14.2%	14.0%	6.4%	20.4%	5.9%	6.9%
September 2013	4,107,344	4,962,847	(855,503)	83%	14.3%	14.1%	6.5%	20.6%	5.9%	6.9%
October 2013	4,139,030	4,988,774	(849,744)	83%	14.3%	14.2%	6.4%	20.6%	5.9%	6.9%
November 2013	4,223,411	5,013,700	(790,290)	84%	14.4%	14.2%	6.0%	20.2%	5.9%	6.8%
December 2013	4,270,083	5,037,264	(767,181)	85%	14.4%	14.2%	5.9%	20.1%	5.9%	6.7%
January 2014	4,273,027	5,055,694	(782,666)	85%	14.4%	14.2%	6.0%	20.4%	5.9%	6.8%
February 2014	4,263,768	5,074,979	(811,211)	84%	14.4%	14.2%	6.2%	20.6%	5.9%	6.8%
March 2014	4,380,183	5,091,462	(711,278)	86%	14.4%	14.2%	5.5%	19.7%	5.9%	6.7%

Gilts Plus Model										
Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing Cost (% of Payroll)	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Discount Rate pre retirement	Return required to restore funding
March 2013	3,958,473	5,511,016	(1,552,543)	72%	18.1%	17.8%	11.0%	29.1%	5.1%	6.8%
April 2013	3,991,155	5,557,464	(1,566,309)	72%	18.2%	18.0%	10.8%	28.8%	5.0%	6.7%
May 2013	4,049,552	5,394,496	(1,344,944)	75%	17.2%	16.9%	9.5%	26.4%	5.3%	6.8%
June 2013	3,953,018	5,125,305	(1,172,286)	77%	15.6%	15.4%	8.5%	23.9%	5.6%	6.9%
July 2013	4,086,906	5,125,899	(1,038,993)	80%	15.4%	15.2%	7.6%	22.9%	5.6%	6.8%
August 2013	4,011,615	5,147,154	(1,135,538)	78%	15.4%	15.2%	8.4%	23.6%	5.7%	7.0%
September 2013	4,074,833	5,158,260	(1,083,427)	79%	15.4%	15.2%	8.0%	23.2%	5.6%	6.8%
October 2013	4,206,434	5,248,017	(1,041,583)	80%	15.8%	15.6%	7.7%	23.2%	5.6%	6.7%
November 2013	4,227,682	5,235,350	(1,007,668)	81%	15.6%	15.4%	7.5%	22.9%	5.7%	6.8%
December 2013	4,288,707	5,169,018	(880,311)	83%	15.1%	14.9%	6.6%	21.5%	5.8%	6.8%
January 2014	4,219,284	5,240,848	(1,021,564)	81%	15.4%	15.2%	7.7%	23.1%	5.6%	6.8%
February 2014	4,335,272	5,275,922	(940,650)	82%	15.5%	15.3%	7.1%	22.6%	5.6%	6.6%
March 2014	4,337,374	5,358,349	(1,020,975)	81%	15.8%	15.6%	7.7%	23.3%	5.6%	6.7%

A1.1. Note that market values of assets under the Gilts Plus Model at dates other than March are estimates. Asset values under the Economic Model are smoothed (estimated) market values.





## Essex County Council Pension Fund

### Funding Strategy Statement – EXTRACT

#### Contents

1. Introduction
2. Purpose of FSS in policy terms
3. Funding objectives and purpose of the Fund
4. Responsibilities of the key parties
5. **Solvency and target funding levels**
6. Link to investment policy
7. Monitoring and review

Schedule A - Risk Analysis

Schedule B - Actuarial assumptions

*This annex is an extract (section 5) of the Funding Strategy. The full Strategy can be found at*

*<http://www.essexpensionfund.co.uk/pensionsWeb%20Documents/STATEMENTfundingstrategy%202013.pdf>*

## **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 2013 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 still relatively immature in terms of its membership profile 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 2013. The results of the valuation indicate that overall the assets of the Fund represented 80% 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, as a percentage of pensionable pay, to meet the costs of future service (payable no later than the 19<sup>th</sup> day of the month following the month of relevant payroll run); and
  - a deficit recovery contribution, expressed in most instances as a cash sum, to recover any shortfall revealed by the actuarial valuation (payable as detailed in this Funding Strategy Statement);
- we will for the purpose of our administration, the calculation of contribution rates and for the setting of maximum deficit recovery periods, continue to deal with town and parish councils (T&PC) as a group. We will consider a cessation valuation policy for group employers. This will be subject to a separate consultation
  - we will set deficit recovery periods for the T&PC 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.
- schools, including former grant maintained schools (but excluding Academies), 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 taking account of the Department of Communities and Local Government (DCLG) guidance on setting academies' contribution rates.
- for 2014/2015, pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/14 ongoing contribution rates in 2014/15. Deficit amounts payable in 2014/15 will be the annual rate for 2013/2014 plus the standard 4.5% increase in line with the Actuary's long term pay increase assumption. A separate exercise will be undertaken with academies in due course to set appropriate contribution rates for 2015/2016 and 2016/2017. Where necessary, stability mechanisms described in this Statement may be used in the transition to the appropriate contribution rates.
- we will set objective and maximum deficit recovery periods for the remaining employers
  - the agreed 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. guarantor employer consent, provision of a bond, a deposit, a parent company guarantee or other surety);
- where a deficit recovery period greater than that of “average future working life” was applied at the 2010 valuation, the starting point for the deficit recovery period to be applied at the 2013 valuation is three years less than that previously applied. The Fund may, at its discretion, allow this three year period to be reapplied.

*While a deficit exists, annual contributions will not normally be reduced. This may result in a shorter deficit recovery period than the Objective*

## Objective and maximum deficit recovery periods for active employers (i.e. those employers with active members)

Category	Employer	Example	Objective	Maximum
A	Scheduled - major tax raising bodies	District Council, Fire Authority	2010 deficit recovery period less three years	30 years
B	Scheduled - Academies	Academies	Pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/14 ongoing contribution rates in 2014/15. Deficit amounts payable in 2014/15 will be the annual rate for 2013/2014 plus the standard 4.5% increase in line with the Actuary's long term pay increase assumption. A separate exercise will be undertaken with academies to set contribution rates for 2015/16 and 2016/17.	
C	Scheduled - other	Further & Higher education corporations	2010 deficit recovery period less three years	27 years
D	Resolution	Town / Parish Councils	2010 deficit recovery period less three years	30 years
E	Transferee admission	Contractor	contract length or average remaining working life of employer's staff in LGPS, if shorter	contract length or average remaining working life of employer's staff in LGPS, if shorter
F	Community admission .1	Voluntary, not for profit, charities, housing associations	average remaining working life of employer's staff in LGPS	average remaining working life of employer's staff in LGPS
G	Community admission . 2	Employer providing evidence of financial security to the satisfaction of the Essex Pension Fund	average remaining working life of employer's staff in LGPS	20 years
<p>1. The draft maximum deficit recovery periods are designed, where appropriate, to stabilise the amount of deficit contributions payable. It is not designed to allow for a reduction in contributions.</p> <p>2. In addition, mitigations may be adopted to allow for affordability and stability of contributions as well as for transition to revised policies. These may include the stepped introduction of revised contribution rates.</p> <p>3. The provision of financial security for Category G employers could include the agreement and provision of a guarantee by a Category A employer.</p> <p>4. While a deficit exists, annual contributions will not normally be reduced. This may result in a shorter deficit recovery period than the Objective.</p> <p>5. Contributions normally will not be reduced below the future service rate.</p> <p>6. Contributions are subject to the certification of the Fund Actuary.</p>				

- The Town & Parish Council employers' contributions will be phased over the 3 year period 2014/15 to 2016/17.
- The 2014/15, 2015/16 and 2016/17 deficit amounts certified for each employer will reflect one of the following:

- i. the actuarially assessed value of the annual deficit paid in twelve equal instalments monthly in arrears with each payment being due by the 19th day of the following month; or
  - ii. the actuarially assessed value of the annual deficit paid in one lump sum payment prior to 30 April of the specified year; or
  - iii. the actuarially assessed value of i) or ii) for all three years paid in 36 or 3, respectively, equal instalments; or.
  - iv. the actuarially assessed value of paying the deficit for three years in one lump sum payment prior to 30 April 2014.
- Individual employers retain the freedom to
  - make a lump sum payment prior to 1 April 2014, following agreement with the administering authority. The annual deficit amounts certified for financial years 2014/15, 2015/16 and 2016/17 will reflect the actuarially assessed value of making this payment, either utilising the payment over the three years or over the deficit recovery period;
  - decide to repay their share of the deficit over a shorter period should they so choose;
  - make additional payments to the Fund over and above the minimum employer contribution rates certified.

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.
- Reductions to the ongoing contribution rate (future service rate) may be stepped.
- Where an employer augments scheme benefits, immediate payment of the augmentation cost will be required to be made to the Fund;
- Where an employer allows an early retirement, for any reason other than ill health, that produces a strain cost, payment of the strain cost may be met

either in the form of an immediate lump sum to the Fund, or by payment over three years to the Fund including interest;

- Levels of ill health will be monitored and will normally be reflected in assumptions at triennial valuations or sooner if deemed necessary
- Employers who are able to and have closed the Scheme to new members, or have had no new members in the previous two years to 31 March 2013, will have their employer contribution rate assessed on a closed basis at the triennial valuation.
- Where an employer is able to and closes the Scheme to new members, between valuations, the employer contribution rate may be reassessed on a closed basis and a revised certificate issued.
- In preparation for the cessation of an employer's participation in the Scheme:
  - The future service rate and deficit recovery contribution may be reviewed by the Fund Actuary and amended if required.
  - 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 certain circumstances, subject to satisfactory surety, a formal plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer to manage payment of deficit up to and beyond the termination date.
- 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 basis of the termination valuation will be determined in consultation with the Fund Actuary.
  - In certain circumstances, subject to satisfactory surety, a formal payment plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer.
- All transferee admission bodies (i.e. "best value" contractors delivering services to scheme employers) will be accepted for admission into the Fund so long as all the necessary regulatory requirements for admission are satisfied, including those covering the assessment of the requirement for and provision of security to the satisfaction of the administering authority.

- 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 accordance, with regulatory requirements, a bond, indemnity, guarantee will be required for all community admission body cases, to the satisfaction of the administering authority.
  - For community admission bodies the Fund will consider application of special conditions or requirements as deemed appropriate.
- 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.



<b>Essex Pension Fund Board</b>	<b>EPB/24/14</b>
<b>date: 17 September 2014</b>	

## **Local Government Pension Scheme (LGPS) Reform Scheme Governance**

Report by the Director for Essex Pension Fund and the Independent Governance & Administration Adviser

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Enquiries to Kevin McDonald 01245 431301, Ext: 21301

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

To allow the Board to:

- 1.1 be updated on the draft Regulations on Scheme Governance; and
- 1.2 consider next steps

### **2. Recommendations**

It is recommended that the Board:

- 2.1 note the Fund's response to the draft Regulations; and
- 2.2 agree the outline timetable shown in paragraph 7.1.

### 3. Consultation response on draft Regulations on Scheme Governance

3.1 A presentation on the draft Scheme Governance Regulations was made at the last meeting of the Board, and a number of issues regarding the new Local Pension Boards (LPBs) were highlighted during discussion.

3.2 The Fund's response was submitted during August, is set out in Annex A, and included observations which are summarised below:

- existing S101 Committees and the new LPBs have different functions, and therefore should not be combined;
- as a consequence the Fund's preference is for administering authorities to have the discretion to establish the procedures applicable to the new LPBs such as voting rights, the formation of joint committees and the payment of expenses;
- joint LPBs should be allowed to operate across a small number of Funds;
- confining engagement with employers to one AGM appears restrictive; and
- the timing of the published Regulations is likely to give little time to populate the new LPBs. As a consequence both DCLG and the Pensions Regulator ought to be sympathetic to those Funds whose arrangements are underway as at 1 April 2015, but not finalised.

### 4. Other key publications

4.1 In addition to the Regulations mentioned above there are two further key publications:

- The **Code of Practice** from the Pensions Regulator. This was issued in draft form in December last year and was the subject of the Governance training sessions delivered by the Independent Governance & Administration Adviser (IGAA) in January 2014.
- **Guidance** on the creation and operation of local pension boards. The Shadow Scheme Advisory Board (SSAB) has tasked its Governance & Standards sub-committee with developing guidance on the creation and operation of local pension boards to further assist pension fund practitioners with the work needed to realise these new boards. A two week consultation on this guidance was expected to take place towards the end of September/early October 2014, however, as DCLG is expected to mark parts of this Guidance as statutory (i.e. it must be taken into account by the LPBs), a longer consultation period may be required.

## 5. Publications summary

Publication	Consultation on draft
Regulator's Code of Practice	10 December 2013 -17 February 2014
Regulations on Scheme Governance	30 June 2014 – 15 August 2014
Guidance	Expected Late September / early October  Endorsement of 'best' draft by SSAB to follow

## 6. Governance Working Group

- 6.1 At the July meeting, the Pension Board agreed to the formation of a Working Group (GWG) consisting of Cllr Susan Barker, Cllr Jon Whitehouse and Jenny Moore. The Group would explore possible options and be supported by Barry Mack the IGAA, and two Fund officers.

## 7. Recommendation - outline timetable

- 7.1 In light of the anticipated timings of the publications highlighted in section 5 above **it is recommended** that the following outline timetable is considered for adoption.
- 7.2 This requires changing the forthcoming strategy day on 19 November 2014 to a meeting of the Governance Working Group, and holding an additional Board meeting on 19 January 2015 instead of a training session the following day.

Date	Event (original)	Event (proposed)	Comment
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19 November 2014	Board Strategy day	Governance Working Group	GWG (am) explore options in light of available publications.
10 December 2014	Pension Board	Pension Board (no change)	GWG update the Pension Board on progress
Mid December 2014 – Mid January 2015			GWG, IGAA & Fund officers monitor situation GWG finalises proposals
20 January 2015	Training session	19 January 2015 (pm) Pension Board <b>(additional meeting)</b>	An additional meeting of the Pension Board to formally consider final GWG proposals. <i>(NB: this is proposed one day earlier than the originally scheduled training session).</i>
10 February 2015	Full Council	-	Essex County Council considers the Pension Board's proposal
Mid February onwards			Process of populating new Local Pension Board commences.

- 7.3 The outline timetable is consistent with the arrangements for the re tender for the position of IGAA which is the subject of a separate item on this agenda.

## 8. Link to Essex Pension Fund Objectives

- 8.1 Maintaining awareness of current issues with regard to LGPS reform will assist 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
  - Understand and monitor risk and compliance
  - To ensure the Fund is properly managed
  - Compliance with Fund's governance arrangements.

- 8.2 Failure to maintain an awareness of current issues with regard to LGPS reform and respond to consultations would mean that the Fund's views were not taken into account when changes are proposed.

## 9. Risk Implications

- 9.1 The anticipated timing of the finalised Regulations has led to a change in score for risk G1 *“Failure of governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and /or need to make major changes at short notice”*.
- 9.2 The change in ratings for this risk are detailed below:

	Residual Impact	Residual Probability	Residual Risk score	Above key risk threshold (residual risk score of 6)
Prior rating	3	1	3	No
Current rating	3	3	9	Yes

## 10. Communication Implications

- 10.1 When the consultation on the guidance is issued, a draft response will be circulated to the all members of the Pension Board via email for comment.

## 11. Finance and Resources Implications

- 11.1 The expenses of the new LPB will be met from the Fund.

## 12. Background Papers

- 12.1 Annex A – Fund response to DCLG consultation: Draft Regulations on Scheme Governance, August 2014
- 12.2 Fund response to Local Government Pension Scheme (England & Wales) new governance arrangements – discussion paper, September 2013
- 12.3 Training session on Governance by Independent Governance & Administration Adviser 22 January 2014.
- 12.4 Item 6C (Draft Regulations on Scheme Governance) from Pension Board agenda 9 July 2014.



<b>Essex Pension Fund Board</b>	<b>EPB/25/14</b>
<b>Date: 17 September 2014</b>	

## **Update on Pension Fund Activity**

Joint Report by the Director for Essex Pension Fund & Head of Essex Pension Fund  
 Enquiries to Kevin McDonald on 01245 431301 and Jody Evans on 01245 431700

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

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

- 2014/15 business plan
- three year business plan
- risk management
- scorecard

### **2. Recommendations**

2.1 That the Board notes:

- progress against the 2014/15 business plan
- the current risks with a residual score of six or above
- the latest scorecard measures

### **3. Background**

3.1 The following documents accompany this report:

- an update on the 2014/15 business plan at Annex A(i);
- the 3 year business plan at Annex A(ii);
- risks with a residual unchanged score of six or above are detailed at Annex B(i)
- risks with a changed score are detailed at Annex B (ii);
- 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:

- 2014 Interim Review & Funding Strategy
- Reform of LGPS (Structural and Governance)
- External Audit
- ISC Quarterly Report

### **5. Business Plan 2014/15**

5.1 Progress is on track with the business plan shown at Annex A(i). Of the 23 actions for 2014/15:

- three has been completed;
- sixteen are in progress and
- the remaining four are scheduled to commence later this year.

5.2 One fundamental area of work surrounds the implementation of the new administration system (UPM, provided by CIVICA) following the Board's procurement decision in December 2013. The project is proceeding to plan with the milestones of the second data cut and the commencement of testing both taking place during August. A further data cut and sign off of standard processes/calculations are imminent. Dual running is scheduled to commence in October.

### **6. 3 year Business Plan**

6.1 The 3 year Business Plan, providing a high level summary of key work streams is shown at Annex A (ii).

### **7. Risk Register**

7.1 There remains one red rated risk – stemming from the delays associated with the issuance of the transitional regulations. Risk A1 covers the delivery of a high quality service to beneficiaries, potential beneficiaries and employers.



- 7.2 As reported in agenda item 5B, the anticipated timing of the finalised Regulations has led to a change in score for risk G1 *“Failure of governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and /or need to make major changes at short notice”*.
- 7.3 The change in ratings for this risk are set out below and detailed at Annex B (ii).

	<b>Residual Impact</b>	<b>Residual Probability</b>	<b>Residual Risk score</b>	<b>Above key risk threshold (residual risk score of 6)</b>
Prior rating	3	1	3	No
Current rating	3	3	9	Yes

## 8. Scorecard

- 8.1 Measures **2.1.1** & **2.1.2** compare the Fund’s annual investment performance to a peer group and the bespoke benchmark. The Fund’s Custodian had initially advised that the return for 2013/14 was **8.7%**. Investigations by officers highlighted potential issues relating to the property portfolio, and the Custodian was asked to review. Following further work and liaison with the Aviva, the Fund’s property manager, the performance return was revised to **9.2%**. IAS 19 / FRS 17 disclosures were re-issued to employers in July reflecting the revision.
- 8.2 A revised process has been designed to ensure appropriate liaison between the Custodian and Property Manager to avoid a future recurrence. Officers continue to monitor matters.
- 8.3 Most of the measures under objective **4.1** *“Deliver a high quality, friendly and informative service”* have been updated and for the first time each indicator is now green.
- 8.4 Measures **4.1.1**, **4.1.2** & **4.1.3** (letters issued relating the transfers in, transfers out and process of refund & payment) have changed from amber to green. Measure **4.1.8** (the calculation and notification of deferred benefits) has changed from red to green. This represents a significant achievement for the Administration Team.

## 9. Link to Essex Pension Fund Objectives

- 9.1 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

## **10. Risk Implications**

- 10.1 Key risks are identified at Annex B (i) and changed risks are detailed at Annex B (ii).

## **11. Communication Implications**

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

## **12. Finance and Resources Implications**

- 12.1 The business plan for 2014/15 is challenging and labour intensive and will require significant input by officers and advisers to bring some of the actions to conclusion.

## **13. Background Papers**

- 13.1 None.

## **Essex Pension Fund Business Plan 2014/15**

### **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 2014</b>
1. Annual business plan will be put in place.	Proposed actions for 2014/15 business plan actions presented to 5 March 2014 Board for approval.	DfEPF & HoEPF	Complete

Action	How will this be achieved?	Officer managing action*	Progress as at September 2014
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2014/15.  Specific provision will be made for any new Board Members.	IGAA	In progress -  <i>infoBOARD</i> training scheduled prior to 17 September 2014 Pension Board meeting.
3. Board members' knowledge centre	A web based facility for Members to replace the handbook will be identified and put in place.	HoEPF	In progress -  <i>infoBOARD</i> training scheduled prior to 17 September 2014 Pension Board meeting.
4. Annual review of governance policy	Review governance policy to ensure it is relevant and up to date, including the governance compliance statement.	DfEPF, HoEPF & IGAA	Scheduled for December 2014 Pension Board meeting
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it.	GTM and IGAA	Scheduled for December 2014 Pension Board meeting
6. Procurement of Independent Governance Adviser	The procurement will be completed during 2014/15	DfEPF & HoEPF	In progress –  A separate report appears elsewhere on the 17 September 2014 Board agenda
7. Implement the requirements of the Public Sector Pension Act 2013	Respond to consultation on draft Governance regulations  Agree & implement required changes to Governance arrangements	DfEPF, HoEPF & IGAA	In progress –  A separate report appears elsewhere on the 17 September 2014 Board agenda. This includes the Fund's response to the consultation on draft Governance regulations.

## Investments

### **Objectives:**

- To maximise the returns from investments within reasonable risk parameters
- To ensure the Fund is properly managed
- Ensure investment issues are communicated appropriately to the Fund's stakeholders

### **Actions:**

Action	How will this be achieved?	Officer managing action*	Progress as at September 2014
8. Review of asset allocation	Review of asset allocation as part of the strategy & structure deliberations at the ISC strategy meetings. July 2014 and February 2015.	DfEPF	In progress  Formal annual review took place at 23 July 2014 ISC Strategy meeting. A further review will take place in February 2015.
9. Implement any review of investment allocation arrangement	Implement the decisions taken at the July 2014 ISC strategy meeting.	DfEPF	In progress  Arrangements to finalise the illiquid debt mandate appointment illiquid debt mandate appointment are underway
10. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.	DfEPF	Complete  The review took place at the 23 July 2014 ISC Strategy meeting.

Action	How will this be achieved?	Officer managing action*	Progress as at September 2014
11. Review the Statement of Investment Principles (SIP)	Annual Review of SIP – to include review of Statement of Compliance on Investment Decision Making	DfEPF	Scheduled for the next ISC meeting
12. Procurement of Independent Investment Adviser	The current arrangement ceases in July 2015. The ISC will consider its approach to this matter in 2014/2015	DfEPF	Scheduled to commence in early 2015.
13. Respond to the requirements of LGPS structural reform process	Respond to consultation on draft options for the structure of LGPS in England & Wales  Monitor subsequent developments	DfEPF	In progress –  A response to the consultation was considered at the July Board prior to submission.  A verbal update will be given on this matter under agenda item 5a at the 17 September 2014 Board meeting

# 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 2014
14. Review Funding Strategy Statement	Consideration will be given to whether the Funding Strategy requires review in the light of the results of the Interim Review as at 31 March 2014.	DfEPF and HoEPF	In progress  A separate report appears elsewhere on the 17 September Pension Board agenda.
15. Interim Review as at 31 March 2014.	An interim review of the Fund as at 31 March 2014 will be commissioned from the Actuary.	DfEPF and HoEPF	In progress  A separate report appears elsewhere on the 17 September Pension Board agenda.
16. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis	DfEPF and HoEPF	In progress -  Monitoring continues

## 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 2014
17.New 2014 LGPS	Pending outcomes review and put in place a plan to deliver any requirements (e.g. revised processes, systems, etc).	HoEPF	In progress  An upgrade release to the current administration system was received in August 2014 a further release is planned for January 2015. A complete letter and process review is on-going and manual workarounds are in place.
18.Complete the annual end of year data exercise as at 31 March	Complete year end accounting, gather information from employer and update Axise, and produce annual benefit statements.	HoEPF	Complete



Action	How will this be achieved	Officer managing action*	Progress as at September 2014
19. Administration Strategy	The Administration Strategy will be monitored during 2014/15.	HoEPF	In progress  Monitoring continues
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)	HoEPF	In progress  Monitoring continues
21. Implementation of new administration system	A project plan to be in place to deliver a new system by 31 December 2014	HoEPF	In progress –  The project is proceeding to plan.  Second data cut took place August 2014 Data Cleanse on-going Testing commenced August 2014 Third data cut due September 2014

## 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 2014
22.New 2014 LGPS	Pending outcomes, review and put in place a plan to deliver any communication requirements including delivery of key messages	HoEPF	In progress  Communications continue during 2014/15
23.Monitor Communications Policy	The communications policy will be monitored during 2014/2015	HoEPF	In progress  Monitoring continues

Key:

DfEPF: Director for Essex Pension Fund

HoEPF: Head of Essex Pension Fund

GTM: Governance Team Manager

IGAA: Independent Governance & Administration Adviser

# Essex Pension Fund

## 3 Year Business Plan

### April 2014 to March 2017

Area of activity	2014/15	2015/16	2016/17
<b>Governance</b>			
Business plan	March for the following year	March for the following year	March for the following year
Members' knowledge and understanding			
• Prepare & implement training strategy	December (Review)	December (Review)	December
• Training needs assessment (TNA)	Ongoing	Ongoing	Ongoing
Governance review	December	December	December
Effectiveness of Pension Fund Board	September	September	September
Annual Statement of Accounts	July (draft) September (Final)	July (draft) September (Final)	July (draft) September (Final)
Employer Forum(s)	May March	February	October - March
Review scorecard (risk register)	Quarterly	Quarterly	Quarterly
Review performance	Quarterly	Quarterly	Quarterly
Administering Authority discretions and delegations review	September		
Employing Authority discretions and delegations review	July- December		
Communications policy review	March	March	March

Area of activity	2014/15	2015/16	2016/17
<b>Investment (Steering Committee)</b>			
Strategic asset allocation review	July & February	July & February	July & February
Asset/Liability study			February
Statement of Investment Principles review	July	July	July
Review investment management fees	July	July	July
Individual manager review	Quarterly	Quarterly	Quarterly
<b>Funding</b>			
Funding Strategy Statement	September	September	September
Actuarial Valuation 2013			September - March
Interim funding review	September	September	
Admission/employer participation/bulk transfer policy	Ongoing	Ongoing	Ongoing
<b>Administration</b>			
LGPS reform – planning for administration changes	April (go-live)	Follow up amendments	Ongoing
Review/Procurement of IT System	April onwards	Ongoing	
End of year data exercise	July	July	July
Auto-enrolment / workbased pensions	Rolling Employer staging dates	Rolling Employer staging dates	Rolling Employer staging dates
<b>Communications</b>			
LGPS reform	Ongoing	Ongoing	Ongoing
Implement communications policy	Ongoing	Ongoing	Ongoing
Introduce infoBOARD and develop usage	Ongoing	Ongoing	Ongoing

**ANNEX B (i)**

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	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	G7	Failure of governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice. This could occur if Regulations are not timely.	3	3	9	6	Graham Hughes	Work with independent governance adviser to identify possible actions and plan accordingly.
Governance	Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G12	Failure of succession planning for key roles on PFB	3	2	6	6	Ian Myers	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
Governance	Evolve and look for new opportunities that may be beneficial for our stakeholders, ensuring efficiency at all times	I1	Insufficient staff causes failure to free up time to look for other best practice areas then opportunities may be missed	2	3	6	9	Kevin McDonald /Jody Evans	The final appointment to the revised officer structure was made in April 2014.
Investments	To maximise the returns from investments within reasonable risk parameters	F2	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	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F7	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	3	3	9	6	Kevin McDonald	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.

**ANNEX B (i)**

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	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F19	Mismatch in asset returns and liability movements result in increased employer contributions	3	2	6	6	Kevin McDonald	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.
Funding	Minimise unrecoverable debt on termination of employer participation	F20	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	3	2	6	6	Kevin McDonald	As above
Funding	Minimise unrecoverable debt on termination of employer participation	F21	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	3	2	6	6	Kevin McDonald	Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors)
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A1	Failure to administer scheme in line with Regulations and policies e. g. LGPS Reform – delays in the release of draft Regulations in sufficient detail could impact on the implementation of required system changes and staff training.	3	4	12	9	Jody Evans	The calculation of pensionable service and associated benefits could be undertaken on a manual basis, however this would not only impact on turnaround times / performance measures, but would also be the first such calculation undertaken on the new CARE basis.
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	A6	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	9	Kevin McDonald / Jody Evans	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	A17	Failure to administer scheme in line with Regulations and policies - Brewster test case in Northern Ireland pave way for retrospective action re: surviving co-habiting partners with no nomination for surviving partners pension.	3	2	6	6	Jody Evans	In the event of revised LGPS Regulations on nomination arrangements for surviving co-habiting partners' pensions, a case by case review will be conducted.

**ANNEX B (ii)**

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous risk score	Risk Owner	Risk Owner
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	G1	Failure of governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice. This could occur if Regulations are not timely.	3	3	9	3	Barry Mack / Kevin McDonald	Work with independent governance adviser to identify possible actions and plan accordingly.



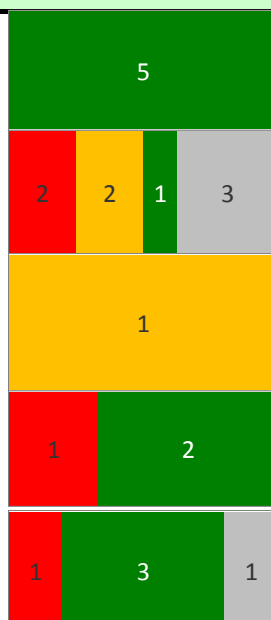


## Essex Pension Fund Scorecard - 17 SEPTEMBER 2014

**Guidance:** 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. Details of individual measures, including performance, targets, contextual commentary, definition and scope are given in the attached drill down pack.

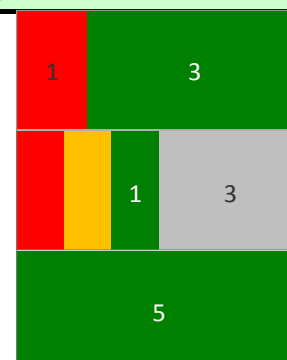
### 1. GOVERNANCE

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



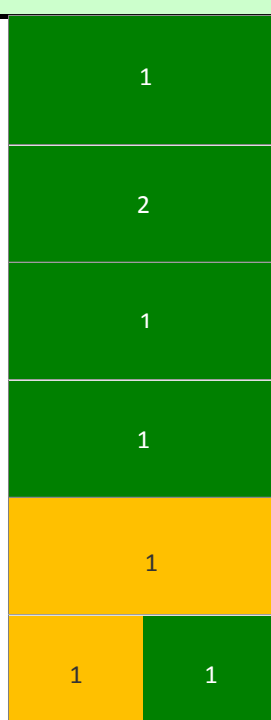
### 2. INVESTMENTS

- 2.1 - Maximise returns from investments within reasonable risk parameters
- 2.2 - Ensure the Pension Fund is properly managed (ISC attendance, skills and governance arrangements)
- 2.3 - Ensure investment issues are communicated appropriately to the Fund's stakeholders



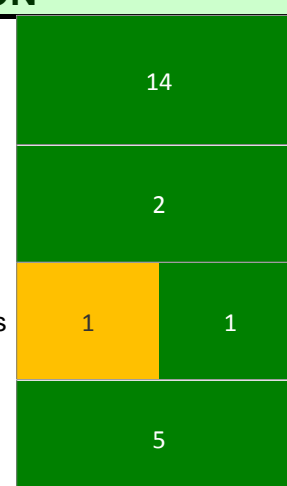
### 3. FUNDING

- 3.1 - Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters and Funding Strategy timescales
- 3.2 - To recognise in drawing up its Funding Strategy, the desirability of employer contributions that are as stable as possible
- 3.3 - To have consistency between Investment and Funding strategies
- 3.4 - To manage employers liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives.
- 3.5 - Maintain liquidity in order to meet projected net cash flow outgoings
- 3.6 - Minimise unrecoverable debt on termination of employer participation



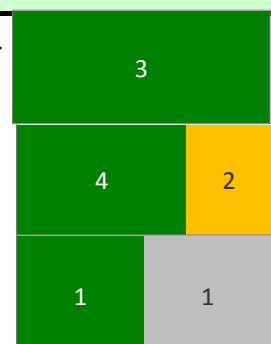
### 4. ADMINISTRATION

- 4.1 - Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need.
- 4.2 - Data is protected to ensure security and authorised use only
- 4.3 - Ensure proper administration of financial affairs
- 4.4 - Compliance with Fund's governance arrangements



### 5. COMMUNICATIONS

- 5.1 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.
- 5.2 - Ensure our communications are simple, relevant and have impact and deliver information in a way that suits all types of stakeholder.
- 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.



### Key

- G** = on or exceeding target
- A** = missing target but within agreed tolerance
- R** = missing target by more than agreed tolerance
- Gy** = data not currently available / work in progress

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

**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	3		G	G	5	20	Low	Quarterly
1.1.3 Number of scheme member compliments	22		G	G	15	60	High	Quarterly
1.1.4 Scheme member survey - % of positive answers	96.4%	%	G	G	95%	95%	High	Annual (Mar)
1.1.5 Employer survey - % of positive answers	97.3%	%	G	G	95%	95%	High	Annual (Mar)

### Rationale for performance status and trend

**1.1.1.** Cost per member was £17.81 in 2013/14 (£17.80 in 2012/13 ) compared to the CIPFA Benchmarking average of £20.75 (£20.87 in 2012/13). This Fund remains in the second quartile.

**1.1.2.** The number of complaints received in the 3 months to 30 June 2014 was 3. (Previous quarter 1)

**1.1.3.** The number of compliments received in the 3 months to 30 June 2014 was 22. (Previous quarter 15)

**1.1.4.** 500 scheme members (employees) were invited to participate in a five question survey conducted in November 2013. 118 members returned completed survey's resulting in a total of 810 answers. Of which 29 were negative responses. The remainder 781 (96.4%) were positive. The 2012 scheme member survey was 97.3% positive.

**1.1.5.** 378 employers were invited to participate in a 10 question survey conducted in November 2013. Of 112 responses 3 were negative which resulted in a 97.3% positive response rate. The 2012 employer survey was 97.7% positive.

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

**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:** Kevin McDonald

**Data lead:** Ian Myers/Jody Evans/Barry Mack

### Status

	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity	Frequency
1.2.1 Board Member attendance at training	63%	%	A	A	80%	80%	High	Quarterly
1.2.2 Board Members completing training needs analysis (TNA)	55%	%	G	R	90%	90%	High	Quarterly
1.2.3 Board Members with adequate skills - average scores for comprehensive training need analysis (TNA)	29%	%	R	R	65%	65%	High	Quarterly
1.2.4 Board Member attendance at Board meetings	73%	%	A	A	80%	80%	High	Quarterly
1.2.5 Officer training plans and My performance Objectives in place	100	%	G	G	100%	100%	High	Annual (May)

### Rationale for performance status and trend

1.2.1. This measure reflects attendance by Board Members at training prior to the September 2013, December 2013, March 2014 and July 2014 Board meetings. In addition, it also includes the standalone governance training session on 22 January 2014 and ISC members attendance at the Baillie Gifford Investment Conference in October 2013.

1.2.2. This represents the completion rate of TNA by board members.

1.2.3. This represent the score of the completed TNA forms.

1.2.4. This represents attendance at Board meetings in September 2013, December 2013, March 2014 and July 2014 Board meetings.

1.2.5. My Performance objectives have been agreed for all Pension Administration & Pension Investment officers. Senior officers are also undertaking the TNA, and measures are being developed.

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

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

**Scope:** Actions listed in Business Plan

**Measure Owner:** Kevin McDonald & Jody Evans

**Data lead:** Kevin McDonald & Jody Evans

Status	Value	Previous status	Current status	Target	Annual target	Polarity	Frequency
1.3.1 Fund Business Plan quarterly review - actions on track	13% Complete 70 % in progress 17% yet to start	A	A	30% Complete, 50% in progress	100% complete	High	Quarterly

Rationale for performance status and trend
<p>1.3.1 Against a total of 23 actions or projects for the year:</p> <ul style="list-style-type: none"><li>3 (13%) complete</li><li>16 (70%) in progress</li><li>4 (17%) scheduled to commence later in the year</li></ul> <p>The business plan is detailed in Annex A of this report.</p>

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

**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:** Ian Myers

**Data lead:** Ian Myers

Status	Value	Units	Previous status	Current status	Target	Polarity	Frequency
1.4.1 Number of complaints made	0		G	G	0	Low	On-going
1.4.2 Number of complaints upheld	0		G	G	0	Low	On-going
1.4.3 The Board has provision for representatives of employers and scheme members. Appointees are currently in place.	No		R	R	Yes	High	Quarterly

### Rationale for performance status and trend

**1.4.1 Reflects performance over the previous 12 months as at 30 June 2014.**

**1.4.2 Reflects performance over the previous 12 months as at 30 June 2014.**

**1.4.3** This is measured on an on-going basis. Yes = green; No = red.

At the time the papers were finalised, a nomination from the Essex Leader & Chief Executives Group was awaited.

## 1.5 - Understand and monitor risk and compliance

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

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

**Measure Owner:** Kevin McDonald & Jody Evans

**Data lead:** 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	On-going
1.5.2 Number of internal audit recommendations outstanding	0		G	G	0	N/A	Low	On-going
1.5.3 Percentage of risks on the risk register with a residual score that is classified as amber	13	%	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	0.1	%	R	R	0%	0%	High	Quarterly
1.5.5 Number of matters raised by external auditors relating to Pensions Services	0		G	Gy	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. The 2013/14 internal audit reports for both Pensions Administration and Pensions Investment received full assurance.

**1.5.2** The 2013/14 internal audit reports for both Pensions Administration and Pensions Investment contained a total of two "advice & best practice" recommendations, which have been completed.

**1.5.3** The Fund currently has 84 risks in its register, of which 11 have a residual score that is classified as amber. (10 in July). These are detailed at Annex B to this report. The previous quarter's score was 11 amber risks. Measurement: below 20% = green; between 20%-25% = amber; above 25% = red

**1.5.4** The Fund currently has 81 risks in its register, one of which have a residual score that is classified as red. This relates to the delayed release of transitional regulations for the new Career Average benefit scheme which will apply to the LGPS w.e.f. 1 April 2014. The risk is detailed in Annex B to this report. There were no red risks in the previous quarter. Measurement: 0% = green; under 2% = amber; above 2% = red

**1.5.5** At the time of writing the 2013/14 Report from EY was not available. There were no recommendations for Members to note in the 2012/13 Annual Governance Report from EY.

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

Data as at: 31 March 2013

**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:** Kevin McDonald

**Data lead:** Samantha Andrews

Status	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity
2.1.1 Annual return compared to Peer Group	1st	ranking	A	G	1st	1st	High
2.1.2 Annual Return compared to Benchmark	9.2	%	G	R	9.5%	9.5%	High
2.1.3 Five year (annualised) return compared to Benchmark	13.2	%	G	G	12.0%	12.0%	High
2.1.4 Five year (annualised) return compared to central expected return of current investment strategy	13.2	%	G	G	6.1%	6.1%	High

### Rationale for performance status and trend

2.1.1. With an annual return of 9.2% Essex had the highest return out of the peer group of Essex, Norfolk, Suffolk, Bedfordshire, Cambridgeshire & Kent. The lowest return within the peer group was 4.9%

2.1.2 The annual return of 9.2% was below the benchmark.

2.1.3 The five year return of 13.2% was above the benchmark.

2.1.4 The five year return of 13.2% was above the central expected return of the current investment strategy.

Benchmark and comparison peer group data is awaited - when available, a full data set will be brought to the September 2014 Board.

2.2 - Ensure the Fund is properly managed

**Measure Purpose:** To ensure that the Fund is properly managed  
**Scope:** Attendance at ISC and ISC member skills and knowledge  
**Measure Owner:** Kevin McDonald      **Data lead:** Samantha Andrews & Barry Mack

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
2.2.1 ISC Member attendance at ISC meetings	88	%	G	G	80%	80%	High	On-going
2.2.2 ISC Members completing training needs analysis (TNA)	72	%	G	A	90%	90%	High	Quarterly
2.2.3 ISC Members with adequate skills - average scores for comprehensive training need analysis (TNA)	38	%	A	R	65%	65%	High	Quarterly

Rationale for performance status and trend

2.2.1 . This represents attendance at ISC meetings in July 2013, November 2013, February 2014 , March 2014 & June 2014.

2.2.2 . This represents the completion rate of TNA by ISC members.

2.2.3. This represent the score of the completed TNA forms.



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

**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:** Kevin McDonald                      **Data lead:** Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Frequency
2.3.1 % of ISC agendas sent out 5 working days before meetings	100	%	G	G	100%	High	Quarterly
2.3.2 % of ISC committee items sent out 5 working days before meetings	100	%	G	G	100%	High	Quarterly
2.3.3 % of draft ISC minutes sent out 7 working days after meetings	100	%	G	G	100%	High	Quarterly
2.3.4 % of draft ISC minutes uploaded to internet 12 working days after meetings	0	%	G	G	100%	High	Quarterly
2.3.5 Number of communication and governance arrangements for the ISC not in place	0		G	G	0	High	On-going

Rationale for performance status and trend

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
- Pension 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
- One independent adviser and one institutional investment consultant attended or were available to attend the last ISC meeting
- 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: February 2014

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: Kevin McDonald

Data leads: Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.1.1 Probability of hitting funding target	61	%	G	G	50%	50%	High	Three yearly

Rationale for performance status and trend

3.1.1 . Following the Actuarial Valuation, an asset liability study was undertaken by the Fund's Institutional Investment Consultants , Hymans Robertson. This was to be considered by the Investment Steering Committee at its meeting on 24 February 2014.

Based on the assumptions and methodology in the investment consultant’s long term stochastic projection model, they have reported that the probability of being fully funded in 21 years’ time is 61%

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

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

**Scope:** Fund Employers

**Measure Owner:** Kevin McDonald

**Data lead:** Sara Maxey

### 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		G	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		G	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 2013/14 Funding Strategy, each of the 17 major presenting bodies were offered five options for employer contributions. These included an option which would increase employer contributions by no more than 1% (of pensionable pay) in the first year and 3% (of pensionable pay) over the three year Valuation cycle. 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

**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:** Kevin McDonald

**Data leads:** Samantha Andrews

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
<b>3.3.1</b> Expected return of investment strategy	6.1	%	A	G	5.8%	5.8%	High	Annual
<b>3.3.2</b> Investment strategy reviewed after Asset Liability Study	Yes		Gy	G	Yes	Yes	Yes	3 yearly

#### Rationale for performance status and trend

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

For the 2013 Valuation the Fund Actuary's assumption for investment return was 5.8%

**Included within the draft Statement of Investment Principles approved by the ISC on 27 March 2013 was a central expectation, from the end December 2012, for the absolute return on the Fund assets of 6.1% p.a.**

##### 3.3.2 Investment Strategy reviewed

This measure highlights that the ISC on 24 February 2014 reviewed the Investment Strategy and its consistency with the Funding Strategy as part of its consideration of the Asset Liability Study, conducted by Hymans Robertson after the 2013 Actuarial Valuation.

### 3.4 - Manage employers’ liabilities effectively

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

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

**Measure Owner:** Kevin McDonald

**Data leads:** Sara Maxey

Status								
	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.4.1 Does the Funding Strategy incorporate different funding objectives for different groups of employers ?	Yes	%	G	G	Yes	Yes	High	3 Yearly

Rationale for performance status and trend

3.4.1 The draft Funding Strategy, agreed by the Board in September 2013 included different funding objectives for different groups of employers. This was also the case for the Funding Strategy that accompanied the previous Actuarial Valuation in 2010.

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

**Measure Purpose:** Maintain liquidity in order to meet projected net cash-flow outgoings  
**Measure Owner:** Kevin McDonald      **Data lead:** Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.5.1 Contribution income adequate to meet benefit payments.	Yes		A	A	Yes	Yes	High	On-going

Rationale for performance status and trend

**3.5.1** This measure captures the most recent comparison of fund income (excluding investment income) and fund expenditure. Fund expenditure is currently forecast to exceed fund income (excluding investment income) in 2015/16. In that instance investment income would be used to fund part of the payment of Fund benefits.

Score criteria is based on the contribution income adequate to meet benefit payments for the following time periods

Green = more than two years  
Amber = between one and two years  
Red = less than one year

**A further review of cash flow is underway.**

### 3.6 - Minimise unrecoverable debt on termination of employer participation

**Measure Purpose:** To highlight unrecoverable, or potentially unrecoverable, deficit due to employers leaving the Fund

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

**Measure Owner:** Kevin McDonald

**Data leads:** Sara Maxey

#### Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
<b>3.6.1</b> Potentially unrecoverable deficit due to employers leaving scheme (as a percentage of Total Fund deficit)	0.010	%	A	A	0.00%	0.00%	Low	Quarterly
<b>3.6.2</b> Deficit unrecoverable due to employers leaving scheme (as a proportion of Total Fund deficit)	0	%	G	G	0.00%	0.00%	Low	Quarterly

#### Rationale for performance status and trend

**3.6.1** Scoring:

0% = Green.  
Below 0.02%(£250,000) = Amber.  
Above 0.02% = Red

As previously reported to the Board, the Fund has been notified that an admitted body, Harlow Welfare Rights & Advice (HWRA) has been placed into liquidation. The Actuary's calculation of the termination deficit on a least risk basis is £95,000.

**3.6.2** Scoring:

0% = Green.  
Below 0.02%(£250,000) = Amber.  
Above 0.02% = Red

There have been no unrecoverable deficits since the last Board meeting. The score is therefore green.

The Fund's total deficit as at 31 March 2013 Actuarial Valuation was £953m.

## 4.1 - Deliver a high quality, friendly and informative service

**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	Annual Target	CIPFA Average	Polarity	Frequency
4.1.1 Letter detailing transfer in quote issued within 10 working days (375 cases)	96.3%	%	A	G	95.0%	89.5%	High	Annual (Aug)
4.1.2 Letter detailing transfer out quote issued within 10 working days (494 cases)	97.8%	%	A	G	95.0%	92.1%	High	Annual (Aug)
4.1.3 Letter detailing process of refund and payment made within 5 working days (237 cases)	95.3%	%	A	G	95.0%	87.1%	High	Annual (Aug)
4.1.4 Letter notifying estimated retirement benefit amount within 10 working days (2760 cases)	97.3%	%	G	G	95.0%	90.8%	High	Annual (Aug)
4.1.5 Letter notifying actual retirement benefits and payment made of lump sum retirement grant within 5 working days (1887 cases)	96.3%	%	G	G	95.0%	92.5%	High	Annual (Aug)
4.1.6 Letter acknowledging death of active /deferred / pensioner member within 5 working days (962 cases)	99.5%	%	G	G	95.0%	90.9%	High	Annual (Aug)
4.1.7 Letter notifying the amount of dependent's benefits within 5 working days (962 cases)	95.7%	%	G	G	95.0%	91.3%	High	Annual (Aug)
4.1.8 Calculate and notify deferred benefits within 10 working days (5860 cases)	98.3%	%	R	G	95.0%	76.4%	High	Annual (Aug)
4.1.9 Annual benefit statements issued to active members by 30 September.	Yes		G	G	Yes	N/A	High	Annual (Sep)
4.1.10 Annual benefit statements issued to deferred members by 30 June.	Yes		G	G	Yes	N/A	High	Annual (Jun)
4.1.11 Number of payments errors	0	number	G	G	0	N/A	Low	Quarterly
4.1.12 New IDRPs appeals during the year	2		G	G	Below CIPFA average	Pending	Low	Annual (Aug)
4.1.13 IDRPs appeals - number of lost cases	0		G	G	Below CIPFA average	Pending	Low	Annual (Aug)
4.1.14 Employer survey - feedback on training and educational materials - % of positive responses	99.1%		G	G	95.00%	N/A	Low	Annual (Mar)

**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.

**4.1.1 & 4.1.2** Despite the number of cases increasing from 679 to 869, turnaround times have improved significantly from 90.4% and 90.0% respectively to 96.3% and 97.8% respectively, well above the CIPFA Benchmarking average.

**4.1.3** Turnaround times for processing and paying of refunds improved significantly from 85.8% (2012/13) to 95.3% (2013/14).

**4.1.4** There was a significant drop in the number of estimates of retirement benefits processed during 2013/14. and this has enabled the turnaround times to improve still further from 95.7% (2012/12) to 97.3% (2013/14).

**4.1.8** The introduction of a new procedure from 1 April 2013 has helped to significantly improve turnaround times from 83.3% (2012/13) to 98.3% (2013/14), despite an increase in the number of cases from 4908 (2012/13) to 5860 (2013/14).

**4.1.9** The 2013/14 Annual benefits statements for Active members were dispatched in late August 2014. The previous dispatch was in August 2013.

**4.1.10** The last dispatch of these statements to Deferred members was in June 2014. The previous dispatch was in June 2013

**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** In November 2013 an employer survey was issued, 378 employers were invited to participate and 112 responses were received when asked about feedback on training materials and educational materials. Only one negative response was received resulting in a 99.1% positive response. In 2012 the result showed a 95.3% positive response. 116 survey responses that were received 4 respondents chose not to answer this question.



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

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 lead: Anna Casbolt

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
4.2.1 Number of information security breaches	1		R	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

4.2.1 There were no breaches this quarter.

Green = 0 breaches  
Amber = 1 or more medium or minor breaches  
Red = 1 or more major or critical breaches

4.2.2 There were no required actions this quarter.

## 4.3 - Ensure proper administration of financial affairs

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

**Scope:** Investments and Contributions

**Measure Owner:** Kevin McDonald

**Data leads:** Samantha Andrews & Sara Maxey

### Status

	Value	Units	Previous status	Current status	Current target	Annual target	Polarity	Frequency
<b>4.3.1</b> % of monthly reconciliations of equity and bond investment mandates which are timely	0	%	G	G	0%	100%	High	Quarterly
<b>4.3.2</b> % of contributing employers submitting timely payments	97.7	%	A	A	100%	100%	High	Quarterly

### Rationale for performance status and trend

**4.3.1** The investment team's focus in the quarter ending June, is closing the accounts, so the target is 0%.

The target for the next quarter (ending September) is 75%.

**4.3.2** For the quarter ending June 2014 the performance was amber as payments from **97.7%** of the 468 contributing employers were received within the month they fell due. In cash terms this equated to **99.9%** of a total employer contribution of £96.6m.

4.4 - Compliance with the Fund's governance arrangements

**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:** Ian Myers/Jody Evans/Kevin McDonald      **Data lead:** Ian Myers/Jody Evans/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 items sent out 5 working days before meetings	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	On-going

Rationale for performance status and trend

4.4.2 Papers for the July Board were sent out on time. The ISC quarterly update for the 5 March Board (in respect of the 24 February ISC meeting) was a to follow item.

4.4.5 Measure will flag as red if one of the following governance arrangements is not in place:

- 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

NB: Compliance with Board Membership arrangements is covered at measure 1.4.4

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

**Measure Purpose:** Communicate in a friendly, expert and direct way to our stakeholders, treating all our stake holders equally.  
**Scope:** All scheme members and employers  
**Measure Owner:** David Tucker      **Data lead:** Matt Mott

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.1.1. % of positive responses from the scheme member survey. - <i>Helpfulness of the Pensions Teams.</i>	99.1	%	G	G	95%	95%	High	Annual (Mar)
5.1.2. % of positive responses from the Employer Survey. - <i>Expertness of Pensions Teams.</i>	99.1	%	G	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	%	G	G	90%	90%	High	Annual (Mar)
5.1.4. A Communication Plan is in place for the current year.			G	GY	Yes	Yes	High	Annual (Sep)

Rationale for performance status and trend

**5.1.1** In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 111 responses were received to the question to ‘How would you rate the Essex Pension Fund on helpfulness of staff?’. Only one negative response was received resulting in a 99.1% positive response. In 2012 the result showed a 100% positive response. 118 survey responses that were received 7 respondents chose not to answer this question

**5.1.2** In November 2013 an employer survey was issued, 378 employers were invited to participate and 110 responses were received to the question to ‘How would you rate Essex Pension Fund staff on their level of expertise?’. Only one negative response was received resulting in a 99.1% positive response. In 2012 the result showed a 100% positive response. 116 survey responses that were received 6 respondents chose not to answer this question.

**5.1.3** In November 2013 an employer survey was issued, 378 employers were invited to participate and 111 responses were received to the question to ‘How would you rate Essex Pension Fund staff on being friendly and informative?’. No negative response was received resulting in a 100% positive response. In 2012 the result showed a 100% positive response. 116 survey responses that were received 5 respondents chose not to answer this question.

**5.1.4** The existing Communication Plan will be reviewed after the new administration system goes live.

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

**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 lead:** Matt Mott

Status								
	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.2.1. % of positive responses from the Scheme member Survey - <i>Clarity of website information.</i>	97.1%	%	G	G	95.0%	95.0%	High	Annual (Mar)
5.2.2. % of positive responses from the Scheme Member Survey - <i>Understandable Annual Benefit Statements.</i>	82.0%	%	A	A	95.0%	95.0%	High	Annual (Mar)
5.2.3. % of positive responses from the Scheme Member Survey - <i>Communications that suit needs, easy to understand and relevant.</i>	99.1%	%	A	G	95.0%	95.0%	High	Annual (Mar)
5.2.4. % of positive responses from the Employer Survey - <i>Clarity of Website information.</i>	92.4%	%	G	A	95.0%	95.0%	High	Annual (Mar)
5.2.5. Increase in response of the Scheme Member Survey compared to last year.	43.9%	%	G	G	Increase	Increase	High	Annual (Mar)
5.2.6. Increase in response rate of the Employer Survey compared to last year.	169.8%	%	G	G	Increase	Increase	High	Annual (Mar)

**5.2.1** - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 68 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Only two negative response was received resulting in a 97.1% positive response. In 2012 the result showed a 95.1% positive response. 118 survey responses that were received 50 respondents chose not to answer this question.

**5.2.2** - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 111 responses were received to the question to 'How easy was the information in your annual benefit statement to understand?'. 20 negative response was received resulting in a 82% positive response. In 2012 the result showed a 86.6% positive response. 118 survey responses that were received 7 respondents chose not to answer this question.

**5.2.3** - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 114 responses were received. Only one negative response was received resulting in a 99.1% positive response. In 2012 the result showed a 91.4% positive response. 118 survey responses that were received 4 respondents chose not to answer this question.

**5.2.4** - In November 2013 an employer survey was issued, 378 employers were invited to participate and 105 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Eight negative responses was received resulting in a 92.4% positive response. In 2012 the result showed a 95.3% positive response. 116 survey responses that were received 11 respondents chose not to answer this question.

**5.2.5** - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 118 responses were received. In 2012 82 responses were received. This is an increase in respondents of 36 (43.9%).

**5.2.6** - In November 2013 an employer survey was issued, 378 scheme members were invited to participate and 116 responses were received. In 2012 43 responses were received. This is an increase in respondents of 73 (169.8%).

# 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

**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 lead:** 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 responses from the Employer Survey - <i>Information available is helpful in employers understanding their responsibilities</i>	97.3%	%	G	G	95%	95%		Annual(Mar)

## Rationale for performance status and trend

**5.3.1** This measure is under development.

**5.3.2** In November 2013 an employer survey was issued, 378 employers were invited to participate and 112 responses were received when asked about feedback on information available is helpful to employers understanding their responsibilities. Only three negative response were received resulting in a 97.3% positive response. In 2012 the result showed a 95.3% positive response. 116 survey responses that were received 4 respondents chose not to answer this question.

<b>Essex Pension Fund Board</b>	<b>EPB/26/14</b>
date: 17 September 2014	

## **Essex Pension Fund Accounts 2013/14**

Report by the Executive Director for Corporate Services & Customer Operations

Enquiries to Kevin McDonald on 01245 431301

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

- 1.1 To provide Members with the Pension Fund financial statements for 2013/14

### **2. Recommendation.**

- 2.1 That the Board should note the report.

### **3. Draft Accounts 2013/14**

- 3.1 The draft Pension Fund financial statements were submitted to the Pension Board on 9 July 2013. As highlighted in the minutes, the Board agreed that the wording in section 15.3 – members of LGPS – be amended to reflect that:
  - Cllr D.M. Finch's and Cllr M.C. Lager's membership of the Essex pension Fund Board and Investment Steering Committee ceased on 13 May 2013; and
  - under new legislation introduced from 1 April 2014, the entitlement for Councillors to join the Pension Fund was removed
- 3.2 Colleagues from EY commenced the external audit in July 2014. At the time of writing, no changes to the Fund Account or Net Asset Statement have been required.
- 3.3 A copy of the Pension Fund's draft financial statements for 2013/14 is attached at Appendix 1. This draft has been updated to include the amendments agreed by the Board in July and detailed at 3.1 above.

### **4. Background papers**

#### 4.1 The Local Government Pension Scheme (Administration) Regulations 2008



## Section Two - Pension Fund Accounts

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### Introduction

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of the Council, Essex district, borough and unitary councils, and for other scheduled and admitted bodies. The Pension Fund accounts are set out in the following pages, as detailed below.

	Page
<b>Fund Account</b>	<b>134</b>
<b>Net Asset Statement</b>	<b>135</b>
<b>Notes to the Pension Fund Accounts</b>	<b>136</b>

## Section Two - Pension Fund Accounts

### Pension Fund Accounts

Fund Account for the year ended 31 March 2014

2012/13 £000	Note		2013/14 £000	£000
		<b>Contributions and Benefits</b>		
		<b>Income</b>		
		Contributions receivable		
(47,260)	7	Member contributions	(48,843)	
(177,755)	7	Employers' contributions	(164,798)	
(13,217)	7	Transfers in from other Pension Funds	(10,157)	
(132)		Other income	(66)	
<u>(238,364)</u>		<b>Total income</b>		<u>(223,864)</u>
		<b>Expenditure</b>		
		Benefits payable		
154,022	7	Pensions	162,589	
36,138		Commutation of pensions & lump sum retirement benefits	36,518	
4,403		Lump sum death benefits	3,951	
		Payments to and on account of Leavers		
70		Refunds of contributions	29	
6		State scheme premiums	7	
8,851	7	Transfers out to other schemes	9,967	
1,744	9	Administration expenses	2,292	
<u>205,234</u>		<b>Total expenditure</b>		<u>215,353</u>
(33,130)		<b>Net additions from dealings with members</b>		<u>(8,511)</u>
		Returns on investments		
(71,300)	8	Investment income	(63,564)	
(355,171)	11	Profit and losses on disposal of investments and changes in market value of investments	(330,474)	
3,106	14	Taxes on income	3,010	
17,669	10	Investment management expenses	20,638	
<u>(405,696)</u>		<b>Net returns on investments</b>		<u>(370,390)</u>
(438,826)		<b>Net (increase)/decrease in the assets available for benefits during the year</b>		<u>(378,901)</u>
(3,519,647)		<b>Net assets as at 1 April</b>		<u>(3,958,473)</u>
<u>(3,958,473)</u>		<b>Net assets as at 31 March</b>		<u>(4,337,374)</u>

## Section Two - Pension Fund Accounts

### Pension Fund Accounts

Net Assets Statement as at 31 March 2014

31 March 2013 £000	Note		31 March 2014 £000	£000
	<b>11</b>	<b>Investments at market value</b>		
		Investment assets		
179,980		Fixed interest securities	186,598	
2,427,887		Equities	2,644,294	
264,371		Index linked securities	344,996	
195,665		Property	237,300	
222,930		Property unit trusts	231,664	
196,995		Private Equity	212,033	
113,567		Infrastructure	127,236	
30,972		Timber	34,705	
25,332		Active currency	-	
175,598		Other managed funds	185,029	
1,925		Derivative contracts	4,282	
96,481		Cash/deposits	93,508	
10,570		Other investment balances	10,524	
3,942,273				4,312,169
		Investment liabilities		
(18,010)		Derivative contracts	(390)	
(3,191)		Other investment balances	(1,541)	
(21,201)				(1,931)
3,921,072		<b>Total Investments</b>		<b>4,310,238</b>
		<b>Long term assets</b>		
9,414		Contributions due from employers		7,907
	<b>13</b>	<b>Current assets and liabilities</b>		
		Current Assets		
17,276		Cash		13,638
17,853		Contributions due from employers and other current assets		18,516
3,965,615				4,350,299
		Current liabilities		
(7,142)		Unpaid benefits and other current liabilities		(12,925)
3,958,473		<b>Net assets of the scheme available to fund benefits</b>		<b>4,337,374</b>

# Section Two - Pension Fund Accounts

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## Notes to the Pension Fund Accounts

### 1. Background

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund ("the Fund").

The Essex Pension Fund is part of the Local Government Pension Scheme and is administered by Essex County Council ("the Administering Authority") which is the reporting entity for this pension fund.

Established by the Local Government Superannuation Regulation 1974, the Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme( LGPS) Benefits, Membership and Contribution Regulations 2007 (as amended);
- LGPS (Administration) Regulations 2008 (as amended);
- LGPS (Management and Investment of Funds) Regulations 2009; and
- LGPS (Miscellaneous Amendments) Regulations 2014.

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. As a result the Fund now contains around **530** employing bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report & Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the Essex Pension Fund Board and Investment Steering Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for Corporate Services and Customer Operations along with the Director for Essex Pension Fund.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity, infrastructure and timber through the use of limited partnerships. The Investment Steering Committee (ISC) oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Board. The Fund's Statement of Investment Principles is contained in the Pension Fund Annual Report & Accounts.

## Section Two - Pension Fund Accounts

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### 2. Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2013/14 (SORP) and the Financial Reports of Pension Schemes Statement of Recommended Practice (revised May 2007). The accounts are prepared on a going concern basis.

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies can be obtained by contacting the Council's Investments team or alternatively are available from [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2013/14 financial year and its position as at 31 March 2014. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2014 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.3.

### 3. Actuarial valuation

The contributions payable for 2013/14 were determined by the 2010 Actuarial Valuation.

#### 3.1 Actuarial Valuation 2013

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£3,958m** represented **80%** of the Funding Target liabilities of **£4,878m** at the valuation date. The valuation also showed that a common rate of contribution of **14.3%** of Pensionable Pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit could be eliminated by an average additional contribution rate of **7.2%** of Pensionable Pay for 20 years. This would imply an average employer contribution rate of **21.5%** of Pensionable Pay in total.

## Section Two - Pension Fund Accounts

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full valuation report that is available from [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

The main financial assumptions used were as follows:

	<b>Past and Future liabilities</b> <i>Rate per annum</i>
Rate of discount	<b>5.80%</b>
Retail Price Index (RPI)	<b>3.50%</b>
Consumer Price Index (CPI)	<b>2.70%</b>
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	<b>3.00%</b>
Short term pay increase	<b>In line with CPI assumptions for 2 years to 31 March 2015</b>
Long term pay increase	<b>4.50%</b>

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2017.

### 3.2 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 17. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer

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contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

### 3.3 Actuarial present value of promised retirement benefits

Separate to the Actuarial Valuation, IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed. For this purpose the actuarial assumptions and methodology used are based on IAS 19 rather than the assumptions and methodology used in the Actuarial Valuation for funding purposes.

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2013.

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2014 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond curve which is closest to the duration of the Fund's liabilities.

The duration of the Fund's liabilities is the weighted average time to pay each future expected cash flow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2014 is 18 years which in turn means a discount rate of **4.4%** per annum (31 March 2013: 4.3%). The value of the Fund's promised retirement benefits as at 31 March 2014 was **£6,515m** (31 March 2013: £6,585m).

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 2010, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of 5.6% per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£4,720m**.

## 4. Accounting policies

### 4.1 Fund Account – revenue recognition

#### 4.1.1 Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

Employers' augmentation contributions and financial strain contributions are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid are classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

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### 4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 7 which commences on page 147).

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 7 which commences on page 147).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### 4.1.3 Investment Income

- **Dividend income**

This income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Asset Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 14 (page 162).

- **Income from fixed interest, index linked securities, cash and short term deposits**

This income is recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- **Income from other investments**

This income is accounted for on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement under other investment balances.

- **Property related income**

This consists primarily of rental income on property leases, and is recognised on a straight line basis over the term of the leases.

- **Change in market value of investments**

This is recognised as income during the year and comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.



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### 4.2 Fund Account – Expense items

#### 4.2.1 Benefits payable

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Any amounts due but not paid are disclosed in the Net Asset Statement as current liabilities.

Other benefits are accounted for on the date that members' leave the Fund, or upon death.

#### 4.2.2 Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 14).

As Essex County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investments and property expenses.

#### 4.2.3 Administration expenses

Administration expenses are accounted for on an accruals basis. All expenses are recognised net of any recoverable VAT. All relevant staff costs including management, accommodation and other overhead costs has been charged direct to the Fund on the basis of time spent on investment related matters and pension administration. In 2013/14 this totalled **£1.686m** (2012/13: £1.438m).

#### 4.2.4 Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in their mandates governing their appointments. Broadly these are based on the market value of investments under their management and therefore increase or reduce as the value of investments change. In addition, an element of some managers' fees is performance related, subject to them reaching a trigger point. Performance related fees totalled **£401,000** in 2013/14 (2012/13: £1.466m).

The cost of obtaining investment advice from external consultants is included in investment management charges.

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### 4.3 Net Asset Statement

#### 4.3.1 Financial Assets

Financial assets are held at fair value, as at each 31 March, and are recognised on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in fair value of the asset are recognised in the Fund Account. Acquisition costs are included in the purchase cost of investments.

#### 4.3.2 Valuation of investments

The value of investments is determined as outlined in the following paragraphs.

- **Market Quoted Investments**

The value of these investments is taken as the bid market price ruling on each 31<sup>st</sup> March.

- **Unquoted Investments**

Unquoted equity, and private equity limited partnership, investments are valued based on the latest financial statements published by the respective fund managers. In general these are valued as at each 31 March, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. However, in a few cases an estimate of the valuation at 31 March 2014 is made – in such instances, the 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31 March.

Investments in unquoted property, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- **Directly held investments**

These include investments in limited partnerships, unlisted companies, trust and bonds.

The valuation of other unquoted securities (typically including pooled investments in property, infrastructure, debt securities and private equity) is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or standards set by the constituent documents of the pool or the management agreement.

- **Unit trusts and managed funds**

These are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

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### ▪ Value of fixed interest investments

Fixed interest investments are recorded at net market value, based on their current yield (i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within note 11).

### ▪ Direct Property Investments

Direct property investments have been valued, at open market value as at 31 March 2014, by Jones Lang LaSalle, Chartered Surveyors. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

### 4.3.3 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from its investments activities – they are not held for speculative purposes.

Derivative contracts assets are held at fair value bid price, and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (see note 11).

The value of futures contracts is determined using exchange prices published by the relevant futures exchange (e.g. LIFFE – London International Financial Futures Exchange) at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial margin and variation margin.

Forward foreign exchange contracts outstanding at year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31 March.

### 4.3.4 Dividends, Interest and Foreign Currencies

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### 4.3.5 Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

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### 4.3.6 Financial Liabilities

Financial liabilities are recognised on the date the Fund becomes party to the liability at fair value as at each 31 March. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### 4.3.7 Contingent liabilities and contingent assets

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Pension Fund's control.

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Council's control.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable and can be reliably measured.

### 4.3.8 Financial Instruments

Financial assets are recognised only when goods or services have been provided or rendered to a third party. Financial liabilities are recognised when the goods or services ordered from a third party have been received by the Fund and the third party has performed its contractual obligations.

The Fund currently only has liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the balance sheet date is assumed to equate to the fair value.

The fair values of loans and receivables at 31st March have been reviewed and were assessed as being the same as the carrying amounts in the Balance Sheet. Assets are carried in the Balance Sheet at fair value. The values are based on the bid price.

When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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### 5. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 4, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Fund Accounts are:

- **Use of Financial Instruments**

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. The valuation of these types of investments is highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

- **Unquoted private equity**

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2014 was **£212m** (31 March 2013: £197m).

- **Infrastructure**

Overseas infrastructure values are determined in accordance with generally accepted valuation principles, in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by M&G Investments is valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The value of infrastructure as at 31 March 2014 was **£127.2m** (31 March 2013: £113.6m).

- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2014 was **£34.7m** (31 March 2013: £31m).

- **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard (IAS) 19. This estimate is subject to significant variances, based on changes to the underlying assumptions.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Asset Statement. This is shown in Note 3.3.

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### 6. Assumptions made about the future and other major sources of estimation uncertainty

The Fund Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a <b>0.5%</b> decrease in the discount rate assumption would result in an increase in the pension liability of <b>£415m</b>.</p> <p>A <b>0.5%</b> increase in the long-term rate of salary increase would increase the value of liabilities by approximately <b>£46m</b>.</p> <p>Increasing the long-term rate of improvement used in the mortality projection from <b>1.5%</b> to <b>1.75%</b> per annual would increase the liability by approximately <b>£45m</b>.</p>
Private equity / Infrastructure / Timber	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are <b>£212m</b> . There is a risk that this investment may be under or overstated in the accounts.

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### 7. Membership activities

#### 7.1 Membership

31 March 2013		31 March 2014 <i>Provisional</i>
45,001	Contributors	49,516
42,092	Deferred pensioners	43,693
33,873	Pensioners	35,254

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

#### 7.2 Pension benefits payable

2012/13 £000		2013/14 £000
57,296	Administering Authority	60,296
81,284	Scheduled Bodies	85,589
7,327	Admitted Bodies	7,681
4,075	Community Admission Bodies	4,354
3,580	Transferee Admission Bodies	4,171
460	Resolution Bodies	498
<u>154,022</u>		<u>162,589</u>

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### 7.3 Contributions receivable

#### 7.3.1 By category

Contributions receivable from employers are set out below:

2012/13		2013/14
£000		£000
93,082	Normal	97,611
-	Augmentation	4
78,669	Deficit	62,905
6,004	Other	4,278
<b>177,755</b>		<b>164,798</b>

Other employers' contributions relate to payments for the cost of early retirements.

#### 7.3.2 By type

2012/13			2013/14	
Member	Employer		Member	Employer
£000	£000		£000	£000
15,400	50,062	Administering Authority	15,355	49,821
24,583	87,854	Scheduled Bodies	26,699	92,997
1,006	20,764	Admitted Bodies	848	4,448
3,628	10,633	Community Admission Bodies	3,340	9,467
2,422	7,794	Transferee Admission Bodies	2,371	7,367
221	648	Resolution Bodies	230	698
<b>47,260</b>	<b>177,755</b>		<b>48,843</b>	<b>164,798</b>

During 2013/14 Greenfields paid a total of **£815,000** (2012/13: £689,000) towards the Actuarial deficiency.

The 2013 Actuarial Valuation took place during 2013/14. A number of employers opted to pay in 2013/14 sums based on the emerging results. These were:

- Orchestras Live - **£5,000**;
- Local Valuation Service - **£13,000**;
- Open College Network Eastern Region - **£52,000**;
- Inclusion Trust - **£14,000**; and
- Social Care Institute for Excellence - **£148,000**.



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All employers made these payments prior to 31 March 2014.

In 2013/14 Final termination amounts were received from Westminster Drugs Project (£58,000), Sodexo Ltd (£31,000) and from RM Education (£60,000).

In 2012/13 Final termination amounts were received from General Social Care Council (£13.4m), Thurrock Thames Gateway Development Corporation (£2.5m) and Serco Solutions (£30,000).

### 7.4 Transfers in from, and out to, other pension funds

2012/13			2013/14		
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000	
336	-	Group transfers	-	-	
12,881	8,851	Individual transfers	10,157	9,967	
<b>13,217</b>	<b>8,851</b>	<b>Total</b>	<b>10,157</b>	<b>9,967</b>	

## 8. Investment income

### 8.1 By Type

2012/13 £000		2013/14 £000
37,863	Dividends from equities	36,299
2,558	Income from index linked securities	2,732
7,547	Income from pooled property investments	7,448
13,131	Net rent from properties	14,386
587	Interest from cash deposits	56
8,660	Other	788
<b>70,346</b>	<b>Total investment income showing net property rent</b>	<b>61,709</b>
	Add back:	
954	Property operating expenses	1,855
<b>71,300</b>	<b>Total investment income showing gross property rent</b>	<b>63,564</b>

The above table shows rent from properties net of related expenses, but the Fund Account shows rent from properties on a 'gross' basis.

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### 8.2 Investment property net rental

2012/13 £000		2013/14 £000
13,783	Rental Income from investment property	15,735
(661)	Direct operating expenses arising from investment property	(1,250)
<b>13,122</b>	<b>Total</b>	<b>14,485</b>

### 8.3 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
<b>Fair value at 1 April 2012</b>	<b>153,260</b>	<b>42,780</b>	<b>196,040</b>
Additions	416	7,541	7,957
Disposals	(100)	(21)	(121)
Net gain/loss on fair value	(7,236)	(975)	(8,211)
<b>Fair value at 31 March 2013</b>	<b>146,340</b>	<b>49,325</b>	<b>195,665</b>
Additions	30,272	9,539	39,811
Disposals	(9,854)	-	(9,854)
Net gain/loss on fair value	7,572	4,106	11,678
<b>Fair value at 31 March 2014</b>	<b>174,330</b>	<b>62,970</b>	<b>237,300</b>

## 9. Administrative expenses

2012/13 £000		2013/14 £000
1,438	Administration and Processing	1,686
114	Actuarial Fees	194
51	Audit fees	64
134	Legal fees	348
7	Other professional fees	-
<b>1,744</b>		<b>2,292</b>

The administration and processing expenses represent a proportion of relevant officers' salaries on the basis of time spent on pensions' administration and investment matters.

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### 10. Investment management expenses

2012/13 £000		2013/14 £000
15,841	Management fees	17,800
357	Custody fees	527
29	Performance monitoring services	4
459	Advisory fees	407
983	Other	1,900
<b>17,669</b>	<b>Total</b>	<b>20,638</b>

### 11. Investments

#### 11.1 Value of investments held by managers

The value of investments held by each manager together with investments in private equity, infrastructure, financing and shareholder activism partnerships on 31 March was as follows:

2013			2014		
£m	%		£m	%	
465	11.9	Aviva Investors	510	11.8	
320	8.2	Baillie Gifford and Co	383	8.9	
281	7.2	FIL Pensions Management	-	-	
232	5.9	First State Investments (UK) Ltd	217	5.0	
180	4.6	Goldman Sachs Asset Management International	186	4.3	
3	0.1	Hermes UK Smaller Companies Focus Fund	4	0.1	
1,598	40.7	Legal and General Investment Management	1,531	35.5	
(16)	-0.4	Legal and General Investment Management (Currency)	4	0.1	
-	-	Longview Partners	290	6.7	
301	7.7	Marathon Asset Management Ltd	325	7.6	
25	0.6	Mellon Capital Management	-	-	
-	-	M&G Investments	277	6.4	
156	4.0	M&G Investments Alpha Opportunities	166	3.9	
72	1.8	M&G Investments Infracapital	68	1.6	
16	0.4	M&G Investments Financing Fund	15	0.3	
43	1.1	Partners Group Management II S.à r.l	60	1.4	
214	5.4	Private Equity/Other	239	5.6	
31	0.8	Stafford Timberland Limited	35	0.8	
<b>3,921</b>	<b>100.0</b>		<b>4,310</b>	<b>100.0</b>	

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### 11.2 Investments by asset type

The tables below provide an analysis of investment assets by type and show the movements in the market value of the investments, including profits and losses realised on the sales of investments:

2012/13	Value at 1 April 2012	2012/13 Movement					Value at 31 March 2013
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
<b>Fixed interest securities</b>							
UK quoted	170,600	-	-	-	9,380	-	179,980
<b>Equities</b>							
UK quoted	77,437	54,811	(31,027)	(23,923)	12,065	-	89,363
Overseas quoted	1,114,687	419,231	(194,123)	(457,019)	123,030	-	1,005,806
UK unit trusts	291,304	-	30,617	(19,100)	49,086	-	351,907
Overseas unit trusts	702,179	-	190,020	(56,309)	144,921	-	980,811
Global unit trusts	-	-	-	-	-	-	-
<b>Index linked securities (UK public sector quoted)</b>	127,446	81,105	47,789	(17,295)	25,326	-	264,371
<b>Property</b>							
UK properties (freehold)	153,260	416	-	(100)	(7,236)	-	146,340
UK properties (leasehold)	42,780	7,541	-	(21)	(975)	-	49,325
Property unit trusts	237,865	1,702	-	(4,570)	(12,067)	-	222,930
<b>Private equity</b>							
UK unquoted	251	-	-	(38)	169	-	382
Overseas unquoted	154,173	52,040	-	(35,402)	25,802	-	196,613
<b>Infrastructure</b>							
UK unquoted	66,762	2,208	-	(4,157)	6,781	-	71,594
overseas unquoted	36,240	6,759	-	(2,024)	998	-	41,973
<b>Timber (Overseas unquoted)</b>	28,181	2,161	-	-	630	-	30,972
<b>Active currency (UK unquoted)</b>	25,676	-	-	-	(344)	-	25,332
<b>Other managed funds</b>							
UK unquoted	162,687	6,955	-	(721)	6,677	-	175,598
Overseas unquoted	723	-	-	(631)	(92)	-	-
<b>Derivative future contracts</b>	21	-	-	-	(21)	-	-
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	40,951	-	7,017	-	-	20,471	68,439
Foreign currency	27,588	-	-	28,630	(28,630)	454	28,042
Cash deposits held in the margin account at GSAM							
Sterling	276	-	-	-	-	(276)	-
Foreign currency	53	-	-	329	(329)	(53)	-
	3,461,140	634,929	50,293	(592,351)	355,171	20,596	3,929,778
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	2,591						4,156
Investment income due	5,494						6,414
Liabilities							
Amounts payable for purchase of investments	(4,484)						(2,990)
Investment withholding tax payable	(127)						(201)
<b>Derivative pending foreign currency contracts</b>							
Assets	21,632						1,925
Liabilities	(45)						(18,010)
	3,486,201						3,921,072

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2013/14	Value at 1 April 2013	2013/14 Movement					Value at 31 March 2014
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
<b>Fixed interest securities</b>							
UK quoted	179,980	-	-	-	6,618	-	186,598
<b>Equities</b>							
UK quoted	89,363	22,180	33,073	(13,678)	(2,305)	-	128,633
Overseas quoted	1,005,806	304,909	(20,700)	(316,123)	79,437	-	1,053,329
UK unit trusts	351,907	48,559	(104,981)	(98,113)	31,395	-	228,767
Overseas unit trusts	980,811	480,613	(479,084)	(372,057)	75,697	-	685,980
Global unit trusts	-	28,972	506,491	-	12,122	-	547,585
<b>Index linked securities (UK public sector quoted)</b>	<b>264,371</b>	<b>60,626</b>	<b>65,114</b>	<b>(27,828)</b>	<b>(17,287)</b>	<b>-</b>	<b>344,996</b>
<b>Properties</b>							
UK properties (freehold)	146,340	30,272	-	(9,854)	7,572	-	174,330
UK properties (leasehold)	49,325	9,539	-	-	4,106	-	62,970
Property unit trusts	222,930	22,304	-	(22,532)	8,962	-	231,664
<b>Private equity</b>							
UK unquoted	382	-	-	-	40	-	422
Overseas unquoted	196,613	34,284	-	(39,912)	20,626	-	211,611
<b>Infrastructure</b>							
UK unquoted	71,594	1,525	-	(7,301)	1,942	-	67,760
overseas unquoted	41,973	22,084	-	(2,829)	(1,752)	-	59,476
<b>Timber (Overseas unquoted)</b>	<b>30,972</b>	<b>5,931</b>	<b>-</b>	<b>(627)</b>	<b>(1,571)</b>	<b>-</b>	<b>34,705</b>
<b>Active currency (UK unquoted)</b>	<b>25,332</b>	<b>-</b>	<b>(23,509)</b>	<b>-</b>	<b>(1,823)</b>	<b>-</b>	<b>-</b>
<b>Other managed funds</b>							
UK unquoted	175,598	4,720	-	(2,383)	7,094	-	185,029
Overseas unquoted	-	-	-	-	-	-	-
<b>Derivative future contracts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	68,439	-	-	-	-	(23,727)	44,712
Foreign currency	28,042	-	-	(99,601)	99,601	20,754	48,796
Cash deposits held in the margin account							
Sterling	-	-	-	-	-	-	-
Foreign currency	-	-	-	-	-	-	-
	<b>3,929,778</b>	<b>1,076,518</b>	<b>(23,596)</b>	<b>(1,012,838)</b>	<b>330,474</b>	<b>(2,973)</b>	<b>4,297,363</b>
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	4,156						3,787
Investment income due	6,414						6,737
Liabilities							
Amounts payable for purchase of investments	(2,990)						(1,428)
Investment withholding tax payable	(201)						(113)
<b>Derivative pending foreign currency contracts</b>							
Assets	1,925						4,282
Liabilities	(18,010)						(390)
	<b>3,921,072</b>						<b>4,310,238</b>

For 2013/14, the total transaction costs were **£1.081m** (2012/13: £1.5m).

## Section Two - Pension Fund Accounts

31 March 2013 £000		31 March 2014 £000
	<b>Fixed interest securities</b>	
179,980	UK quoted	186,598
	<b>Equities</b>	
89,363	UK quoted	128,633
1,005,806	Overseas quoted	1,053,329
351,907	UK unit trusts	228,767
980,811	Overseas unit trusts	685,980
-	Global Unit trusts	547,585
264,371	<b>Index linked securities:</b> UK public sector quoted	344,996
	<b>Property</b>	
146,340	UK properties (freehold)	174,330
49,325	UK properties (leasehold)	62,970
222,930	Property unit trusts	231,664
	<b>Private equity</b>	
382	UK unquoted	422
196,613	Overseas unquoted	211,611
	<b>Infrastructure</b>	
71,594	UK unquoted	67,760
41,973	Overseas unquoted	59,476
30,972	<b>Timber:</b> Overseas unquoted	34,705
25,332	<b>Currency: Overseas unquoted</b>	-
175,598	<b>Other managed funds:</b> UK unquoted	185,029
	<b>Derivative contracts</b>	
1,925	<b>Assets:</b> Derivative pending foreign currency contracts	4,282
(18,010)	<b>Liabilities:</b> Derivative pending foreign currency contracts	(390)
	<b>Cash deposits</b>	
	<b>Cash deposits held at custodian/other</b>	
68,439	Sterling	44,712
28,042	Foreign currency	48,796
3,913,693		4,301,255
	<b>Other investment balances</b>	
	<b>Assets</b>	
4,156	Amounts receivable for sales of investments	3,787
6,414	Investment income due	6,737
	<b>Liabilities</b>	
(2,990)	Amounts payable for purchase of investments	(1,428)
(201)	Investment withholding tax payable	(113)
3,921,072	<b>Value at 31 March</b>	4,310,238

## Section Two - Pension Fund Accounts

### 11.3 Pooled investments representing 5% or more of net assets

The Fund holds the following investments in unit trusts/pooled vehicles which are in excess of 5% of the value of the Fund:

31 March 2013			31 March 2014		
£000	%		£000	%	
373,996	9.4	Legal & General North America Equity Index	302,277	7.0	
-	-	M&G Global Dividend Fund	276,855	6.4	
-	-	Legal & General FTSE RAFI AW 3000 Index	270,730	6.2	
298,158	7.5	Legal & General Europe (Ex UK) Equity Index	223,027	5.1	
351,907	8.9	Legal & General UK Equity Index	121,015	2.8	
204,579	5.2	Legal & General Japan Equity Index	100,496	2.3	

### 11.4 Single investments in excess of 5% of any asset types

The Fund holds the following single investments at 31 March which are in excess of 5% of any asset class or type of security:

31 March 2013		Asset type / Asset name	31 March 2014	
£000	%		£000	%
UK QUOTED EQUITIES				
13,959	15.6%	Unilever plc Ord GBP0.031	14,820	11.5%
1,882	2.1%	WPP Plc Ord GBP0.10	12,355	9.6%
1,069	1.2%	Compass Group Ord GBP0.10	12,007	9.3%
1,035	1.2%	Lloyds Banking GP Ord GBP0.1	10,564	8.2%
9,511	10.6%	Sabmiller plc Ord USD0.10	8,969	7.0%
-	-	Pearson Ord GBP0.25	8,956	7.0%
2,981	3.3%	Arm Holdings Ord GBP0.0005	7,455	5.8%
5,962	6.7%	Aggreko	2,998	2.3%
UK INDEX LINKED BONDS				
18,997	7.2%	UK (Govt) Treasury IL Stock 2.5% 16 April 2020	19,684	5.7%
18,709	7.1%	UK (Govt) Treasury IL Stock 1.875% 22 Nov 2022	19,250	5.6%
18,168	6.9%	UK(Govt) Treasury IL Stock 2.5% 17 July 2024	18,436	5.3%
17,465	6.6%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2027	17,845	5.2%
15,539	5.9%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	16,960	4.9%
14,951	5.7%	UK (Govt) Treasury IL Stock 1.125% 22 Nov 2037	15,704	4.6%
14,625	5.5%	UK (Govt) Treasury IL Stock 2.0% 26 Jan 2035	15,095	4.4%
14,534	5.5%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2032	14,950	4.3%
PROPERTY				
15,575	8.0%	48-49 Chancery Lane, London	17,400	7.3%
13,425	6.9%	55-57 Dean Street, London	13,900	5.9%
11,200	5.7%	734-736 Seven Sisters Road, London	11,500	4.8%
11,060	5.7%	971 Great West Road, Brentford	11,300	4.8%
10,450	5.3%	74-82 Western Road, Brighton	10,400	4.4%

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31 March 2013		Asset type / Asset name	31 March 2014	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
24,891	11.2%	Aviva Investors Property Fund	27,681	11.9%
15,165	6.8%	Blackrock UK Property Fund	16,156	7.0%
20,959	9.4%	Lothbury Property Fund	12,836	5.5%
6,372	2.9%	Industrial Property Investment Fund	12,802	5.5%
11,244	5.0%	Standard Life Property Fund Closed	12,651	5.5%
11,706	5.3%	Standard Life UK Shopping Centre	12,154	5.2%
PRIVATE EQUITY				
11,969	6.1%	New Mountain Partners	11,658	5.5%
8,225	4.2%	Avenue Europe Special Situations Fund II (Euro)	10,967	5.2%
11,140	5.7%	Providence Debt Opportunity Fund	10,477	4.9%
11,454	5.8%	Apollo Overseas Partners VII	7,578	3.6%
9,853	5.0%	Warburg Pincus Private Equity VIII	7,491	3.5%
INFRASTRUCTURE				
71,594	63.0%	Infracapital Partners	67,760	53.3%
37,905	33.4%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	42,875	33.7%
-	-	Partners Group Global Infrastructure 2012 LP	10,117	7.9%
4,069	3.6%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	6,484	5.1%
TIMBER				
30,972	100.0%	Stafford Timberland	34,705	100.0%
ACTIVE CURRENCY				
25,332	100.0%	Mellon Offshore Currency Opp Enhanced UK Equitized Fund	-	-
OTHER MANAGED FUNDS				
156,070	88.9%	M&G Alpha Opportunities Fund	166,007	89.7%
16,213	9.2%	M&G UK Companies Financing Fund	14,529	7.9%
CASH				
41,422	42.9%	BNP Paribas Investment Partners GBP	34,260	36.6%
16,645	17.3%	Northern Trust Liquidity Fund US\$	29,635	31.7%
24,007	24.9%	Northern Trust Liquidity Fund GBP	18,876	20.2%
5,695	5.9%	BNP Paribas Investment Partners EURO	2,744	2.9%

### 11.5 Derivative contracts

#### 11.5.1 Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment agreement agreed between the Fund and the various investment managers.



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### 11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2014 and 31 March 2013.

### 11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **53.1%** of the Fund's portfolio is in overseas stock markets as at 31 March 2014 (31 March 2013: 50.6%).

To reduce the volatility associated with fluctuating currency rates the Fund has a passive currency programme in place which is managed by Legal and General Investment Management. The Fund hedges **50%** of the US Dollar, Euro and Yen exposure within the portfolios managed by the growth managers.

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### 11.5.4 Open forward currency contracts

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000	Net value £000
Up to one month	AUD	(81)	DKK	(6)	-	-	-
Up to one month	AUD	27,451	GBP	15,233	29	-	29
Up to one month	AUD	11	HKD	6	-	-	-
Up to one month	CAD	19,260	GBP	10,439	28	-	28
Up to one month	CHF	28,893	GBP	19,595	24	-	24
Up to one month	EUR	(194)	DKK	-	-	-	-
Up to one month	EUR	78,824	GBP	65,204	-	(40)	(40)
Up to one month	GBP	14,938	AUD	27,451	-	(323)	(323)
Up to one month	GBP	11,020	CAD	19,260	553	-	553
Up to one month	GBP	19,527	CHF	28,893	-	(92)	(92)
Up to one month	GBP	94,352	EUR	113,407	593	-	593
Up to one month	GBP	37	HKD	478	-	-	-
Up to one month	GBP	65,114	JPY	11,158,357	123	-	123
Up to one month	GBP	8,647	SEK	92,351	103	-	103
Up to one month	GBP	83	TRY	297	-	(1)	(1)
Up to one month	GBP	179,472	USD	294,317	2,933	-	2,933
Up to one month	GBP	144	ZAR	2,540	-	(1)	(1)
Up to one month	HKD	498	SGD	-	-	-	-
Up to one month	JPY	11,158,357	GBP	65,525	-	(535)	(535)
Up to one month	SEK	92,351	GBP	8,569	-	(25)	(25)
Up to one month	USD	(1)	AUD	-	-	-	-
Up to one month	USD	294,317	GBP	176,936	-	(397)	(397)
One to six months	GBP	44,692	AUD	83,132	-	(1,332)	(1,332)
One to six months	GBP	32,535	CAD	60,207	-	(147)	(147)
One to six months	GBP	58,382	CHF	86,349	-	(315)	(315)
One to six months	GBP	206,733	EUR	250,459	-	(411)	(411)
One to six months	GBP	183,764	JPY	31,277,962	1,421	-	1,421
One to six months	GBP	25,618	SEK	276,186	81	-	81
One to six months	GBP	527,543	USD	876,327	1,623	-	1,623
<b>Open forward currency contracts at 31 March 2014</b>					<b>7,511</b>	<b>(3,619)</b>	<b>3,892</b>
<b>Open forward currency contracts at 31 March 2013</b>					<b>5,696</b>	<b>(21,781)</b>	<b>(16,085)</b>

## 12. Additional Voluntary Contributions (AVC) Investments

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only.

The AVC providers to the Fund are the Equitable Life Assurance Society, Prudential and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements

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each receive an annual statement confirming the amounts held in their account and the movements in the year.

The Fund relies on individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers. A summary of the information provided by Equitable Life, Prudential and Standard Life to the Fund is shown in the table below.

2012/13 £000		2013/14 £000
5,809	Value of AVC fund at beginning of year	5,840
364	Employees contributions	413
509	Investment income and change in market value	320
(842)	Benefits paid and transfers out	(918)
<u>5,840</u>		<u>5,655</u>

### 13. Current assets and liabilities

#### 13.1 Analysis of current assets

31 March 2013 £000		31 March 2014 £000	£000
	<b>Cash Balances</b>		
5,742	Cash at bank	2,659	
11,534	Cash on short term deposits within 3 months	10,979	
<u>17,276</u>			13,638
	<b>Debtors and payments in advance</b>		
5,142	Contributions due – employees	4,027	
11,787	Contributions due – employers	11,073	
924	Sundry debtors	3,416	
<u>17,853</u>			18,516
<u>35,129</u>	<b>Total</b>		<u>32,154</u>

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### 13.2 Analysis of debtors

31 March 2013			31 March 2014	
Short term	Long term		Short term	Long term
£000	£000		£000	£000
1,381	8,868	Central Government	1,789	7,622
13,877	483	Other Local Authorities	11,275	235
-	-	NHS Bodies	52	-
646	63	Public Funded Bodies	1,826	50
1,949	-	Other	3,574	-
17,853	9,414	<b>Total</b>	18,516	7,907

### 13.3 Analysis of long term debtors

31 March 2013 £000		31 March 2014 £000
625	Financial strain instalments due	374
8,789	Other employer contributions due	7,533
9,414	<b>Total</b>	7,907

### 13.4 Contingent assets

To protect the Fund from employer default the Funding Strategy sets out safeguards to be in place on all new admission agreements. These can include a guarantee from another Fund employer with sufficient covenant strength, and a surety bond or other contingent asset.

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### 13.5 Analysis of current liabilities

31 March 2013 £000		31 March 2014 £000
	<b>Unpaid benefits and other current liabilities</b>	
(485)	Contributions due – employers	(2,570)
(3,415)	Investment manager fees payable	(4,176)
(3,090)	Benefits payable	(5,746)
(152)	Other	(433)
<u>(7,142)</u>	<b>Total</b>	<u>(12,925)</u>

### 13.6 Analysis of creditors

31 March 2013 £000		31 March 2014 £000
	<b>Creditors and receipts in advance</b>	
(276)	Central Government	(921)
(1,276)	Other Local Authorities	(6,501)
-	NHS Bodies	(20)
(276)	Public Funded Bodies	(361)
(5,314)	Other	(5,122)
<u>(7,142)</u>	<b>Total</b>	<u>(12,925)</u>

### 13.7 Contingent liabilities and contractual commitments

As at 31 March 2014, the Fund had a commitment to contribute a further **£314.8m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber and financing (31 March 2013: £201m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

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### 14. Taxes on income

The table below provides a breakdown of the taxes paid by the Fund in the UK and overseas.

2012/13 £000		2013/14 £000
472	UK withholding tax	552
2,623	Overseas withholding tax	2,404
11	Payment to HMRC in respect of returned contributions	54
<u>3,106</u>		<u>3,010</u>

### 15. Related party transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention in making this disclosure is to make explicit the extent to which the Fund might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to negotiate freely with the Fund.

#### 15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.686m** in 2013/14 (2012/13: £1.438m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£49.821m** to the Fund in 2013/14 (2012/13: **£50.062m**). No significant amounts were owing to and due to be paid from the Fund in the year.

Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Board on **6 March 2013**. This service is provided to the Fund at a cost of **£26,000** (2012/13: £25,000).

During the year to 31 March 2014, the Pension Fund had an average investment balance of **£15.119m** (2012/13: £16.990m) earning **£98,000** interest (2012/13: £135,000).

#### 15.2 Governance

None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no

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material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

### 15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under new legislation introduced from 1 April 2014, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2013/14, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ K. Blackburn	▪ Cllr D. M. Finch *
Representative of small admitted bodies	▪ Cllr N. J. Hume
▪ J. Moore	▪ Cllr S. Barker
Representatives for Essex Police and Crime Commissioner	▪ Cllr M. C. Lager *
▪ Cllr S. Walsh	
▪ C. Garbett	

*\* Membership of the Essex Pension Fund Board and Investment Steering Committee ceased on 13 May 2013.*

As at 31 March 2014 Keith Neale, independent adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2013/14 were the Executive Director for Corporate Services and Customer Operations, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2013/14 approximately **3%** (2012/13: 3%) of the Executive Director for Corporate Service and Customer Operation's time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2013/14 was **£141,000** (2012/13: £169,000). The 2013/14 current service cost in respect of these personnel was **£82,000** (2012/13: £81,000). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

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### 16. Financial Instruments

#### 16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement headings. No financial assets were reclassified during the accounting period.

31 March 2013			Asset type	31 March 2014		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets						
179,980	-	-	Fixed interest securities	186,598	-	-
2,427,887	-	-	Equities	2,644,294	-	-
264,371	-	-	Index linked securities	344,996	-	-
222,930	-	-	Pooled unit trusts	231,664	-	-
196,995	-	-	Private equity	212,033	-	-
109,498	-	-	Infrastructure	120,752	-	-
30,972	-	-	Timber	34,705	-	-
25,332	-	-	Active currency	-	-	-
175,598	-	-	Other managed funds	185,029	-	-
1,925	-	-	Derivative contracts	4,282	-	-
-	113,757	-	Cash deposits	-	107,146	-
10,570	-	-	Other investment balances	10,524	-	-
-	27,267	-	Debtors	-	26,423	-
3,646,058	141,024	-		3,974,877	133,569	-
Financial liabilities						
(18,010)	-	-	Derivative contracts	(390)	-	-
(3,191)	-	-	Other investments balances	(1,541)	-	-
-	-	(7,142)	Creditors	-	-	(12,925)
-	-	-	Borrowing	-	-	-
(21,201)	-	(7,142)		(1,931)	-	(12,925)
3,624,857	141,024	(7,142)	Balance at the end of the year	3,972,946	133,569	(12,925)
3,758,739			Total	4,093,590		



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### 16.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2013 £000		Asset value as at 31 Mar 2014 £000
	<b>Financial assets</b>	
392,897	Fair value through profit and loss	219,266
(28,959)	Loans and receivables	99,601
<u>363,938</u>	<b>Total</b>	<u>318,867</u>

### 16.3 Fair value of financial instruments and liabilities

31 March 2013			31 March 2014	
Carry value	Fair value		Carry value	Fair value
£000	£000		£000	£000
		<b>Financial assets</b>		
3,646,058	3,646,058	Fair value through profit and loss	3,974,877	3,974,877
141,024	141,024	Loans and receivables	133,569	133,569
<u>3,787,082</u>	<u>3,787,082</u>		<u>4,108,446</u>	<u>4,108,446</u>
		<b>Financial liabilities</b>		
(21,201)	(21,201)	Fair value through profit and loss	(1,931)	(1,931)
(7,142)	(7,142)	Financial liabilities measured at amortised cost	(12,925)	(12,925)
<u>(28,343)</u>	<u>(28,343)</u>		<u>(14,856)</u>	<u>(14,856)</u>
<u>3,758,739</u>	<u>3,758,739</u>	<b>Total net financial assets</b>	<u>4,093,590</u>	<u>4,093,590</u>

### 16.4 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

- **Level 1** – Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Financial instruments where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

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- **Level 3** – Financial instruments where at least one input that could have significant effect on the instruments valuation is not based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on valuations provided by the general partners to the private equity funds in which the Essex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IRRS and US GAAP. Valuations are usually undertaken annually at the end of December, with unaudited valuations provided by the general partner as at 31 March.

The valuations of infrastructure and timber are based on net asset value provided by the fund manager.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Level 1 to 3 based on the level at which the fair value is observable.

Values as at 31 March 2013			Values as at 31 March 2014		
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000	Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
<b>Financial assets</b>					
2,884,733	423,860	337,465	3,190,694	416,693	367,490
141,024	-	-	133,569	-	-
3,025,757	423,860	337,465	3,324,263	416,693	367,490
<b>Financial liabilities</b>					
(21,201)	-	-	(1,931)	-	-
(7,142)	-	-	(12,925)	-	-
(28,343)	-	-	(14,856)	-	-
2,997,414	423,860	337,465	3,309,407	416,693	367,490
<b>Total net assets per level</b>					
<b>3,758,739</b>			<b>4,093,590</b>		
<b>Total Net Assets</b>					

## 17. Nature and Extent of Risks arising

### 17.1 Risk and risk management

The Fund's primarily long term risk is that the Fund assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole of the Fund's investments. The Fund achieves this through asset diversification to reduce its exposure to a variety of financial risks: market risk; other price risk; currency risk; interest rate risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's

## Section Two - Pension Fund Accounts

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forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Investment Steering Committee (ISC). Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### 17.2 Market risk

Market risk is the possibility that financial loss might occur as a result of fluctuations in equity and commodity prices, interest rates and foreign exchange. The level of risk exposure depends on market conditions, expectation of future price and yield movements and the asset mix.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its institutional investment consultant, Hymans Robertson LLP, along with the Fund's independent adviser and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Statement of Investment Principles which is available from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk). Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

### 17.3 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The LGPS investment regulations also contain prescribed limits to avoid over-concentration in specific areas.

### 17.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2013/14.

## Section Two - Pension Fund Accounts

The percentages shown in the following table are broadly consistent with a movement of one standard deviation in the value of the Fund's assets, and assumes that all other variables in particular foreign exchange rates and interest rates remain unchanged.

31st March 2013 Potential Market movement %	Asset type	31st March 2014 Potential Market movement %
10.0%	UK bonds	8.7%
15.5%	UK equities	16.1%
19.4%	Overseas equities	19.4%
7.9%	UK index linked bonds	6.5%
14.5%	Pooled property unit trusts	14.7%
27.5%	Private equity	28.0%
14.5%	Infrastructure funds	14.7%
14.5%	Timber	14.7%
14.5%	Property	14.7%
0.8%	Cash	0.6%
19.4%	Currency active	19.4%

Had the market price of the Fund investments increased/ (decreased) in line with the above assumptions the change in the net assets available to pay benefits would have been as follows:

31st March 2013 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2014 £000	Percentage change %	Value increase £000	Value decrease £000
96,481	0.8%	97,253	95,709	Cash and equivalents	93,508	0.6%	94,069	92,947
				Investment portfolio assets				
179,980	10.0%	197,978	161,982	UK bonds	186,598	8.7%	202,832	170,364
89,363	15.5%	103,214	75,512	UK equities	128,633	16.1%	149,343	107,923
1,005,806	19.4%	1,200,932	810,680	Overseas equities	1,053,329	19.4%	1,257,675	848,983
351,907	15.5%	406,453	297,361	UK equities unit trusts	228,767	16.1%	265,598	191,936
980,811	19.4%	1,171,088	790,534	Overseas equities unit trusts	685,980	19.4%	819,060	552,900
-	19.4%	-	-	Global unit trusts	547,585	19.4%	653,816	441,354
264,371	7.9%	285,256	243,486	UK index linked bonds	344,996	6.5%	367,421	322,571
222,930	14.5%	255,255	190,605	Pooled property unit trusts	231,664	14.7%	265,719	197,609
196,995	27.5%	251,169	142,821	Private equity	212,033	28.0%	271,402	152,664
113,567	14.5%	130,034	97,100	Infrastructure	127,236	14.7%	145,940	108,532
30,972	14.5%	35,463	26,481	Timber	34,705	14.7%	39,807	29,603
25,332	19.4%	30,246	20,418	Active currency	-	19.4%	-	-
175,598	14.5%	201,060	150,136	Other managed funds	185,029	14.7%	212,228	157,830
195,665	14.5%	224,036	167,294	Property	237,300	14.7%	272,183	202,417
(16,085)	-	(16,085)	(16,085)	Net derivative assets	3,892	-	3,892	3,892
6,414	-	6,414	6,414	Investment income due	6,737	-	6,737	6,737
(2,990)	-	(2,990)	(2,990)	Amounts payable for purchases	(1,428)	-	(1,428)	(1,428)
4,156	-	4,156	4,156	Amounts receivable for sales	3,787	-	3,787	3,787
(201)	-	(201)	(201)	WHT payable	(113)	-	(113)	(113)
3,921,072		4,580,731	3,261,413	Total assets available to pay benefits	4,310,238		5,029,968	3,590,508

## Section Two - Pension Fund Accounts

### 17.5 Sensitivity of funding position

Market conditions and the underlying investment performance of the Fund's assets will have a direct impact on the funding position, albeit that a smoothed rather than spot rate methodology is used by the Fund's Actuary.

Barnett Waddingham's approach adopted at the 2013 Actuarial Valuation includes the following features:

- Financial assumptions such as inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six month period from 1 January 2013 to 30 June 2013. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31 March 2013 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the liabilities.

### 17.6 Interest rate risk

The Fund's investments are subject to interest rate risk (i.e. to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates). Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal & General and bond mandates with M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed.

The Fund's direct exposure to interest rate movements is shown below. The underlying assets are shown at their fair value.

<b>Asset value as at 31 Mar 2013 £000</b>	<b>Asset type</b>	<b>Asset value as at 31 Mar 2014 £000</b>
96,481	Cash and cash equivalents	<b>93,508</b>
17,276	Cash balances	<b>13,638</b>
179,980	Fixed interest securities	<b>186,598</b>
264,371	Index-linked securities	<b>344,996</b>
<b>558,108</b>	<b>Total assets</b>	<b>638,740</b>

## Section Two - Pension Fund Accounts

### 17.7 Interest rate risk sensitivity analysis

Interest rates over the last 24 months have remained constant but this is not always the case and can vary as a result any variation in interest rates affects the level of income achievable and the value of the net assets of the Fund to pay benefits. The Fund's institutional consultants, Hymans Robertson, has undertaken a sensitivity analysis and advised that it is reasonable in today's climate that a movement increase/(decrease) of not more than 100 basis points on a year to year basis is possible based on past experience.

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 100 basis points change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2013 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2014 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
96,481	965	(965)	Cash and cash equivalents	93,508	935	(935)
17,276	173	(173)	Cash balances	13,638	136	(136)
179,980	1,800	(1,800)	Fixed interest securities	186,598	1,866	(1,866)
264,371	2,644	(2,644)	Index-linked securities	344,996	3,450	(3,450)
558,108	5,582	(5,582)	<b>Total change in assets available</b>	638,740	6,387	(6,387)

### 17.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To reduce the volatility associated with fluctuating currency rates the ISC has for the Fund put in place a passive currency overlay programme which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro and Yen exposure within the portfolios managed by the growth managers.

## Section Two - Pension Fund Accounts

The following table summarises the Fund's currency exposure as at 31 March 2014 and prior year:

31 Mar 2013 £000	Asset type	31 Mar 2014 £000
1,005,806	Overseas equities quoted	1,053,329
980,811	Overseas unit trusts	685,980
-	Global unit trusts	547,585
196,613	Overseas private equity	211,611
41,973	Overseas infrastructure	59,476
30,972	Overseas timber	34,705
<b>2,256,175</b>	<b>Total overseas assets</b>	<b>2,592,686</b>

### 17.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **13%** (2012/13: 12%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2012/13: 12%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2013 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2014 £000	Change in year in the net assets to pay benefits	
	+12% £000	-12% £000			+13% £000	-13% £000
1,005,806	1,126,503	885,109	Overseas equities quoted	1,053,329	1,190,262	916,396
980,811	1,098,508	863,114	Overseas unit trusts	685,980	775,157	596,803
-	-	-	Global unit trusts	547,585	618,771	476,399
196,613	220,207	173,019	Overseas private equity	211,611	239,120	184,102
41,973	47,010	36,936	Overseas infrastructure	59,476	67,208	51,744
30,972	34,689	27,255	Overseas timber	34,705	39,217	30,193
<b>2,256,175</b>	<b>2,526,917</b>	<b>1,985,433</b>	<b>Total change in assets available</b>	<b>2,592,686</b>	<b>2,929,735</b>	<b>2,255,637</b>

### 17.10 Credit Risk

Credit risk is the possibility that the counterparty to a transaction or a financial instrument might fail in its obligation to pay amounts due to the Pension Fund resulting in a financial loss. The market value of investments reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

## Section Two - Pension Fund Accounts

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The Fund is exposed to credit risk in all its operational activities through forward currency contracts, derivative positions (futures) and treasury management activities. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

### 17.11 Commercial

Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made.

Monthly receipt of contributions is closely monitored by the Employer team. In addition, member records are updated throughout the year with any new information provided to them. At the end of the financial year employers are required to provide an annual return which is used to reconcile both member information and the contributions paid over in the year by both the employee and the employer.

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2014 is provided in Note 13.

### 17.12 Forward currency contracts

Forward currency contracts are undertaken by Legal & General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2014 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management & Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.



## Section Two - Pension Fund Accounts

Exposure at 31 March 2013		Counterparty	Exposure at 31 March 2014	
£000	%		£000	%
148,850	8.7%	Barclays Capital	210,137	11.6%
225,711	13.3%	BNP Paribas Capital Markets	66,410	3.7%
-	-	Citigroup	266,650	14.8%
133,072	7.8%	Australian Commonwealth Bank	-	-
201,007	11.8%	Credit Suisse AG	198,546	11.0%
187,096	11.0%	Deutsche Bank AG	179,669	9.9%
181,720	10.7%	J P Morgan Securities	234,581	13.0%
82,881	4.9%	Lloyds	26,148	1.4%
-	-	Merrill Lynch	59,057	3.3%
140,605	8.3%	RBC Europe	90,418	5.0%
-	-	RBS	118,333	6.6%
4,349	0.3%	SEB	-	-
194,796	11.5%	SG Securities	100,508	5.6%
184,288	10.8%	UBS	40,831	2.3%
16,162	0.9%	Westpac Bank Corp	213,637	11.8%
1,700,537	100.0%	<b>Total</b>	<b>1,804,925</b>	<b>100.0%</b>

### 17.13 Futures

There were no open future contracts as at 31<sup>st</sup> March 2013 or 31<sup>st</sup> March 2014.

### 17.14 Bonds

Credit risk will also be considered by the Fund's bond managers in their portfolio construction. A bond is a saleable debt instrument issued by a corporation, government or other entity, the instrument may be purchased direct from the issuer or in the secondary market.

In addition to the passive manager, Legal & General, the Fund has two active bond managers M&G and GSAM the former also manage a financing fund.

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2014, the average credit quality of the M&G bond mandate was **BBB+** rated (**A** rated as at 31 March 2013) and the portfolio had suffered four defaults since inception, none have been experienced in the financial year ended 31 March 2014. The average credit rating of the financing fund was **BB+** rated as at 31 March 2014 (**BB** rated as at 31 March 2013), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2014 had an average credit quality of **AA+** (**AA** rated as at 31 March 2013) and has suffered two defaults since inception, both occurring 2011/12.

## Section Two - Pension Fund Accounts

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### 17.15 Cash held on deposit and current accounts

**Cash managed internally** – The Fund has operated a separate bank account since 1 April 2010 with Lloyds TSB Bank plc, which is also banker to the Administering Authority. The bank holds an **A-** (A in 2012/13) long term credit rating with Standard and Poor. Cash is invested with Lloyds TSB and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2014 **£13.638m** (31 March 2013: £17.276m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

**Cash managed externally** – The majority of the cash held by the Fund's custodian, the Northern Trust is swept overnight to one of two AAA rated money market funds. The historical experience of default from AAA rated entities detailed in the table below is nil. As at 31 March 2014, the total balance held in the Sterling, US dollar and Euro AAA money market funds was **£85.515m** with a smaller balance of **£7.748m** held in the custodian current account (31 March 2013: £87.769m and £8.342m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

## Section Two - Pension Fund Accounts

The table below provides a breakdown of where the Pension Fund cash is managed:

31 March 2013			31 March 2014		
Rating	£000		Rating	£000	
<b>Cash managed externally</b>					
Cash held on deposit					
AAA	47,117	BNP Paribas Investment Partners	AAA	37,004	
AAA	40,652	Northern Trust	AAA	48,511	
Cash held in Current Account					
AA	4	The Bank of New York Mellon	AA	-	
AA-	8,342	Northern Trust	AA-	7,748	
A+	366	Barclays plc	A	245	
	<b>96,481</b>	<b>Total cash managed externally</b>		<b>93,508</b>	
<b>Cash managed internally</b>					
Cash held on deposit					
A+	3	Barclays Bank	A	2	
AA-	6,510	HSBC	AA-	7,473	
AAA	-	IGNIS	AAA	1,502	
A	5,019	Royal Bank of Scotland Group	BBB	2,001	
Cash held in Current Account					
A	5,744	Lloyds TSB Bank plc	A-	2,660	
	<b>17,276</b>	<b>Total cash managed internally</b>		<b>13,638</b>	
	<b>113,757</b>	<b>Total</b>		<b>107,146</b>	

## Section Two - Pension Fund Accounts

The following table summarises the maximum exposure to credit risk of the cash held with Northern Trust and other financial institutions.

31 March 2013		31 March 2014	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
<b>Cash managed externally</b>					
Deposit with bank and other financial institutions					
87,769	AAA Rated	85,515	-	-	-
8,346	AA Rated	7,748	-	0.02%	2
366	A Rated	245	-	0.09%	-
96,481	<b>Total cash managed externally</b>	93,508			2
<b>Cash managed internally</b>					
Deposit with bank and other financial institutions					
-	AAA Rated	1,502	10,000	-	-
6,510	AA Rated	7,473	10,000	0.02%	1
10,766	A Rated	2,662	5,000	0.09%	2
-	BBB Rated	2,001	5,000	0.20%	4
17,276	<b>Total cash managed internally</b>	13,638			7
113,757	<b>Total cash</b>	107,146			9

### 17.16 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they fall due.

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **26 February 2014**, **24.5%** of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2014 had immediate access to its pension fund cash holdings held internally and externally of **£107.146m** (31 March 2013: £113.757m). These monies are primarily invested on an overnight basis on the money market.

## Section Two - Pension Fund Accounts

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Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Funds cash flows. The Statement of Investment Principles outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts. In consultation with its institutional consultants, Hymans Robertson, the Fund is currently preparing a future cash flow forecast modelling tool which will incorporate the effects of the potential regulatory changes to the future of the scheme which is due to take effect in 2014/15.

### 17.17 Refinancing Risk

Refinancing risk is the risk of the Fund replenishing a significant proportion of its financial assets at a time of unfavourable interest rates. The Fund is not subject to this particular risk as it does not hold any assets that would require refinancing in the future.

### 17.18 Custody

In 2012 the Fund appointed Northern Trust as a global custodian, replacing the Bank of New York Mellon, with responsibility for safeguarding the assets of the Fund. As at 31 March 2014 Northern Trust had **\$5.58 trillion** of assets under custody (31 March 2013: \$5.02 trillion) and had a credit rating of **AA-** (31 March 2013: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

### 17.19 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of the custodian's performance measurement service to monitor performance. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

### 17.20 Post Balance Sheet Event

As at 31 March 2014 the transfer of probation services from Probations Trusts to Community Rehabilitation Companies and National Probation Services is due to take place on 1 June 2014. As part of the transfer probation services liabilities will transfer to the Greater Manchester Pension Fund for administration by Tameside Metropolitan Borough Council.

All membership will transfer as with effect from the transfer date the liability to pay benefits or a refund of contributions under the Scheme to and in respect of these members will transfer to the Greater Manchester Pension Fund. Early calculations estimate that approximately £55m will be transferred.

## Section Two - Pension Fund Accounts

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As at 31st March 2013, there were no post balance sheet events.

### 18. Further information

The Council publishes a separate Pension Fund Annual Report and Accounts. Copies may be obtained from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk) or by contacting:

Director of Essex Pension Fund  
County Hall  
Chelmsford  
CM1 1LX

Telephone 01245 431301

E-mail [pensions.investments.web@essex.gov.uk](mailto:pensions.investments.web@essex.gov.uk)

**AGENDA ITEM 8**

<b>Essex Pension Fund Board</b>	<b>EPB/27/14</b>
date: 17 September 2014	

**External audit results report: ISA 260**

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 01245 431301

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**1. Purpose of the Report**

- 1.1 To submit for Members' information the Pension Fund Audit results report: ISA 260 external auditors EY.

**2. Recommendation**

- 2.1 That the Board should note the report.

### **3. Background**

- 3.1 The Audit Commission's Code of Practice requires the Council's external 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. The Audit Committee is due to consider that report at its meeting on 18 September 2014.

### **4. Audit results report: ISA 260**

- 4.1 EY have issued an Audit results report for the Pension Fund for the year ended 31 March 2013. This document is attached for Members' information.
- 4.2 The key messages are shown on pages 5 and 6 of the attached report. At the time of writing this report, the external audit work was largely complete, but with some matters outstanding (as detailed within the Audit Results Reports).
- 4.3 Should it be necessary to make further amendments to the Statement of Accounts as the audit work is concluded, an update will be provided at the Audit Committee meeting.

### **5. Pension Fund Annual Report & Accounts 2013-14**

- 5.1 Upon the completion of all required work, 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)



# Essex Pension Fund

## Pension Board/Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

*18 September 2014*



Building a better  
working world

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- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees

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# Executive summary

## *Key findings*

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### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

We regard the Audit Committee as the member forum ultimately responsible for governance however we also report our findings to the Pension Fund Board ahead of the Audit Committee meeting.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements.

As of 8 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

# Extent and purpose of our work

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## **The Council's responsibilities**

Essex County Council as the administering authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement and the Pension Fund Accounts.

It is also required to prepare a separate annual report and statement of accounts for the Pension Fund.

## **Publication on electronic media**

The Council is responsible for the accurate presentation of the financial statements, audit report thereon and other reports submitted in relation to the audit and for establishing security and controls over them in order to ensure the continued integrity of the information presented. The examination of the controls over electronic presentation of audited financial information and reports by the auditor on the Council's web-site is beyond the scope of the audit of the financial statements

## **Purpose of our work**

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements of the Pension Fund

- Report if exceptions are identified in the annual report.

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Pension Fund's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

# Addressing audit risks

## *Significant audit risks*

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
3. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<ul style="list-style-type: none"><li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>• Reviewed accounting estimates for evidence of management bias; and</li><li>• Evaluated the business rationale for any significant unusual transactions</li></ul>	<ul style="list-style-type: none"><li>• Our work did not identify any instances of fraud, error or management bias.</li></ul>

# Financial statements audit

## *Issues and misstatements arising from the audit*

### Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
  - ▶ Investments
  - ▶ Outstanding bank confirmation
  - ▶ Review of disclosures, specifically Financial Instruments & Risks and Related Party Transactions
  - ▶ Final review of audit work and financial statements
  - ▶ Receipt of a Letter of Representation
  - ▶ Receipt and review of the annual report
  - ▶ GHI
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### Uncorrected Misstatements

- There were no errors within the draft financial statements identified to date, which management have chosen not to adjust.

### Corrected Misstatements

Our audit identified a limited number of disclosure errors which the audit team have highlighted to management for amendment.

We do not consider any of these to be significant and therefore we have not provided further details of these corrected misstatements.

### Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest,

We have no matters we wish to report.

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# Financial statements audit (continued)

## *Internal Control, Written Representations & Whole of Government Accounts*

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### **Internal Control**

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

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

### **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. There were no additional specific representations required other than the standard representations.

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 27 February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 18 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 27 February 2014.

## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14
	£s	£s
Total audit fee - Code work	31,266	31,266

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.



## Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can also provide further information on how you may contact our professional institute.





<b>Essex Pension Fund Board</b>	<b>EPB/28/14</b>
<b>Date: 17 September 2014</b>	

## **Administering Authority Discretions**

Report by the Head of the Essex Pension Fund

Enquiries to Jody Evans on 01245 431700

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

- 1.1 To ask the Board to note the discretionary policies currently operated by Fund Officers in respect of certain administering authority discretions and which are shown in the attached draft revised Administering Authority Statement of Policy on Discretions in Relation to the Local Government Pension Scheme.
- 1.2 To note that individual discretions will be reviewed on a regular basis by officers and any material changes thought necessary will be brought to the Board for approval.
- 1.3 To ask the Board to approve the attached draft revised Statement of Policy.

### **2. Recommendations**

- 2.1 It is recommended that the Board approves the policies shown in the attached draft revised Statement of Policy.

### **3. Background**

- 3.1 The Pension Fund Board of Essex County Council, as the administering authority of the Essex Pension Fund, is required to make decisions on certain areas of flexibility (referred to as 'discretions') included within the Local Government Pension Scheme Regulations 2013 and related legislation.
- 3.2 A Statement of Policy was approved by the Board at its 15 December 2010 meeting and this Statement of Policy should be reviewed due to the new scheme regulations now being in place.
- 3.2 Many of the discretions relate to relatively straightforward areas of Administration, such as the frequency of contribution payments to the Fund by employers. However there are some more significant areas such as the process for determining who should receive payment of a death grant.
- 3.4 There is a statutory requirement to publish a written Statement of Policy in respect of certain of the discretions and it is best practice to include all relevant discretions in that written statement.
- 3.5 Any decision relating to the discretionary provisions will be subject to the policy which is current at the time of the relevant event. In the event of a conflict between the discretion as written in the policy and the governing regulations, the governing regulations will prevail.
- 3.6 The policy decisions apply to all categories of schemes members (e.g. active, deferred, pensioners, pension credit members and dependents) from its effective date until such point as the policy is reviewed.

### **4. Review of Statement of Policy**

- 4.1 The introduction of the new scheme regulations effective from 1 April 2014 means that the policy should now be reviewed to take account of any changes.
- 4.2 It was reported to the July Board meeting that work by officers was ongoing and that a draft revised Statement of Policy would be brought to the Board for approval at its next meeting.
- 4.3 With the introduction of the new scheme, there are a few new discretions, some discretions no longer exist and a number have been reworded to fit the wording of the new scheme. However, there has been no material change to the way any of the discretions are exercised by officers.
- 4.4 The revised Statement of Policy has been reviewed by Essex Legal Services and by the Fund actuary.
- 4.5 Individual discretions will be reviewed on a regular basis by officers and any material changes thought necessary will be brought to the Board for approval.

- 4.6 In any event, it is considered best practice to fully review the Statement of Policy at least every three to four years.

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

- 5.1 Approval of this Statement of Policy is consistent with the following objectives:
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
  - 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

## **6. Risk Implications**

- 6.1 The approval of this Statement of Policy will minimise the risk of inappropriate decisions being made or decisions being made without the relevant approval, which in turn will minimise the risk of any challenge by a stakeholder.

## **7. Communication Implications**

- 7.1 Once approved, the Statement of Policy will be made available on the Essex Pension Fund website and it will be brought to the attention of Fund employers. No further communication will be necessary.

## **8. Finance and Resources Implications**

- 8.1 There are not expected to be any further finance or resource implications as a result of this Statement of Policy being approved.

## **9. Background Papers**

- 9.1 None



# Essex Pension Fund

## Administering Authority Statement of Policy on Discretions in Relation to the Local Government Pension Scheme

Effective [Date to be added once approved]

### 1. Introduction

This policy has been determined by the Pension Fund Board of Essex County Council as the administering authority of the Essex Pension Fund. It relates to discretions included within the Local Government Pension Scheme Regulations 2013 and related legislation (the governing regulations).

This policy was approved by the Essex Pension Fund Board at its meeting on XX/XX/2014. It sets out the criteria that will be considered when making a decision about the use of administering authority discretions and, where appropriate, the policy that will be applied. Any decision relating to these discretionary provisions will be subject to the policy which is current at the time of the relevant event. In the event of a conflict between the discretion as written in this policy and the governing regulations, the governing regulations will prevail.

These policy decisions apply to all categories of schemes members (e.g. active, deferred, pensioners, pension credit members and dependents) from its effective date until such point as the policy is reviewed. For those who left employment prior to the effective date of the policy, the discretions will apply with regard to the equivalent provisions in previous versions of governing legislation.

The Essex Pension Fund Board retains the right to review this policy at any point in time and will usually review it every three to four years as a minimum.

This policy does not give, nor shall it be deemed to give, any contractual rights to any person whatsoever, including members or former members of the Essex Pension Fund or employees or former employees of any of its employers or former employers.

Nothing in this policy will cause Essex County Council's (as the administering authority of the Essex Pension Fund) capacity to exercise its discretionary powers to be unlawfully fettered or restricted in any way.

These discretions will be exercised in line with the provisions of the various LGPS Regulations and other legislation. Nothing within this statement can overwrite the legal requirements within those provisions.



**Discretions from 1.4.14. in relation to post 31.3.14. active members (excluding councillor members) and post 31.3.14. leavers (excluding councillor members), being discretions under:**

- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

\* These are matters about which the regulations require there must be a written policy.

<b>Discretion</b>	<b>Regulation</b>	<b>Policy</b>
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	<b>R4(2)(b)</b>	The Essex Pension Fund (EPF) is not obliged to enter into an admission agreement with a Care Trust or NHS Scheme employing authority or Care Quality Commission. The EPF will apply the normal admission criteria for a community admission body as detailed in the Fund's Funding Strategy Statement.
Whether to agree to an admission agreement with a body applying to be an admission body	<b>R5(5) &amp; RSch 2, Part 3, para 1</b>	Generally, a transferee admission body must be admitted where it undertakes to meet the requirements of the LGPS Regulations. An admission body will be accepted for admission to the EPF subject to the admission criteria contained in the Funding Strategy Statement
Whether to terminate an admission agreement in the event of <ul style="list-style-type: none"> <li>- insolvency, winding up or liquidation of the body</li> <li>- breach by that body of its obligations under the admission agreement</li> <li>- failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so</li> </ul>	<b>RSch 2, Part 3, para 9(d)</b>	Each case will be treated on its merits and termination will generally be seen as a last resort. For transferee admission bodies, officers will consult with the letting authority, which ultimately guarantees the admission, and the Fund's actuary before considering termination. For community admission bodies, officers' primary consideration when considering such action will be to protect other Fund employers and maximize the

		amount of money paid to the Fund by the admission body.
Define what is meant by “employed in connection with”	<b>RSch 2, Part 3, para 12(a)</b>	An admission agreement with a transferee admission body must include a requirement that only employees of the body who are employed in connection with the provision of the service or assets referred to in that sub-paragraph may be members of the Scheme. The Fund’s policy is to have a default of at least 50% of their working time unless the transferor employer wishes to have a different definition, being that it is underwriting the admission.
Whether to turn down a request to pay additional pension contributions (APCs)/shared cost additional pension contributions (SCAPCs) over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	<b>R16(1)</b>	The Fund will not normally allow APCs/SCAPCs to be spread over a period of time where this will result in a monthly cost of less than £5
Whether to require a satisfactory medical before agreeing to an application to pay APCs/SCAPCs	<b>R16(10)</b>	The EPF does not require the member to undertake a medical
Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house additional voluntary contributions (AVCs)/shared cost additional voluntary contributions (SCAVCs) funds (where AVC/SCAVC arrangement was entered into before 1/4/14)	<b>TP15(1)(d) &amp; A28(2)</b>	The EPF does not currently charge.
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	<b>R17(12)</b>	Officers will apply the same decision making process as for death grants
Pension account may be kept in such form as is considered appropriate	<b>R22(3)(c)</b>	Pension account details will be kept on a secure computer system, currently AXISe (Heywood) and soon to be UPM (Civica)
Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	<b>TP10(9)</b>	Officers will normally aggregate benefits with the main (i.e. that with higher hours) ongoing employment
Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement (where Employer has	<b>R30(8)*</b>	This decision will be made in accordance with ECC’s (as a fund employer) policy at the time the request is made

become defunct)		
Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age (where Employer has become defunct)	<b>R30(8)*</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made
Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under <b>R30(6)</b> (flexible retirement), <b>R30(7)</b> (redundancy / business efficiency), or the waiver (in whole or in part) under <b>R30(8)</b> of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement	<b>R68(2)</b>	The employer will normally be given the choice of paying either by one lump sum, to be paid within 30 days of the retirement date, or in instalments over 3 years. However, where the contract under which an admission body entered the fund was due to expire in less than 3 years they would not be able to spread payments beyond the expected contract end date
Whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60(where Employer has become defunct).	<b>TPSch 2, paras 1(2) and 2(2)*</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made
Whether to waive any actuarial reduction on pre and/or post April 2014 benefits (where the member only has both pre 1/4/14 and post 31/3/14 membership) (where Employer has become defunct)	<b>TP3(1), TPSch 2, paras 2(1) and 2(2), B30(5) and B30A(5)*</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made
Whether to require any strain on Fund costs to be paid "up front" by employing authority following flexible retirement under <b>R30(6)</b> or waiver of actuarial reduction under <b>TPSch 2, para 2(1)</b> or release of benefits before age 60 under <b>B30</b> of <b>B30A</b>	<b>TPSch 2, para 2(3)</b>	The employer will normally be given the choice of paying either by one lump sum, to be paid within 30 days of the retirement date, or in instalments over 3 years. However, where the contract under which an admission body entered the fund was due to expire in less than 3 years they would not be able to spread payments beyond the expected contract end date
Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement	<b>R32(7)</b>	Although the wording of this regulation is not clear, we understand the intention is to allow the administering authority to not require the member to give at least three months' notice (or 1 month for Flexible retirement). This would allow a member to draw his benefits at age 55 instead of at age 55 and 3 months which would be the case if 3 months' notice were required. Discussions are taking place between DCLG and LGPC as to whether an amendment to the regulations is necessary to make the intention clear. In line with the understood intention, and in order that a member is able to draw his benefits at age 55, the

		Fund will not require members to give 3 months' notice (or 1 month for Flexible retirement).
Decide whether to commute small pension	<b>R34(1)</b>	A member aged 60 or over and with a very small pension entitlement can request that the fund pays him a lump sum instead of his entitlement to a pension. The EPF will agree to such a request where the member satisfies the HMRC criteria (which allows commutation in a small number of circumstances). Where no request is received from a scheme member, the EPF may still choose to pay a trivial commutation instead of an ongoing pension. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will decide when such an approach is to be taken on a case by case basis.
Approve medical advisors used by employers (for ill health benefits)	<b>R36(3)</b>	EPF policy is that the independent registered medical practitioner (IRMP) must satisfy the definition of an IRMP in Schedule 1 of the LGPS Regulations 2013. EPF liaises with employers regarding the necessary qualifications required of medical advisor and employers are expected to ensure that the medical advisor they use is suitably qualified.
Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme. (where Employer has become defunct)	<b>TP12(6)</b>	This is in effect a short-lived discretion for ill-health cases which had been referred to an IRMP and a certificate signed before 1 <sup>st</sup> April 2014 but where the individual does not cease until 1 <sup>st</sup> April 2014 or later. In these circumstances, the Fund will normally use a certificate produced under the 2008 scheme.
Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age (where Employer has become defunct)	<b>R38(3)</b>	The same policy and decision making process as is used by ECC (as a Fund employer) will be used in these cases.
Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health (where Employer has become defunct)	<b>R38(6)</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made
Decide to whom death grant is paid	<b>TP17(5) to (8) &amp; R40(2), R43(2) &amp; R46(2)</b>	The decision will be made by one or more EPF Management Team members on a case by case basis based on the information gathered. Advice will be sought from Essex Legal Services as and when required.

Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	<b>R49(1)(c)</b>	This regulation restricts a member to entitlement under only one regulation where they might otherwise appear to be entitled to benefits under two or more regulations. The EPF would decide on the basis of which regulation would appear at the time to give the member and their known beneficiaries the best benefits financially taking their individual circumstances into consideration. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will decide on a case by case basis
Whether to set up a separate admission agreement fund	<b>R54(1)</b>	The EPF has not established a separate admission agreement fund. The EPF notionally apportions assets within the main fund.
<p>Governance policy must state whether the admin 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 admin authority and, if they do so delegate, state</p> <ul style="list-style-type: none"> <li>- the frequency of any committee or sub-committee meetings</li> <li>- the terms, structure and operational procedures appertaining to the delegation</li> <li>- whether representatives of employing authorities or members are included and, if so, whether they have voting rights</li> </ul> <p>The policy must also state</p> <ul style="list-style-type: none"> <li>- the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying, and</li> <li>- the terms, structure and operational procedures appertaining to the local Pensions Board</li> </ul>	<b>R55*</b>	The Fund's Governance Policy and compliance statement is published in the Fund's Annual Report and Accounts
Decide on Funding Strategy for inclusion in funding strategy statement	<b>R58*</b>	The EPF publishes, and keeps under review, a Funding Strategy Statement which is included in the Fund's Annual Report and Accounts.
Whether to have a written pensions administration strategy and, if so, the matters it should include	<b>R59(1) &amp; (2)</b>	The EPF publishes, and keeps under review, an Administration Strategy.

Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Scheme employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.	<b>R61*</b>	The EPF publishes, and keeps under review, a Communications Policy Statement which is included in the fund's annual report and accounts.
Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	<b>R64(4)</b>	The employer rate set by the fund's actuary at each valuation aims to avoid underfunding at exit. However the EPF may obtain a revised rate in the intervaluation period following discussion with, or at the request of, the admission body and/or the fund's actuary. Further information is included in the EPF Funding Strategy Statement.
Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the "cost sharing" under <b>R63</b>	<b>R65</b>	EPF officers will consult with the Fund's actuary and before deciding whether to obtain a new rates and adjustments certificate.
Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge.	<b>R69(1)</b>	Contributions should normally be paid monthly and must be received by the EPF within 19 days of the end of the month in respect of which they have been deducted
Decide form and frequency of information to accompany payments to the Fund	<b>R69(4)</b>	Each employing authority is to provide a monthly summary of employee and employer contributions, this will highlight changes to membership (e.g. new scheme members, changes in part-time hours, leavers and retirements) as and when these changes occur
Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	<b>R70 &amp; TP22(2)</b>	Any decision to issue such a notice will be taken in accordance with the EPF's Administration Strategy
Whether to charge interest on payments by employers which are overdue	<b>R71(1)</b>	Interest will be applied to non-payment of contributions more than 30 days overdue and the interest will be invoiced with the late payment charges on a quarterly basis. Interest will continue to accrue on non-payments until paid and invoiced quarterly.
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	<b>R76(4)</b>	EPF procedure is that the Director for Essex Legal Services determines the stage 2 appeal on behalf of the administering authority in order that there is a level of independence from the EPF which may have made the decision which is the subject of the appeal.

Whether admin. authority should appeal against employer decision (or lack of a decision)	<b>R79(2)</b>	This would be a last resort and has not yet been exercised by the EPF. Any use of this discretion will be subject to agreement by the Chairman of the Essex Pension Fund Board.
Specify information to be supplied by employers to enable admin. authority to discharge its functions	<b>R80(1)(b) &amp; TP22(1)</b>	The EPF produces an Employer Guide which is given to all Fund employers and details the information which employers must provide to the Fund
Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	<b>R82(2)</b>	The decision will be made by one or more EPF Management Team members on a case by case basis based on the information gathered. Advice will be sought from Essex Legal Services as and when required.
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	<b>R83</b>	The decision will be made by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, based on the information gathered. Advice will be sought from Essex Legal Services as and when required.
Date to which benefits shown on annual benefit statement are calculated	<b>R89(5)</b>	The EPF shows benefits accrued at 31 March as this is the end of the contribution year and the date for which employers provide pensionable pay and end of year data.
Agree to bulk transfer payment	<b>R98(1)(b)</b>	Where 2 or more members join another approved scheme the fund may agree to pay a 'bulk transfer' instead of individual transfers. The fund does not have to agree and certain conditions must be met before agreeing. The principles of the approach the EPF takes and the approval procedures around bulk transfers are outlined in its Funding Strategy Statement.
Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	<b>R100(6)</b>	A request to transfer in previous pension rights must be made within of 12 months of joining (or such longer period as the Scheme employer and administering authority may allow). The EPF will allow such transfers subject to the agreement of the Scheme employer.
Allow transfer of pension rights into the Fund	<b>R100(7)</b>	This discretion gives the right for the administering authority to refuse to accept a transfer value from another pension arrangement. The EPF will accept all transfers-in where the member has an entitlement to make an election.
Where member to whom <b>B10</b> applies (use of average of 3 years pay for final pay purposes) dies before making an election,	<b>TP3(6), TP4(6)(c), TP8(4), TP10(2)(a),</b>	Where a member has suffered a reduction or restriction in pay within 10 years prior to leaving he may elect for his final pay to

whether to make that election on behalf of the deceased member	<b>TP17(2)(b) &amp; B10(2)</b>	be based on the average of any 3 consecutive years in the last 13 ending with 31st March. This discretion allows the fund to make that election on behalf of a deceased member. In these circumstances, the EPF will elect for the final pay period that provides the most financially advantageous benefits. This will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence.
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.)	<b>TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) &amp; TSch 1 &amp; L23(9)</b>	A certificate of protection of pension benefits allows the member to select either the best of last 5 years pay or the average of a best consecutive 3 year period in the last 13 years if this is higher than the final year. This discretion allows the administering authority to choose the best period in respect of a deceased member. In these circumstances, the EPF will elect for the final pay period that provides the most financially advantageous benefits. This will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence.
Decide to treat child as being in continuous education or vocational training despite a break	<b>RSch 1 &amp; TP17(9)</b>	It is understood that the intention of this discretion is to allow the administering authority to disregard a 'gap year' where an eligible child takes a break from studies before starting university. The EPF operates a policy whereby it will disregard one 'gap year'
Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member	<b>RSch 1 &amp; TP17(9)(b)</b>	There is no criteria laid down in the regulations as to the evidence required and it is left to the administering authority to decide what evidence it requires. Evidence could include bank statements, title deeds, mortgage statements, utility bills, council tax bills, joint loan agreements, and electoral roll details. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will decide if there is sufficient evidence to establish entitlement on a case by case basis
Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	<b>TP3(13) &amp; A70(1)* &amp; A71(4)(c)</b>	The EPF Board approved a revised abatement policy at its 30 September 2009 meeting to the effect that : <ul style="list-style-type: none"> <li>• the abatement of pensions on re-employment (including any currently unidentified cases) be ceased with effect from 1 October 2009.</li> </ul>



		<ul style="list-style-type: none"> <li>• any pensions at that point that were abated because of re-employment were to be reinstated with effect from 1 October 2009.</li> </ul>
Extend time period for capitalisation of added years contract	<b>TP15(1)(c) &amp; TSch1 &amp; L83(5)</b>	Requests to do this are quite rare but EPF would not normally be prepared to extend the time period. Such requests will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, on a case by case basis.

**Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1.4.08. and before 1.4.14., being discretions under:**

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

\* These are matters about which the regulations require there must be a written policy.

<b>Discretion</b>	<b>Regulation</b>	<b>Policy</b>
Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds	<b>A28(2)</b>	The EPF does not currently charge.
Extend time period for capitalisation of added years contract	<b>TSch1 &amp; L83(5)</b>	Requests to do this are quite rare but EPF would not normally be prepared to extend the time period. Such requests will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, on a case by case basis.
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	<b>A45(3)</b>	Outstanding contributions would normally be recovered as a simple debt but consideration would be given to deduction from benefits in exceptional circumstances. The approach to be taken will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence.
Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	<b>A52(2)</b>	The decision will be made by Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, on a case by case basis based on the information gathered. Advice will be sought from Essex Legal Services as and when required.

Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension)	<b>A56(2)</b>	EPF policy is simply that the independent registered medical practitioner (IRMP) must satisfy the definition of an IRMP in Schedule 1 of the LGPS Regulations 2013. EPF liaises with employers regarding the necessary qualifications required of medical advisor and employers are expected to ensure that the medical advisor they use is suitably qualified.
Decide procedure to be followed by admin authority when exercising its stage two IDRPs functions and decide the manner in which those functions are to be exercised	<b>A60(8)</b>	EPF procedure is that the Director for Essex Legal Services determines the stage 2 appeal on behalf of the administering authority in order that there is a level of independence from the EPF which may have made the decision which is the subject of the appeal.
Whether admin. authority should appeal against employer decision (or lack of a decision)	<b>A63(2)</b>	This would be a last resort and has not yet been exercised by the EPF. Any use of this discretion will be subject to agreement by the Chairman of the Pension Fund Board.
Specify information to be supplied by employers to enable admin. authority to discharge its functions	<b>A64(1)(b)</b>	The EPF produces an Employer Guide which is given to all Fund employers and details the information which employers must provide to the Fund
Decide policy on abatement of pensions following re-employment	<b>TP3(13) &amp; A70(1)* &amp; A71(4)(c) &amp; T12</b>	<p>The EPF Board approved a revised abatement policy at its 30 September 2009 meeting to the effect that :</p> <ul style="list-style-type: none"> <li>• the abatement of pensions on re-employment (including any currently unidentified cases) be ceased with effect from 1 October 2009.</li> <li>• any pensions at that point that were abated because of re-employment were to be reinstated with effect from 1 October 2009.</li> </ul>
Where member to whom <b>B10</b> applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	<b>B10(2)</b>	Where a member has suffered a reduction or restriction in pay within 10 years prior to leaving he may elect for his final pay to be based on the average of any 3 consecutive years in the last 13 ending with 31st March. This discretion allows the fund to make that election on behalf of a deceased member. In these circumstances, the EPF will elect for the final pay period that provides the most financially advantageous benefits. This will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence.
Whether to pay the whole or part of a child's pension to another	<b>B27(5)</b>	The EPF policy is to normally pay the child's pension to a parent or

person for the benefit of that child		legal Guardian if the child has not attained the age of 18. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will determine who payment will be sent to if it is not to a parent or legal Guardian on a case by case basis
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	<b>A52A</b>	The decision will be made by Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, based on the information gathered. Advice will be sought from Essex Legal Services as and when required.
Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60 (where Employer has become defunct)	<b>B30(2)*</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made.
Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under <b>B30</b> (where Employer has become defunct)	<b>B30(5)*</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made.
Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60 (where Employer has become defunct)	<b>B30A(3)*</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made.
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early under <b>B30A</b> (where Employer has become defunct)	<b>B30A(5)*</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made.
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria (where Employer has become defunct)	<b>B31(4)</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made.
Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment (where Employer has become defunct)	<b>B31(7)</b>	This decision will be made in accordance with ECC's (as a fund employer) policy at the time the request is made.
Decide to whom death grant is paid	<b>B23(2) &amp; B32(2) &amp; B35(2) &amp; TSch1 &amp; L155(4)</b>	The decision will be made by Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, based on the information gathered on a case by case basis. Advice will be sought from Essex Legal Services as and when required.
Decide evidence required to determine financial dependence of co-habitee on scheme member or financial interdependence of co-habitee and scheme member	<b>B25</b>	There is no criteria laid down in the regulations as to the evidence required and it is left to the administering authority to decide what evidence it requires. Evidence could include bank statements, title deeds, mortgage statements, utility bills, council tax bills, joint loan agreements and electoral roll details. The Head of the Essex

		Pension Fund, or Director for Essex Pension Fund in their absence, will decide if there is sufficient evidence to establish entitlement on a case by case basis.
Decide to treat child as being in continuous education or vocational training despite a break	<b>RSch 1 &amp; TP 17(9)</b>	It is understood that the intention of this discretion is to allow the administering authority to disregard a 'gap year' where an eligible child takes a break from studies before starting university. The EPF operates a policy whereby it will disregard one 'gap year'.
Decide whether to commute small pension	<b>B39 &amp; T14(3)</b>	A member aged 60 or over and with a very small pension entitlement can request that the fund pays him/her a lump sum instead of his entitlement to a pension. The EPF will agree to such a request where the member satisfies the very strict HMRC criteria. Where no request is received from a scheme member, the EPF may still choose to pay a trivial commutation instead of an ongoing pension. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will decide when such an approach is to be taken on a case by case basis.
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	<b>B42(1)(c)</b>	This regulation restricts a member to entitlement under only one regulation where they might otherwise appear to be entitled to benefits under two or more regulations. The EPF would decide on the basis of which regulation would appear at the time to give the member and their known beneficiaries the best benefits financially taking their individual circumstances into consideration. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will decide on a case by case basis.
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions)	<b>TSch 1 &amp; L23(9)</b>	A certificate of protection of pension benefits allows the member to select either the best of last 5 years pay or the average of a best consecutive 3 year period in the last 13 years if this is higher than the final year. This discretion allows the administering authority to choose the best period in respect of a deceased member. In these circumstances, the EPF will elect for the final pay period that provides the most financially advantageous benefits. This will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, on a case by case basis.

## Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to:

- a) active councillor members, and
- b) councillor members who ceased active membership on or after 1.4.98., and
- c) any other scheme members who ceased active membership on or after 1.4.98. and before 1.4.08.

\* These are matters about which the regulations require there must be a written policy.

Discretion	Regulation	Policy
Frequency of payment of councillors' contributions	12(5)	The payment of councillors' contributions will mirror the cycle of their pay dates as contributions will be deducted directly from pay.
Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service	17(4),(7),(8), & 89(4) & Sch 1	Seldom, if ever, used discretion and accordingly the approach will be agreed by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, if an individual case arises.
Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.)	22(7)	This discretion allows the administering authority to choose the most beneficial final pay period on behalf of a deceased non-councillor member. In these circumstances, the EPF will elect for the final pay period that provides the most financially advantageous benefits.
Make election on behalf of deceased non-councillor member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.)	23(9)	This discretion allows the administering authority to choose the most beneficial final pay period on behalf of a deceased non-councillor member. In these circumstances, the EPF will elect for the final pay period that provides the most financially advantageous benefits.
Decide to whom death grant is paid in respect of councillor members and post 31.3.98. / pre 1.4.08. leavers	38(1) & 155(4)	The administering authority at their absolute discretion may make payments in respect of the death grant to or for the benefit of the member's nominee or personal representatives, or any person appearing to the authority to have been his relative or dependant at any time. The decision will be made by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, based on the information gathered. Advice will be sought from Essex Legal Services as and when required.
Decide to treat child as being in continuous education or vocational training despite a break (children of councillor	Reg 17(9) of the LGPS (Transitional	It is understood that the intention of this discretion is to allow the administering authority to disregard a 'gap year' where an eligible

members and children of post 31.3.98. / pre 1.4.08. leavers)	Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	child takes a break from his studies before starting university. The EPF operates a policy whereby it will disregard one 'gap year'.
Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98. / pre 1.4.08. leavers)	47(1)	If a children's pension is payable for more than one eligible child, the administering authority may apportion it amongst the children as they think fit. The EPF will apportion it equally amongst eligible children.
Pay child's pension to another person for the benefit of the child (children of councillor members and children of post 31.3.98. / pre 1.4.08. leavers)	47(2)	The EPF policy is to pay the child's pension to a parent or legal Guardian if the child has not reached the age of 18. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will determine who payment will be sent to if it is not to a parent or legal Guardian.
Agree to commutation of small pension (pre 1.4.08. leavers or pre 1.4.08. Pension Credit members)	49 & 156	A member aged 60 or over and with a very small pension entitlement can request that the fund pays him a lump sum instead of his entitlement to a pension. The EPF will agree to such a request where the member satisfies the very strict HMRC criteria. . Where no request is received from a scheme member, the EPF may still choose to pay a trivial commutation lump sum instead of an ongoing pension. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will decide when such an approach is to be taken.
Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members)	50 and 157	If life expectancy at retirement is certified as less than one year the administering authority may pay a lump sum in lieu of pension entitlement. The EPF will normally offer this as an option to the member but the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will consider the appropriateness of this in each case.
Whether acceptance of AVC election is subject to a minimum payment (councillors only)	60(5)	The administering authority can specify a minimum payment towards AVCs. The EPF does not require any such minimum.
Whether to require any strain on Fund costs to be paid "up front" by employing authority following early voluntary retirement of a councillor (i.e. after age 50/55 and before age 60), or early payment of a deferred benefit on health grounds or from age 50	80(5)	The employer will normally be given the choice of paying either by one lump sum, to be paid within 30 days of the retirement date, or in instalments over 3 years. However, where the contract under which an admission body entered the fund was due to expire in less than 3

with employer consent (pre 1.4.08. leavers) – (see Note below)		years they would not be able to spread payments beyond the expected contract end date
Frequency of employer's payments to the fund (in respect of councillor members).	81(1)	Contributions will be received by the EPF within 19 days of the end of the month in respect of which they have been deducted
Form and frequency of information to accompany payments to the Fund (in respect of councillor members)	81(5)	Each employing authority is to provide a monthly summary of employee and employer contributions in respect of councillor members.
Interest on payments by employers overdue by more than 1 month (in respect of councillor members)	82(1)	Interest will be applied to non-payment of contributions more than 30 days overdue and the interest will be invoiced with the late payment charges on a quarterly basis. Interest will continue to accrue on non-payments until paid and invoiced quarterly.
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (councillors and pre 1.4.08. leavers)	89(3)	Outstanding contributions would normally be recovered as a simple debt but consideration would be given to deduction from benefits in exceptional circumstances. The approach to be taken will be determined by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence.
Timing of pension increase payments by employers to fund (pre 1.4.08. leavers)	91(6)	The Environment Agency must reimburse the administering authority the cost of any increase payable under the 1971 Act or the 1974 Act in respect of former Water Company members. This discretion allows the administering authority to determine the intervals for payment. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will determine the intervals for these payments.
Pay death grant due to personal representatives without need for grant of probate / letters of administration (death of councillor or pre 1.4.08. leaver)	95	The decision will be made by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, based on the information gathered. Advice will be sought from Essex Legal Services as and when required.
Approve medical advisors used by employers (re ill health benefits for councillors and re pre 1.4.08. preserved benefits payable on health grounds)	97(10)	EPF policy is simply that the independent registered medical practitioner (IRMP) must satisfy the definition of an IRMP in Schedule 1 of the LGPS Regulations 2013. EPF liaises with employers regarding the necessary qualifications required of medical advisor and employers are expected to ensure that the medical advisor they use is suitably qualified.



Decide procedure to be followed by admin authority when exercising its IDRPs functions and decide the manner in which those functions are to be exercised (councillors and pre 1.4.08. leavers)	99	EPF procedure is that the Director for Essex Legal Services hears the stage 2 appeal on behalf of the administering authority in order that there is a level of independence from Pensions Services which may have made the decision which is the subject of the appeal.
Appeal against employer decision, or lack of a decision (councillors and pre 1.4.08. leavers)	105(1)	This would be a last resort and has not yet been exercised by the EPF. Any use of this discretion will be subject to agreement by the Chairman of the Pension Fund Board.
Date to which benefits shown on annual deferred benefit statement are calculated	106A(5)	The EPF shows benefits accrued at 31 March as this is the end of the contribution year and the date at which employers provide pensionable pay data.
Abatement of pensions following re-employment (councillors and pre 1.4.08. leavers)	109* & 110(4)(b)	The EPF Board approved a revised abatement policy at its 30 September 2009 meeting to the effect that : <ul style="list-style-type: none"> <li>• the abatement of pensions on re-employment (including any currently unidentified cases) be ceased with effect from 1 October 2009.</li> <li>• any pensions abated at that point because of re-employment were to be reinstated with effect from 1 October 2009.</li> </ul>
Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers)	118	EPF will pay premium to Department for Work and Pensions rather than retain CEP so that no liability remains in the fund.
Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members)	147	The EPF will follow the national LGPS guidance issued by LGE resulting from the work of the Pension Sharing on Divorce Working Party when discharging its Pension Credit liability.

**Note:** benefits paid on or after age 50 and before age 55 are subject to an unauthorised payments charge and, where applicable, an unauthorised payments surcharge under the Finance Act 2006. Also, any part of the benefits which had accrued after 5 April 2006 would generate a scheme sanction charge.

## Discretions under the Local Government Pension Scheme Regulations 1995 (as amended) in relation to scheme members who ceased active membership before 1.4.98.

Discretion	Regulation	Policy
Decide to whom death grant is paid in respect of pre 1.4.98. retirees / pre 1.4.98. deferreds	E8	The administering authority at their absolute discretion may make payments in respect of the death grant to or for the benefit of the member's nominee or personal representatives, or any person appearing to the authority to have been his relative or dependant at any time. The decision will be made by the Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, on a case by case based on the information gathered. Advice will be sought from Essex Legal Services as and when required.
Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation)	F7	For consistency with changes in the LGPS Regulations as they apply to survivors pensions on remarriage or cohabitation the EPF will not suspend spouse's pensions payable under the former 1995 regulations upon remarriage or cohabitation.
Decide to treat child as being in continuous education or vocational training despite a break (children of pre 1.4.98. retirees / pre 1.4.98. deferreds)	Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	It is understood that the intention of this discretion is to allow the administering authority to disregard a 'gap year' where an eligible child takes a break from his studies before starting university. The EPF operates a policy whereby it will disregard one 'gap year'.
Apportionment of children's pension amongst eligible children (children of pre 1.4.98. retirees / pre 1.4.98. deferreds)	G11(1)	If a children's pension is payable for more than one eligible child, the administering authority may apportion it amongst the children as they think fit. The EPF will apportion it equally amongst eligible children.
Pay child's pension to another person for the benefit of the child (children of pre 1.4.98. retirees / pre 1.4.98. deferreds)	G11(2)	The EPF policy is to pay the child's pension to a parent or legal Guardian if the child has not reached the age of 18. The Head of the Essex Pension Fund, or Director for Essex Pension Fund in their absence, will determine who payment will be sent to if it is not to a parent or legal Guardian.

## **Discretions under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended)**

Under Regulation 26 of the Discretionary Compensation Regulations, each authority (other than an Admitted Body) is required to formulate and keep under review a policy which applies in respect of exercising their discretion in relation to:

<b>Discretion</b>	<b>Regulation</b>	<b>Policy</b>
Agree to pay annual compensation on behalf of employer and recharge payments to employer	31(2)	The EPF has historically agreed to pay such benefits and recharge the employer and will continue to do so although there is no Statutory obligation to do so. The Fund should recover any additional costs it incurs in providing this service from the employer concerned in order to prevent any cross subsidy by other employers in the Fund



<b>Essex Pension Fund Board</b>	<b>EPB/29/14</b>
<b>date: 17 September 2014</b>	

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

Report by the Director for Essex Pension Fund

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 its Terms of Reference, 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 met once, on 23 July 2014.

### **4. Investment Steering Committee 23 July 2014**

4.1 The Committee received a presentation on the Fund's investment performance to 31 March 2014.

4.2 The Committee also received a presentation from Hymans Robertson which summarised their current views on the capability of each of the Fund's managers relative to their peer group universe.

4.3 A report on how appropriate individual benchmark indices were for each Fund Manager, in light of the evolution of the Fund over the last few years was considered. Following discussions **it was agreed** to amend the benchmarks as follows:

#### **Equity**

- to amend the benchmark with Longview from the MSCI World Index to the MSCI AC World Index to be in line with the other global equity managers;
- measure all active equity index returns on a gross of withholding tax basis;
- to discuss with the Custodian a move towards producing performance net of fees;

#### **Bonds**

- to amend the benchmark with M&G from 1 month LIBOR to 1 month LIBOR plus 2% p.a.;
- to amend the benchmark with GSAM from 3 month LIBOR to 3 month LIBOR plus 2% p.a.

#### **Alternatives**

- amend the benchmarks of both infrastructure mandates from 3 month LIBOR to CPI + 4%;
- introduce the MSCI World PME Index as a benchmark for Hamilton Lane's private equity mandate;
- formalise the NCREIF Timberland Index as a benchmark for Stafford's timberland index for both manager and ISC reporting; and
- adopt the IPD UK Quarterly Property Index for Aviva's mandate.

- 4.4 The main business of the meeting was the illiquid Debt Mandate selection. Hymans Robertson outlined the process to date.
- 4.5 It was highlighted that of the 32 managers that had applied for a request for a Proposals (RfP), 15 were completed and returned. Three of these managers, Alcentra, Highbridge and Partners met the required qualifying score and were then invited to meet the ISC.
- 4.6 Following interviews with Alcentra, Highbridge and Partners **it was agreed:**
- that officers and advisers be authorised to finalise the arrangements with the Committee's preferred Manager and report back; and
  - in light of the Committee's decision and the recent publication of the Law Commission's report on the Fiduciary Duties of Investment Intermediaries a revised draft SIP be brought to the next ISC meeting for the Committee's consideration.

## **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 23 July 2014 – agenda and draft minutes.

