



Essex County Council

Essex Pension Fund Strategy Board

10:00	Wednesday, 16 December 2020	Online Meeting,
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The meeting will be open to the public via telephone or online. Details about this are on the next page. Please do not attend County Hall as no one connected with this meeting will be present.

For information about the meeting please ask for:

Amanda Crawford, Compliance Manager

Telephone: 03330 321763

Email: Amanda.crawford@essex.gov.uk

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.

In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held via online video conferencing.

Members of the public will be able to view and listen to any items on the agenda unless the Committee has resolved to exclude the press and public from the meeting as a result of the likely disclosure of exempt information as defined by Schedule 12A to the Local Government Act 1972.

How to take part in/watch the meeting:

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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.

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Exempt Items

((During consideration of these items the meeting is not likely to be open to the press and public))

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to

the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

11 Essex Pension Fund Advisory Board - Independent Chairman Arrangements

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

12 Employer Manager Update

12a Employer Update

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

12b Employer Ill Health and Death in Service Policy

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

13 Pooling Update

To receive a presentation by the Interim Director for Essex Pension Fund

14 Urgent Exempt Business

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

Essex Pension Fund Strategy Board	PSB 01
Date: 16 December 2020	

Essex Pension Fund Strategy Board (PSB) Membership, Apologies and Declarations of Interest

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To present Membership, Apologies and Declarations of Interest for the 16 December 2020 PSB.

2. Recommendation

- 2.1 That the Board should note:

- Membership as shown overleaf;
- Apologies and substitutions; and
- Declarations of Interest to be made by Members in accordance with the Members' Code of Conduct and the Essex Pension Fund's Conflict of Interest Policy.

3. Membership

(Quorum: 4)

11 members consisting of:

- seven Members of the Council;
- one Member representing District and Borough Councils in Essex;
- one Member representing Unitary Councils in Essex;
- one Member representing Scheme Members nominated by Unison; and
- one Member representing Other Employing Bodies nominated by the Employer Forum.

Membership	Representing
Councillor S Barker	Essex County Council (Chairman)
Councillor M Platt	Essex County Council (Vice Chairman)
Councillor A Goggin	Essex County Council
Councillor A Hedley	Essex County Council
Councillor M Maddocks*	Essex County Council
Councillor C Souter	Essex County Council
Councillor L Scordis	Essex County Council
Councillor M Dent	Southend-on-Sea Borough Council
Rachel Hadley	Other Employing Bodies
Councillor C Riley	Castle Point Borough Council
Sandra Child	Scheme Members

**Non-Aligned Group have indicated that they do not wish to take their place on this Committee, so it is for the Council to decide the allocation. The Conservative Group, as the majority Group, have indicated that they wish to take the vacancy.*

Minutes of the meeting of the Essex Pension Fund Strategy Board (PSB) held as an online video conference on 23 September 2020

1. Membership, Apologies and Declarations of Interest

The report of the Membership, Apologies and Declarations of Interest were received.

Membership

Present:

Essex County Council

Cllr S Barker	(Chairman)
Cllr M Platt	(Vice Chairman)
Cllr A Goggin	
Cllr A Hedley	
Cllr L Scordis	
Cllr C Souter	

District/Borough Councils in Essex Representatives

Cllr M Dent	Southend-on-Sea Borough Council	
Cllr C Riley	Castle Point Borough Council	left at 12pm

Scheme Member Representative

Sandra Child (UNISON)

Other Employing Bodies Representative

Rachel Hadley	Chelmer Housing Partnership
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The following Officers and Advisers were also present in support:

Jody Evans	Interim Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Daniel Chessell	Retirement Manager
Sara Maxey	Employer Manager
David Tucker	Technical Hub Manager (Part II only)
Amanda Crawford	Compliance Manager
Helen Pennock	Compliance Analyst
Marcia Wong	Compliance Officer
Karen McWilliam	Independent Governance & Administration Adviser (IGAA), AON
Graeme Muir	Barnet Waddingham, Fund's Actuary

The following Essex Pension Fund Advisory Board (PAB) Members were present as Observers of the meeting:

Cllr Martin Bracken	Employer Representative	left 12:34pm
James Durrant	Employer Representative	
Andrew Coburn	Scheme Member Representative (UNISON)	
Stuart Roberts	Scheme Member Representative	
James Sheehy	Scheme Member Representative	

Members noted that the meeting would be recorded to assist with the production of the minutes for the meeting.

Opening Remarks

The Chairman welcomed the Board, Karen McWilliam (IGAA), Graeme Muir (Fund's Actuary) and PAB Members, Cllr Martin Bracken, James Durrant, Andrew Coburn, Stuart Roberts and James Sheehy to the meeting.

The Chairman took the opportunity, it being the first meeting of the Essex Pension Fund Strategy Board (PSB) to be held virtually, to outline to Members the protocol on how the meeting would be conducted.

Apologies for Absence

It was noted that Cllr Maddocks was unable to attend the meeting. In addition, PAB Members Nicola Mark and Debs Hurst also sent their apologies.

Declarations of Interest

Declarations were received from:

Cllr S Barker declared she was in receipt of an Essex LGPS pension and that her son was also a member of the Essex LGPS. Cllr S Barker also declared she is an ECC Cabinet Member and sits on the Foreign Travel Committee;

Cllr Platt declared he is the Deputy Cabinet Member for Environment & Climate Change Action and is Vice Chairman of the Audit, Governance and Standards Committee;

Cllr Goggin declared that his wife, sister and brother-in-law were in receipt of an Essex LGPS pension;

Cllr Hedley declared that he was in receipt of an Aviva Group Pension and is the Chairman of the Audit, Governance and Standards Committee. A further declaration was made in regard to Agenda Item 14 of being an elected Basildon District Councillor;

Cllr Riley and Sandra Child declared they were in receipt of an Essex LGPS Pension; and

Rachel Hadley declared she was the HR Director of Chelmer Housing Partnership.

The Chairman informed the Board of the changes to the Essex County Council Conservative Group Substitute arrangements notifying the Board that Cllr Mark Durham and Cllr Bob Massey were appointed during May 2020. Subsequently, Cllr Bob Massey has stepped down from this position.

The Chairman welcomed Rachel Hadley to her first meeting and the new PAB Member, Cllr Martin Bracken of Chelmsford City Council, who was appointed during August 2020 to replace the Employer Representative post made vacant by the sad passing of Cllr Terry Cutmore.

Resolved:

The Board noted the report and update.

2. Confirmation of the Annual Arrangements for the Appointment of Chairman and Vice Chairman of the Essex Pension Fund and Terms of Reference

The Board received a report from the Compliance Manager in regard to the annual arrangements of the appointment of the Chairman and Vice Chairman of the Essex Pension Fund.

It was noted that each year at the Annual Meeting of Essex County Council the Chairman appointments are confirmed for the forthcoming municipal year. These appointments are then reaffirmed at the respective meetings.

The Chairman informed the Board that due to the circumstances surrounding Covid-19 the Annual Meeting of Essex County Council scheduled to take place in May had been deferred, as such the existing Chairman and Vice Chairman arrangements would remain in place until such time that the Annual Meeting could be held.

Resolved:

The Board noted:

- the continuation of the Chairman and Vice Chairman current arrangements; and
- the PSB Terms of Reference (ToR) as set out in Appendix A of the report.

3. Minutes of PSB meeting 04 March 2020

The minutes of the meeting of the PSB held on 04 March 2020 were approved as a correct record and signed by the Chairman.

Matters Arising:

It was noted that all matters arising would be dealt with through this Agenda Pack.

4. Arrangements for PSB Representatives

The Compliance Manager informed the Board that the Other Employing Bodies Representative recruitment had now concluded with the outcome being Rachel Hadley from Chelmer Housing Partnership being appointed for a term of six years.

It was noted that Rachel had received her induction training from Officers and was present for today's meeting.

Resolved:

The Board noted the update and outcome of the recruitment process.

5. Essex Pension Fund (EPF) Policies

The Board received a report from the Compliance Manager regarding two new Fund policies which were developed in line with the Good Governance Project and formalised the activities already undertaken by the Fund. These were:

- Policy for Recording and Reporting Breaches of the Law (Appendix A); and
- Risk Strategy (Appendix B).

It was explained that the third policy, the Knowledge and Skills Strategy provided was in draft at present but would be brought to a future meeting for approval.

Resolved:

The Board **approved** the:

- Policy for Recording and Reporting Breaches of the Law; and
- Risk Strategy.

Resolved:

The Board noted the:

- progress of the Knowledge and Skills Strategy for Board/Committee Members; and
- content of the report.

6. Update on Pension Fund Activity

The Board received a joint update from the Interim Director for the Essex Pension Fund and the Compliance Manager on the Business Plan, Scorecard and Risk Register.

Q4 2019/20 Business Activity

The final position was noted on the 2019/20 Business Plan and Scorecard. It was explained that ten out of twelve Business Plan actions had been completed with two carried forward into 2020/21.

It was highlighted that the outcome of the 2019 Employer and Member Surveys was now reflected within the scorecard. Participation uptake on the Employer Survey in particular was still low, as such Officers felt that there would be merit in the Board requesting assistance from the PAB in reviewing how the Fund undertakes future Surveys. The Chairman welcomed the review and it was subsequently agreed that Rachel Hadley be part of the Review Panel.

The Vice Chairman was keen to understand the progress made in regard to the Fund's digital transformation regarding Member online. Officers took an action to come back to a future meeting with some trend analysis.

2020/21 Business Activity

The Board received an update from the Interim Director for Essex Pension Fund on the progress against the new style 2020/21 Business Plan, the development of the new Scorecard along with an update on Risk Management.

Of the forty two priorities highlighted in the Business Plan, the Board noted that twenty five were in progress, five were completed, ten were not yet due to start and two were not applicable for this current year. It was explained that Officers were forecasting a slight underspend against 2020/21 Budget.

Progress in regard to developing the new scorecard measures was provided in addition to the proposed new format of the report. It was explained that the proposed new Governance, Funding and Administration measures had been incorporated into the new scorecard format. The Board noted that the Investment measures would be included following consideration by the Investment Steering Committee (ISC) at their 21 October 2020 meeting. Similarly, the development of the Communications section would follow the review of the Fund's Annual Surveys.

A new style Risk Management Update report was provided detailing the current risk scores against previous scores reported. Members were reminded that risks are continually monitored and reassessed as and when required. It was highlighted that one of the two red risks reported at the 4 March 2020 meeting had now been downgraded. The remaining red risk was in regard to the McCloud judgement which would be discussed further at Agenda Item 15.

Resolved:

The Board **agreed:**

- the Governance, Funding and Administration Scorecard Measures at Appendix D of the report;

- the review of the Fund's Scheme Member and Employer Annual Surveys be delegated to the PAB and the outcome to be fed into the Communications section of the new scorecard.

The Board noted:

- the conclusion against the 2019/20 Business Plan and the actions that have been carried forward to 2020/21;
- the Scorecard Measures as at 31 March 2020 including the outcome of the Scheme Member and Employer Annual Surveys;
- the progress against the 2020/21 Business Plan and Budget and the new reporting format;
- the development to date of the new 2020/21 Scorecard and the new reporting format;
- that the Investment measures would be considered by the ISC at their 21 October 2020 meeting for approval; and
- the current risks within the Risk Register with a residual score of eight or above along with the new reporting format.

7. Internal Audit Report 2019/20

The Investment Manager provided the Board with the outcome of the two internal audit reviews. It was noted that both reviews received 'Good Assurance', the highest level of assurance that can be given.

In addition, for a second consecutive year, the Fund received no recommendations.

The Board congratulated the Fund on their excellent work.

A query was raised in regard to the level of the 2021/22 internal audit charge. An action was taken that Fund Officers in consultation with the Chairman investigate and report back to a future meeting.

Resolved:

The Board noted:

- the outcomes of the 2019/20 Internal Audit reports;
- the outcomes of the 2019/20 National Fraud Initiative; and
- the planned audits of the Pension Fund for 2020/21.

8. External Audit 2019/20

The Board received a report from the Investment Manager detailing BDO LLP's Audit Plan in relation to the 2019/20 external audit of the Essex Pension Fund.

It was explained that the Audit Plan was reported to an informal meeting of the Essex County Council's Audit, Governance and Standards Committee on 23

March 2020 for noting and this was the first opportunity to bring the report to the Board.

Members were informed that due to pressures on local authorities to respond to the Covid-19 pandemic, the Government had extended the 2019/20 financial year timetable in which draft accounts must be presented to external audit to 31 August (previously 31 May 2020), and for published audited accounts to 30 November 2020 (previously 31 July 2020).

It was confirmed that the Fund presented draft Pension Fund accounts to the external auditors, BDO, on 30 June 2020 and the audit commenced on 6 July 2020. It was explained that the Pension Fund audit was at an advanced stage of completion and that BDO have indicated that they would be in a position to complete their audit and issue both ECC and the Pension Fund opinions by the revised deadline of 30 November 2020. The Completion Report would be provided to Members once the report becomes available.

Members asked if External Audit had taken into account the ongoing LGPS reform cases and the likely impact on the Fund. The Employer Manager explained that this had been factored in within the Actuarial Valuation and that BDO were satisfied with the information the Fund had provided.

Resolved:

The Board noted the content of the report.

9. Essex Pension Fund Strategy Board (PSB) – Annual Report

The Board received the PSB Annual Report for 2019/20. It was noted that that since the last meeting the Fund had been successful in winning the Pension Age Award for the Best Risk Management Exercise.

Resolved:

The Board noted the report.

10. Essex Pension Fund Advisory Board (PAB) Quarterly and Annual Reports

The Board received a report from the Compliance Manager. It was explained that due to the sad news received of the passing of Cllr Terry Cutmore the vacant Employer Representative position has since been filled by Cllr Martin Bracken from Chelmsford City Council.

The Compliance Manager provided the Board with an overview of the PAB Annual Report which details their activities during 2019/20. It was explained that the Annual Report would now be shared with the Scheme Advisory Board (SAB) and published within the Fund's Annual Report and Accounts.

Cllr Barker thanked Andrew Coburn for stepping up as Chairman whilst the Chairman of the PAB was unwell.

Resolved:

The Board noted:

- the content of the 2019/20 Annual Report and acknowledged it would be published within the Annual Report & Accounts; and
- the appointment of Cllr Martin Bracken as the new Employer Representative on the PAB replacing the vacancy left by the passing of the late Cllr Terry Cutmore.

11. Investment Steering Committee (ISC) Quarterly Update

The Board received a report from the Investment Manager which provided details on the ISC activity since the previous Board meeting.

It was confirmed that the ISC had met on one occasion on 21 July 2020, noting that their 19 March 2020 meeting was cancelled due to the Coronavirus pandemic. The Board were advised that the Committee received a presentation and training from Hamilton Lane, the Fund's Private Equity Manager, regarding the Private Equity Asset Class and that a decision was made to allocate a further £50m with an additional £10m should suitable opportunities arise.

The other main areas of business discussed were:

- the approval of the Treasury Management Strategy 2020/21;
- the review of Fund investment portfolio noting that although the Fund's value fell in March, it has since recovered back to pre-Covid19 levels;
- the draft Investment Strategy Statement (ISS) was approved for stakeholder consultation which had subsequently concluded on 16 September 2020;
- a report summarising the outcome of the CEM Benchmarking exercise reviewing the overall fees paid by the Fund in 2018/19 compared to its peers; and
- the allocation of additional funds to the Private Equity Mandate.

Resolved:

The Board noted the report and update.

12. Schedule of Future meetings

The Board received a report from the Compliance Manager detailing the remaining planned Board meetings for this municipal year. It was noted that the in-house training session had been rescheduled to 11 November 2020.

Events/conferences that were on the horizon were also brought to the attention of Members.

The Board noted that PAB meetings would now follow the PSB meeting at 2:00pm.

Resolved:

The Board noted:

- the schedule of meetings and events for 2020/21; and
- the new date and time of the November training session.

13. Urgent Part I Business

None.

Exclusion of the Public and Press

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

Resolved:

The Chairman brought to the attention the above statement and the Board agreed to proceed.

The Chairman informed Members that the meeting would reconvene at 11:00am following a short adjournment.

The meeting was adjourned at 10:46am.

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The Board reconvened at 11:00am.

Opening Remarks

The Chairman welcomed back the Board and Observers and outlined to Members the protocol on how the meeting would be conducted.

14. Funding Update

The Board received a report from the Employer Manager on a Funding update and the outcomes of Out of Committee decisions made since the last meeting.

It was explained that the Out of Committee decision making process had been utilised on two occasions since the last meeting:

- in June, the approval of the inclusion of an Exit Credit Policy within the Funding Strategy Statement (FSS); and
- in August, the approval of recommendations in regard to the termination of one of the Fund's Employers.

It was noted that the Fund had now received payment from four out of the six Employers who had requested a six month deferment of their deficit payments. It was confirmed that the remaining two payments were due by the end of September 2020.

The Board also considered the merit of developing an Ill Health Policy in consultation with the Fund's Actuary.

Resolved:

The Board noted:

- the FSS was updated to reflect the Exit Credits Policy;
- the cessation of one of the Fund's Employers was finalised;
- the development of an Ill Health Policy; and
- the general Funding update.

15. Local Government Pension Scheme (LGPS) Regulatory Reform

The Interim Director for Essex Pension Fund highlighted that there are currently four LGPS consultations either live or in progress. These were:

- McCloud – deadline 8 October 2020;
- £95K Exit Payment Cap – deadline 9 November 2020;
- Goodwin – expected soon; and
- Cost Cap – pending.

It was agreed that due to the timing, the Fund's consultation responses to McCloud and £95k Exit Payment Cap be delegated to the Chairman and Vice Chairman for sign off.

Cllr Hedley and Cllr Dent expressed an interest in being party to this process.

The Board received a presentation from Karen McWilliam (IGAA) and Graeme Muir (Funds Actuary) covering:

- McCloud;
- Cost Cap;
- Goodwin; and
- £95k Cap.

The IGAA informed Members that it was unusual to have four LGPS regulatory changes and the associated consultations in progress at the same time. A presentation was then provided on the background and current status of each. The Advisers outlined to the Board the potential impact on the Fund in terms of Funding, administration and the ability to continue to deliver a high quality business as usual service.

Resolved:

The Board noted:

- the information contained within the report and the accompanying presentation; and
- the resource implications.

16. Pooling Update

The Board received a presentation and update from the Interim Director for Essex Pension Fund on the 17 July 2020 ACCESS Joint Committee meeting.

Resolved:

The Board noted the update.

17. Urgent Exempt Business

None.

18. Closing Remarks

There being no further business the meeting closed at 12:49pm.

Chairman
16 December 2020

Essex Pension Fund Strategy Board	PSB 03
Date: 16 December 2020	

Government Consultations and Reform Update

Report by the Technical Hub Manager in consultation with the Independent Governance and Administration Adviser (IGAA)

Enquiries to David Tucker on 03330 138493

1. Purpose of the Report

1.1 To share with the Board:

- the Fund's final response to the Ministry of Housing, Communities and Local Government (MHCLG) consultation concerning 'Amendments to the statutory underpin';
- the Fund's final response to the MHCLG consultation concerning 'Reforming local government exit pay'; and
- an update concerning the reforming local government exit pay.

2. Recommendations

2.1 It is recommended that the Board note:

- the Fund's final response to the consultation concerning 'Amendments to the statutory underpin';
- the Fund's final response to the consultation concerning 'Reforming local government exit pay'; and
- the update provided concerning the reforming local government exit pay.

3. Background

- 3.1 At its 23 September meeting, the Board was provided with an update on LGPS Regulatory Reform by the Interim Director for Essex Pension Fund and the Fund's Independent Governance and Administration Adviser (IGAA).
- 3.2 The update included details of two Ministry of Housing, Communities and Local Government (MHCLG) consultations concerning 'Amendments to the statutory underpin' and 'Reforming local government exit pay'.
- 3.3 It was agreed that due to the timing, the Fund's consultation responses concerning 'Amendments to the statutory underpin' and 'Reforming local government exit pay' be delegated to the Chairman and Vice Chairman for sign off.

4. Amendments to the statutory underpin

- 4.1 A draft response to the 'Amendments to the statutory underpin' consultation was shared with the Chairman, Vice Chairman along with Cllr Dent and Cllr Hedley (as they had expressed an interest in taking part in this process) on 5 October 2020.
- 4.2 A virtual meeting was held on Teams on 6 October 2020 with the Chairman, Vice Chairman, Cllr Dent and Cllr Hedley, the Interim Director for Essex Pension Fund and the Technical Hub Manager to discuss the draft response. No changes were deemed necessary and the final response was submitted to MHCLG the same day and is attached at Appendix A of this report.

5. Reforming local government exit pay

- 5.1 A draft response to the 'Reforming Local Government Exit Pay' consultation was shared with the Chairman and Vice Chairman on 29 October 2020.
- 5.2 The Chairman and Vice Chairman both confirmed they were happy with the draft response and the final response was submitted to MHCLG on 30 October 2020 and is attached at Appendix B of this report.
- 5.3 The closing date for responses was 9 November 2020, however draft regulations were subsequently issued after the main consultation document and the closing

date for comments on the draft regulations is 18 December 2020. Because any comments on the draft regulations will be purely of a technical nature (i.e. whether or not they successfully implement the proposals) Fund Officers will submit any comments to MHCLG, after studying the draft regulations, without needing sign off from the Chairman or Board Members.

6. Further update on reforming local government exit pay

- 6.1 Unfortunately, whilst MHCLG have not yet responded to the consultation in relation to the changes in the LGPS nor made the amending regulations, HMT has gone ahead and made changes to overriding legislation which introduce an overall exit cap of £95k when employees leave public sector employers (usually this will be through redundancy). This conflicts with current LGPS regulations that require immediate payment of unreduced pension benefits when a member is made redundant, which in turn might push an employee over the £95k cap. It is therefore unclear whether LGPS members affected by the £95k cap should:
- Be paid immediate unreduced pension benefits (i.e. in line with LGPS regulations); or
 - Given the option of immediate reduced pension benefits or a deferred pension (to meet the requirements of the new HMT regulations); or
 - Be provided with some other option.
- 6.2 At this point in time, Fund Officers are not aware of any scheme members leaving in the near future who might be impacted by the HMT regulations. Processes have been put in place to remove the risk of providing quotations that might transpire to be incorrect, either as a result of the conflicting legislation or once the amending LGPS regulations are in place. However, this may become more difficult to manage if employers wish to proceed with redundancy or other severance type programmes. It is hoped that clarity will be provided before a situation arises within the Fund and this could be either through the making of the amending LGPS regulations or as a result of a legal challenge in relation to another LGPS fund.
- 6.3 However, should such a situation arise where a scheme member is leaving and is impacted by the £95k cap, it will be necessary for a decision to be made by the Fund as to what benefits (if any) are paid to them. Given this potentially could be subject to challenge, it may be appropriate to take legal advice in conjunction

with Essex Legal Services. The out of committee meeting approval process may need to be enacted.

7. Link to Essex Pension Fund Objectives

- 7.1 Ensure compliance with the Local Government Pension Scheme (LGPS) regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.

8. Risk Implications

- 8.1 Regulatory risks impacting on Investments, Funding and Administration.

9. Background Papers

- 9.1 LGPS Regulatory Reform and Resource Implications, PSB 15, 23 September 2020.

Essex Pension Fund
 PO Box 11
 County Hall
 Chelmsford
 Essex
 CM1 1LX



Local Government Finance Stewardship
 Ministry of Housing, Communities and Local Government
 2nd Floor, Fry Building
 2 Marsham Street
 London
 SW1P 4DF

Your Ref:
 Date: 6 October 2020

Sent by e-mail to: LGPensions@communities.gov.uk

Dear Sirs,

Local Government Pension Scheme (England and Wales) Amendments to the statutory underpin

The Essex Pension Fund welcomes the opportunity to comment on the proposals to amend the rules governing 'transitional protection' in the Local Government Pension Scheme (LGPS). We are responding in our capacity as an Administering Authority within the scheme.

We generally welcome the proposals to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members.

We have serious concerns regarding the proposal that annual benefit statements for active members under the 2008 Scheme normal pension age should include information about a qualifying member's underpin protection. We strongly urge the government to remove this requirement from the final amendment regulations for the reasons given in our response to question 16.

We would strongly urge MHCLG to bring forward final regulations as soon as possible to provide certainty around the changes required to systems and processes which will require months to complete. See our response to question 24.

The administration and communications costs of implementing remedy will be substantial for LGPS funds and we believe the government should cover those costs, bearing in mind it proceeded to introduce the original underpin in the full knowledge that to do so would contravene age discrimination legislation. This cost should not fall to local taxpayers. See our response to questions 3 and 29.

Response to the consultation questions

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

Yes, the proposals would appear to be consistent with the Court of Appeal's ruling.

Question 2 – Do you agree that the underpin period should end in March 2022?

Yes, the original underpin could not have applied to service after 31 March 2022 so ceasing the underpin period on that date is consistent with the original government commitment.

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

Yes, to achieve fairness and equality the revised regulations must apply retrospectively.

However, the government should not underestimate the substantial additional administration and communications costs involved for LGPS funds and we believe it should cover funds' additional costs, bearing in mind it proceeded to introduce the original underpin in the full knowledge that to do so would contravene age discrimination legislation.

In chapter 7.34 of the Independent Public Service Pensions Commission: Final Report dated 10 March 2011, Lord Hutton said "Age discrimination legislation also means that it is not possible in practice to provide protection from change for members who are already above a certain age".

It is clear, therefore, that the government knew before it introduced the original underpin that it would contravene age discrimination legislation. For this reason, we believe the government has a duty to cover funds' costs.

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Yes.

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

The protection would appear to work effectively, however the additional work required of LGPS administrators in particular is colossal and I would draw your attention to our response to Question 3 concerning who should pay for the cost of this additional work.

Also, it is unlikely that all employers will be able to provide every piece of data that is required to calculate the underpin across all eligible members. Funds may, therefore, need to make assumptions to fill in any gaps in the data, which could undermine the effectiveness of the regulations. We would welcome guidance from MHCLG/SAB on how funds should account for any missing data required to calculate the underpin and how this should be communicated with employers and impacted scheme members.

Question 6 – Do you have other comments on technical matters related to the draft regulations?

No. We have had sight of the LGPS Scheme Advisory Board draft response to this consultation and we support its comments in relation to technical matters contained in the draft regulations.

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

Yes. Requiring members to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply would not remove the unlawful age discrimination.

Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?

The proposals do not extend the underpin to younger members who joined the Scheme after 31 March 2012 who will have final salary membership but will not qualify for the new protection because the Scheme changes were already publicised when they joined. We think this could be an area of future challenge given that younger members are likely to see the cost of the remedy passed onto them via the cost cap arrangement and the average age of those joining between 1 April 2012 and 31 March 2014 is likely to be younger than those leaving during the same period, which could amount to indirect age discrimination.

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Yes, this is the approach taken on the 85-year rule and the final salary link. Allowing members to meet the qualifying criteria in respect of multiple periods of unaggregated membership is inconsistent with how the Scheme operates and would be administratively complex.

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12-month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

Yes, it would seem proportionate to allow active and deferred members this opportunity where they would lose their right to underpin protection if their benefits were not aggregated. despite the administrative burden

We believe there should be a discretion to allow LGPS funds to extend the 12-month aggregation window in order to provide for cases where there are difficulties communicating with the member.

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have ‘significant adverse effects’ in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

No, we do not consider that the proposals would have significant adverse effects in relation to the pension payable to or in respect of affected members as:

- LGPS administrators will not have taken unaggregated membership into account when calculating the current underpin for members that have retired since 2014.

- Most members who have retired since 2014 are better off under the CARE scheme because of the significantly better accrual rate.

Going forward, the members that are most likely to be affected are:

- concurrent members where membership ends on the same day, so it is not possible to aggregate
- members who opted out on or after 11 April 2015, as the regulations do not permit aggregation if they re-join the Scheme

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

Despite adding yet more administrative complexity, the proposed amendments to widen or clarify the protections would appear to be consistent with the stated aim of ensuring that the underpin works effectively and consistently for all members.

Question 13 – Do you agree with the two-stage underpin process proposed?

Yes, the two-stage process is necessary to ensure a true comparison of final salary and CARE benefits takes place because it takes account of the different normal retirement ages in the two schemes as well as any future changes to State Pension age.

Question 14 – Do you have any comments regarding the proposed approaches outlined above?

We do not agree with the requirement to include information about the underpin in annual benefit statements for active members under the 2008 Scheme normal pension age. See our response to question 16 for more details.

We would also question the need to include “details of the provisional calculations undertaken at their underpin date” in annual benefit statements sent to deferred members. Details of the provisional calculations are included in the deferred benefit statement sent to members on leaving and we believe it would serve no useful purpose to keep including those details every year. Funds should be free to provide deferred members with the details necessary for them to understand how their benefits have increased since the previous statement; providing too much detail in statements makes them more difficult for members to understand and less engaging.

Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Has any consideration has been given to how the proposed remedy will interact with the Restriction of Public Sector Exit Payments Regulations 2020, when enacted. What happens in the situation where a person:

- is awarded an exit payment capped at £95,000 in the period between the exit payment regulations becoming effective and the changes to the underpin taking effect, and
- then receives a retrospective increase to their benefits because of the changes to the underpin?

Question 16 – Do you agree that annual benefit statements should include information about a qualifying member’s underpin protection?

No. We do not agree with the requirement to include information about the underpin in annual benefit statements for active members under the 2008 Scheme normal pension age and we strongly urge the government to remove this requirement from the final amendment regulations.

Our primary reasons for not agreeing are three-fold:

1. There is a very real danger including such notional details could be both misleading and create a false expectation for many members

For example, a member could, in a given year, have a notional underpin amount because of high pay growth. But the same member may then experience comparatively low pay growth over the years to retirement to an extent that, at the underpin crystallisation date, the underpin no longer applies.

2. Funds would have to prioritise correcting active and deferred member records and updating systems for the purposes of complying with the new ABS requirement over the far more pressing issue of revisiting pensions in payment / recalculation of death benefits etc.
3. Annual benefit statements should be kept as simple as possible so members can understand them – to include a notional calculation of a provisional assessment will not achieve this.

Whilst we believe the calculation of a provisional assessment of the underpin at the underpin date serves a useful purpose, we do not believe a notional calculation of a provisional assessment each year serves a useful purpose.

The revised underpin will “bite” for relatively few members and, for those for whom it does, any increase will be small. We strongly believe that the underpin can only usefully be calculated at the underpin date and the underpin crystallisation date.

Further, the consultation proposes that annual benefit statements include the provisional guarantee amount, the provisional assumed benefits and the provisional underpin amount. The provisional assumed benefits figure represents the CARE pension the member has built up during the remedy period, it is this figure that is used to compare with the benefits the member would have built up had they remained in the final salary scheme. By necessity, the figure does not include any pension bought by a transfer in, any additional pension the member / employer has bought (except if it is bought to buy back pension lost in a period of authorised leave) and it is assumed the member is always in the main section. For some members, the provisional assumed benefits figure could be very different to the actual CARE benefits they have built up during the remedy period and this could lead to further confusion.

If the government does decide to proceed with such a requirement, and we strongly urge it not to, then the requirement should not come into effect until at least 2025 to

allow funds to prioritise revisiting pensions in payment / recalculation of death benefits etc.

Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?

As set out in our response to question 16, we do not agree with the requirement to include information about the underpin in annual benefit statements for active members under the 2008 Scheme normal pension age. Annual benefit statements need to remain as simple and easy to understand as possible so that members engage with them and find them useful. To include a notional calculation of a provisional assessment of the underpin would make the statements more complex and would serve only to confuse and misinform members.

Question 18 – Do you have any comments on the potential issue identified in paragraph 110?

We believe a consistent approach must be taken and, on balance, the general approach in relation to the current underpin and the annual allowance should continue in relation to the revised underpin and annual allowance.

The underpin crystallisation date is the only date at which the definitive value of the underpin is calculated and, therefore, the date at which the member experiences the actual pension growth attributable to the underpin.

Whilst this approach could have the effect of causing a spike in the closing value of a member's benefits in the pension input period in which the underpin crystallisation date occurs, this approach also means an affected member is more likely to have some unused annual allowance remaining from the previous 3 years which they can use to offset any tax charge.

Also, the alternative approach of capturing the value of any notional underpin on a year by year basis would come with unwelcome side effects; for example, applying the notional underpin in any given year may cause the member to breach the annual allowance, even though the member is a number of years away from retirement. The same member may then experience comparatively low pay growth over the years to retirement to an extent that, at the underpin crystallisation date, the underpin no longer applies. In these circumstances the member would have paid a tax charge on a benefit that was ultimately never realised.

Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?

Yes, we believe they do.

Question 20 – Do you agree with our equalities impact assessment?

Whilst the assessments seem reasonable at face value, we would point out that the GAD analysis is of very limited value in the circumstances.

The consultation itself says "The analysis is based on an "average" member at each particular age. Allowing for variations in individual members' future service or salary progression could produce different figures". We would point out that it is precisely

those variations in individual members' future service or salary progression which will determine whether or not the revised underpin will "bite".

Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?

No.

Question 22 – Are there other comments or observations on equalities impacts you would wish to make?

No.

Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?

Keep the message to members simple and generic because relatively few active members will ultimately have an increase to their pension because of the underpin and, for those that do, any increase will be small.

Emphasise that (a) relatively few members will be impacted by the underpin, (b) any increases will be small and (c) the underpin process will be applied automatically, so as not to create false expectation.

Communications with employers should focus on the importance and practical requirements of providing the data required to operate the underpin and any assumptions being made where member data is missing.

Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?

The administrative impact of these proposals will be significant and meeting them will depend to a great extent on the timing of regulations and the certainty around the changes required to systems and processes. In particular, the changes to administrative systems will require months to complete and could be further delayed if changes are also required to Fire and police schemes at the same time.

In this regard we would strongly urge MHCLG to bring forward final regulations as soon as possible, even if their implementation date is in line with other public sector schemes (i.e. 2022). Doing so would provide the certainty and notice needed to ensure the disruption to systems and processes is minimised and provide authorities with the ability to effectively implement the remedy for members.

We estimate that in the Essex Pension Fund there will be in the region of 17,000 active members in scope plus 24,000 leavers requiring retrospective review.

We believe the government should cover funds' additional costs relating to McCloud and remedy because it proceeded to introduce the original underpin in the full knowledge that to do so would contravene age discrimination legislation - see our response to question 3.

Whilst the underpin will not actually impact most members' benefits, funds will be required to undertake underpin calculations for 1,000s of active members going forward. This will also require additional expenditure updating administration systems to be able to identify and carry out the revised underpin calculations for members in scope.

Applying the underpin test retrospectively to 24,000 members is a massive undertaking which will take several years to complete and will inevitably involve manual intervention and calculations in many cases.

The scale and complexity of this exercise could also create a significant communications challenge for LGPS funds.

Question 25 – What principles should be adopted in determining how to prioritise cases?

Cases where members have already retired (or died) should be the priority as the underpin could impact on a member's (or survivor's) current retirement income. Thereafter, members closer to their underpin crystallisation date should be prioritised.

Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?

As set out in our response to question 16, we do not agree with the requirement to include information about the underpin on active ABS for members under the 2008 Scheme normal pension age. If the requirement remains, we think there should be a lead in time of at least 12 months to ensure that administering authorities can prioritise retrospectively recalculating benefits.

Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?

One area where additional guidance would be welcome is what to do when an employer is incapable of providing historic member data. Ideally, SAB should issue guidance for employers and administering authorities when making assumptions about service and salary history in the absence of complete information to provide a clear and consistent approach across the scheme and prevent funds being challenged on approaches used if no guidance is provided.

Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?

We support a consistent approach to member communications and, as set out in our response to question 23, communications should be simple and generic with the emphasis that (a) relatively few members will be impacted by the underpin, (b) any increases will be small and (c) the underpin process will be applied automatically, so as not to create false expectation.

Communications with employers should equally be simple and focus on the importance and practical requirements of providing the data required to operate the underpin and any assumptions being made where member data is missing.

Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?

As the LGPS is a 'balance of cost' arrangement with fixed member contribution rates, the cost of the McCloud remedy will ultimately be met by employers. Many of these employers are councils that are funded by local taxpayers. However, whilst an increase in LGPS liabilities is unavoidable, funds have local control over the pace at which these costs are managed over time. The majority of the costs will fall on employers with a long-term funding horizon and we generally don't expect material changes to contribution rates to arise from application of the remedy.

Accurate analysis of the financial funding impact of the proposed McCloud remedy is impossible because of the members in scope we do not know which ones will have higher than average pensionable pay increases, how much those increases will be and when those increases will be. Depending on the assumptions used, the impact of the remedy might only add 0.2% to the liabilities of a typical LGPS fund but it could add as much as 1%.

But whilst the impact at whole fund level is likely to be small, it may be more material at individual employer level. The cost impact is likely to be higher for employers with youthful membership profiles, as there is a greater likelihood of the underpin 'biting' for younger members.

The inclusion of McCloud in the national cost management mechanism will reduce, or possibly even wipe out completely, the proposed package of benefit improvements that had been due to take effect from 1 April 2019 in the LGPS in England and Wales.

Aside from the funding cost, the costs to funds in terms of administration and communications will be significant and is likely to run well into six figures for most funds, in terms of extra FTE resource.

As set out in our response to question 3, we believe the government should provide funding to cover funds' additional administration and communications costs, bearing in mind it proceeded to introduce the original underpin in the full knowledge that to do so would contravene age discrimination legislation. The costs of remedying age discrimination introduced into the LGPS by central government should not be met by local taxpayers.

Yours sincerely

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Exit Pay Consultation

Your Ref:

Local Government Workforce and Pay Team

Ministry for Housing, Communities and Local Government Date: 30 October 2020

2nd Floor, Fry Building

2 Marsham Street

London SW1P 4DF

Sent by e-mail to: LGExitPay@communities.gov.uk

Dear Sirs,

Local Government Pension Scheme (England and Wales) Reforming local government exit pay

The Essex Pension Fund welcomes the opportunity to comment on the government's proposals on the reform of exit payments in local government. We are responding in our capacity as an Administering Authority within the scheme.

Whilst we generally welcome the proposals to amend the Local Government Pension Scheme (LGPS) regulations to introduce the flexibilities required to implement the exit payment cap, we believe the proposals go beyond what is necessary to implement the exit payment cap in the LGPS.

The proposals for wider reform are extremely unhelpful to employers and administering authorities at this time, go beyond the government's original policy objective of curbing excessive exit payments in the public sector and do not meet the second stated objective relating to fairness and consistency across the public sector.

Also, the proposals will have a significant and unnecessary detrimental effect on the compensation package for low paid employees whose exit payments are already less than £95k. see our answer to questions 1 and 5 for further details.

Conflict between legislation

As the responsible authority for the LGPS, MHCLG has a duty to ensure that the LGPS regulations remain fit for purpose and comply with the law.

The Restriction of Public Sector Exit Payments Regulations 2020 were signed off into law on 14 October 2020 and are effective from 4 November 2020. This means that from 4 November 2020 the LGPS Regulations 2013 will conflict with the requirements of the Restriction of Public Sector Exit Payments Regulations 2020. This will leave local government employers and LGPS administering authorities in an impossible position and open to legal challenge whatever they do until such time as the LGPS regulations are amended, which is not expected to be for several months.

We urge the Secretary of State to engage with his colleagues at HM Treasury without delay and persuade them of the critical need to revoke or pause the

Restriction of Public Sector Exit Payments Regulations 2020 whilst the necessary changes are made to the LGPS regulations.

A step too far

The Government's original policy objective was to curb excessive exit payments in the public sector. The additional reform was about fairness and consistency across the public sector workforce, the other parts of which have, as yet, seen no changes.

Currently local government has lower severance calculations outside pensions than the rest of the public sector and MHCLG's proposals restricts these even further.

We believe these proposals are, in their current form, grossly unfair to local government workers as members of other public sector pension schemes will not have their exit payment double capped in the manner proposed by MHCLG. See our answer to questions 1 and 5 for further details.

These proposals go far beyond the government's original policy objective of curbing excessive exit payments in the public sector and do not meet the second stated objective relating to fairness and consistency across the public sector.

We strongly urge the Secretary of State to consider removing from the final regulations the proposals to (a) reduce the strain on fund payment by the statutory redundancy payment regardless of the amount of the strain on fund payment and (b) remove any entitlement that an employee will have to their employer's discretionary compensation payment. Applying the £95k exit payment cap alone will achieve the Government's policy objective.

However, we strongly believe that the wider reform of exit payments should be delayed until after the exit payment cap has been successfully introduced and then only necessary changes, to allow for the implementation of the cap, should be made to the LGPS.

Response to the consultation questions

Question 1:

Are there any groups of local government employees that would be more adversely affected than others by our proposed action on employer funded early access to pension?

The Government Actuary's Department has published a draft impact assessment of these proposals. It provides that more female members are affected by the proposed reforms because they make up a greater proportion of the workforce affected by the changes. By the very fact that this proposal will impact on those aged 55 or over, it will also adversely affect older workers.

The proposal around statutory redundancy pay being either deducted from the pension strain cost resulting in a lower pension for life, or paid to the employee and then paid into the pension fund in order to part-pay the strain on fund cost (even where the payments would not otherwise breach the £95,000 cap) will have a greater impact on lower paid workers, who are most in need of a cushion when made redundant. A greater proportion of those will be women and/or part-time workers. This is because their statutory redundancy pay entitlement will be closer to

their actual pay than it will for higher paid workers whose weekly pay exceeds the cap on a week's pay (currently £538) for the purposes of calculating statutory redundancy pay. Therefore, the employer's strain on fund payment will, under this proposal, be reduced by a disproportionately greater percentage for lower paid workers than for higher paid workers.

We understand there are no proposals to introduce such a measure for any other public sector workers, such as NHS staff and teachers; this being the case, we do not believe there is any justification for this proposal for local government workers. We urge the Secretary of State to remove this proposal from the final regulations.

As an example of the impact on a low earner, if we take an LGPS member aged 55 or over whose total package would be £65k under the current rules (£50k pension strain, £5k statutory redundancy and £10k discretionary compensation). Under the proposals, this employee would see his package reduced to £50k (if he took an unreduced pension) or just £15k (if he takes a reduced pension or defers his pension).

Question 2:

What is the most appropriate mechanism or index when considering how the maximum salary might be reviewed on an annual basis?

The maximum salary should be increased in line with national average earnings.

Question 3:

Are there any groups of local government employees that would be more adversely affected than others by our proposed ceiling of 15 months or 66 weeks as the maximum number of months' or weeks salary that can be paid as a redundancy payment?

The Government recognises that it is harder, and takes longer, for older people to find work. Therefore, the proposed ceiling of 15 months' pay will adversely affect older employees more than younger ones as the compensation will, in many cases, be insufficient to sustain them whilst they strive to obtain alternative employment.

To mitigate this, the government could consider a ceiling based on age possibly starting lower for younger employees and increasing by age to 24 months' pay for older employees.

Question 4:

Are there any groups of local government employees that would be more adversely affected than others by our proposal to put in place a maximum salary of £80,000 on which an exit payment can be based?

£80,000 is a significant salary in local government so this will affect the most senior positions. Considerable experience and skills will be required for such posts and so this will be more likely to affect older workers, (more of them who are likely to be male) although not exclusively so. It will affect professions and roles that are hard to recruit in the sector and as such will weaken the reward package that local authorities are able to offer.

In respect of the level of the cap, no other part of the public sector has yet implemented reforms in addition to the proposed £95,000 cap and we would wish to see if this level of cap is reflected in other sectors. Our understanding is that in the Civil Service Compensation Scheme there is a salary cap of £149,820 and the reform proposals put forward by the government do not seek to alter this. We do not see why a salary limit so much lower is appropriate for local government.

It is difficult to see how the impact could be mitigated, as any steps to enhance compensation payments in another way, such as allowing a greater week's pay multiplier for employees earning more than £80,000 could leave the employer vulnerable to discrimination claims from lower paid employees, who are likely to be younger and of whom a greater proportion may be female. A waiver process would allow local authorities to take individual circumstances into account and should be considered.

Question 5:

Do you agree with these proposals? If not, how else can the Government's policy objectives on exit pay be delivered for local government workers?

The original policy objective was to curb excessive exit payments in the public sector. The additional reform was about fairness and consistency across the public sector workforce, the other parts of which have, as yet, seen no changes. These new proposals will impact on all local government employees in two ways, before there has been any wider public sector reform and regardless of salary level:

1. by reducing the strain on fund payment by the statutory redundancy payment regardless of the amount of the strain on fund payment; and,
2. by removing any entitlement that an employee will have to their employer's discretionary compensation payment (which unlike other parts of the public sector are modest).

The result will be a reduced pension going forward and only statutory redundancy pay to support them during a time in which older workers may find it increasingly difficult to find alternative employment. In particular, the provisions around statutory redundancy pay being either deducted from the pension strain cost resulting in a lower pension for life, or paid to the employee and then paid into the pension fund in order to part-pay the strain on fund cost will hurt the poorest paid who most need a cushion when made redundant. It also introduces a layer of unnecessary administrative bureaucracy disproportionate to the situation.

The second stated objective relates to fairness and consistency across the public sector. Currently local government has lower severance calculations outside pensions than the rest of the public sector. However, MHCLG's proposal restricts these further, for example through the introduction of a salary cap of £80,000 while the proposals for the civil service contain both higher calculation limits and a higher salary cap of £149,820. In this light MHCLG's proposals seem out of line with the consistency objective.

We believe the proposal that 'strain cost will be further reduced by the value of any Statutory Redundancy Payment' goes far beyond the Government's policy objective

and is not necessary. For the reasons given in our answer to question 1, we urge the Secretary of State to remove this provision from the final regulations.

Alternatively, there could be powers to waive elements of the further reform proposals where they are likely to create undue hardship or create legal conflicts in relation to disputes under statute or contract law that a local authority should have the discretion to exercise (subject to appropriate transparency and reporting provisions).

Question 6:

Do you agree that the further option identified at paragraph 4.8 should be offered?

Yes, we agree with the proposal to grant employees the option to defer their pension benefits and to receive the discretionary redundancy payment under their employer's redundancy scheme. We feel this is a necessary flexibility to allow employees a fair choice.

Question 7:

Are there any groups of local government employees that would be more adversely affected than others by our proposals?

As mentioned in our answers to questions 1, 3 and 5, the proposals will more adversely affect both older employees and the poorest paid, impacting not just high earners but low paid employees too.

The proposals will adversely affect all employees over the age of 55 in the LGPS. Those with long service will be particularly affected because of the interrelationship between strain on pension fund payments and other discretionary and statutory redundancy payments.

As set out in our response to question 1, the majority of employees in local government roles are women and many will be at the lower ranges of pay. The proposals will affect all salary ranges as the GAD impact assessment illustrates. They will have a greater effect in purely financial terms on longer serving higher earners but may have a more significant impact on lower paid workers (and so women and part-time workers) who may have greater need for a financial cushion.

To mitigate this adverse impact, we urge the Secretary of State to remove the proposal that 'strain cost will be further reduced by the value of any Statutory Redundancy Payment' from the final regulations and to consider a sliding scale ceiling based on age, rising to 24 months' or 104 weeks' pay for older employees, as the maximum number of months' or weeks salary that can be paid as a redundancy payment.

Question 8:

From a local government perspective, are there any impacts not covered at Section 5 (Impact Analysis) which you would highlight in relation to the proposals and/or process above?

There is concern that a full impact assessment was not available at the commencement of the consultation. The GAD impact assessment has since been published in draft. However, that assessment does not identify the greater proportionate impact that statutory redundancy pay being either deducted from the pension strain cost, resulting in a lower pension for life, or paid to the employee and then paid into the pension fund in order to part-pay the strain on fund cost, will have on lower paid and part-time workers. In 5.6, there is no mention of the administrative and systems costs to administering authorities which will be substantial, particularly the added complexities which would result from the unfair and unnecessary proposal that "Strain cost will be further reduced by the value of any Statutory Redundancy Payment".

Question 9:

Are these transparency arrangements suitably robust? If not, how could the current arrangements be improved?

The transparency requirements in local government are established and would seem adequate but we cannot speak of the consistency with similar requirements in other parts of the public sector or across all workforces covered by these reform proposals.

Question 10:

Would any transitional arrangements be useful in helping to smooth the introduction of these arrangements?

These reform proposals will have a dramatic effect on some employees who will have built current severance arrangements into their long-term planning. Therefore, transitional provisions are appropriate.

Existing employees who prudently joined the Local Government Pension Scheme will have based their retirement and contingency planning on the current rules of the LGPS in respect of access to pension and their employer's scheme in respect of a redundancy payment. Those who are approaching, or are already in, the age bracket whereby they are entitled to an unreduced pension and redundancy payment will be particularly adversely affected by these proposals should they be made redundant, particularly in the current economic climate. While no one has a right to be made redundant, the current local government severance terms are an important part of the benefits package and so of retaining some key staff. If the severance benefits are removed, they might leave the sector for jobs in other areas with the immediate benefit of higher pay.

In any event, in order to avoid a chaotic situation, there should be provision for dealing with those employees already in redundancy/reorganisation situations. Employers need some certainty when attempting to reorganise their workforces. Major restructuring requires statutory periods of consultation with staff and recognised trade unions under the provisions of the Trade Union and Labour Relations (Consolidation) Act 1992, which includes details of severance packages and also notice of any dismissals. Many employees, including those with long service, will then require 12 weeks' notice of dismissal. However, aside from those statutory and contractual timescales, large scale reorganisation proposals can

overall take more than a year to negotiate with employee representatives and implement and it is crucial that there is a smooth transfer in leadership and governance.

We note the draft Local Government Pension Scheme (Restriction of Exit Payments) (Early Termination of Employment) (Discretionary Compensation and Exit Payments) (England and Wales) Regulations 2020 contain transitional provisions which would disapply the restrictions in the regulations where prior to the regulations coming into force the parties had entered into an agreement to terminate employment within six months of the regulations coming into force. However, that exemption should apply where consultation processes have commenced prior to the regulations coming into force, not just where an agreement has been entered into. The reason for this is that many people may have already put in an immediate expression of interest to take voluntary redundancy shortly after a consultation was launched, and that would have been based on pre-reform redundancy payment rights. Having had those expressions of interest the employer will then plan on that basis and remove others from being 'at risk' under the redundancy process. However, it is often the case that the actual agreement to terminate those taking voluntary redundancy is not entered into until much closer to termination, which for the reasons set out above could be some time later. If the transitional provisions remain as they are some employees may withdraw their consent to take voluntary redundancy meaning employers would have to go back and consult again, potentially putting 'at risk' again employees who thought they were not going to be made compulsorily redundant. That has the potential to create a chaotic and uncertain situation for all employees subject to the redundancy consultation, not just for those who were to take voluntary redundancy.

Further, for the reasons set out above, in some cases a six-month time transitional period will not be long enough. Accordingly, there needs to be a 12-month transitional period. Six months is too short and will undermine a significant number of redundancy exercises that are currently live or will be imminently live as authorities seek to balance their 2020-1 budgets or undertake reforms under Local Government Reorganisation plans. Given the demands councils face in the COVID-19 response and preparing for EU transition, a failure to provide adequate transitional provisions will result in a major distraction from providing frontline support to their communities for authorities.

As the £95,000 cap will come into force before the MHCLG further reforms then, subject to any HMT Directions which provide suitable transitional provisions and waivers, guidance will be required for the interim period between the £95,000 cap implementation and the MHCLG/LGPS further reform changes as it appears to cause conflict between two sets of regulations.

Question 11

Is there any other information specific to the proposals set out in this consultation which is not covered above which may be relevant to these reforms?

The stated aims include consistency and fairness across the public sector and so a comparison with other public sector severance schemes would be beneficial. In local

government a sensitive balance is achieved between the rules of the Local Government Pension Scheme which provides a contingency membership benefit to contributing members who lose their job at an age when they may find it harder to continue their career, and local authorities' redundancy policies which provide, in most cases, only a moderate sum to cushion the immediate blow of losing a job. These proposals will mean that employees will have to choose between one or the other.

One aim of this government policy was for greater consistency across the public sector. To that end we would expect the proposals put forward by MHCLG to closer reflect the proposals put forward by the Cabinet Office for the Civil Service. No argument has been put forward that justifies significantly worse provision for the local government sector. In comparison the three-week proposed limit on week's multiples will have little effect in the local government sector as severance provision in that form is currently significantly below that limit, however, the higher salary limit of £149,820 for the Civil Service will have a much more limited impact in that sector to the £80,000 limit proposed by MHCLG.

Question 12

Would you recommend anything else to be addressed as part of this consultation?

It should be made clear that the restrictions do not apply to TUPE protected benefits and those transfers conducted in the spirit of the TUPE regulations 'TUPE-like transfers' that are a common feature of reorganisation in local government.

As with the £95,000 cap, there should be scope for relaxation of the restrictions where:

- a. not exercising the power would cause undue hardship;
- b. not exercising the power would significantly inhibit workforce reform;
- c. commitments have legitimately been made by an authority in redundancy/re-organisation processes before the changes come into force;
- d. there is a value for money case.

Yours sincerely

David R Tucker

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Technical Hub Manager

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Office Hours: Monday to Thursday 8.30am to 5.30pm,
Friday 8.30am to 5.00pm

Essex Pension Fund Strategy Board	PSB 04
Date: 16 December 2020	

Update on Pension Fund Activity

Report by the Compliance Manager

Enquiries to Amanda Crawford 03330 321763

1. Purpose of the Report

1.1 To provide the Board with the latest Pension Fund Activity Report on:

- 2020/21 Business Plan;
- Budget;
- Scorecard as at 30 November 2020 this includes the investment measures as agreed by the Investment Steering Committee (ISC); and
- Risk Management.

2. Recommendations

2.1 That the Board note the latest Pension Fund Activity Report.

3. Latest Position

- 3.1 The latest Pension Fund Activity Report at Appendix A outlines the progress to date against the Fund's 2020/21 Business Plan and Budget, Scorecard and Risk Management.

4. Key developments to note

Business Plan

- 4.1 The Business Plan update can be found in Section A of the Appendix to this report. A summary of progress to date is shown in the table below:

Function	Total	Complete	In Progress	Delayed	Not due to start	N/A
Governance	10	3 (0)	5 (6)	0 (0)	2 (4)	0 (0)
Funding	6	3 (2)	1 (0)	0 (0)	0 (2)	2 (2)
Investments	11	2 (1)	8 (7)	0 (0)	1 (3)	0 (0)
Admin	9	2 (1)	6 (7)	0 (0)	1 (1)	0 (0)
Comms	6	1 (1)	5 (5)	0 (0)	0 (0)	0 (0)
Total	42	11	25	0	4	2

The numbers in brackets represents to progress reported at the 23 September 2020 meeting.

Budget

- 4.2 The 2020/21 Budget vs Forecast is shown in Section B of the Appendix to this report.

Scorecard

- 4.3 The Scorecard Exception report can be found at Section C of the Appendix to this report.
- 4.4 For Members information, the Investment Measures as agreed at the 21 October 2020 ISC meeting have now been incorporated within the new Scorecard.

Annual Employer Returns

- 4.5 Due to Covid-19 and its impact on Fund Employers, a decision was made by the Interim Director for Essex Pension Fund that the Charging Policy of the Fund would not be enforced this year.
- 4.6 Despite this with Fund Officer support 99% of Fund employers submitted their return by 31 May and passed all tolerance checks by 31 May (95% in 2018/19, 95% in 2017/18). Under the new Scorecard measures, the current status is green (target 90%).
- 4.7 21 employers did not meet the requirements of the validation stage however Officers have been actively working with those employers.

Risk Management

- 4.8 The Risk Management report has been provided at Section D of the Appendix to this report.
- 4.9 The Fund's Risk Register is monitored and updated on a regular basis as part of business as usual, with some key risks being reviewed more regularly due to the impact of the Covid-19 pandemic. No new risks have been identified or changes made to the risk scores since the last meeting.

5. Link to Essex Pension Fund Objectives

- 5.1 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; and
 - Continually measure and monitor success against our objectives.

6. Risk Implications

- 6.1 Key risks are identified at Appendix A within the Risk Management section of the report.

7. Communication Implications

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

8. Finance and Resources Implications

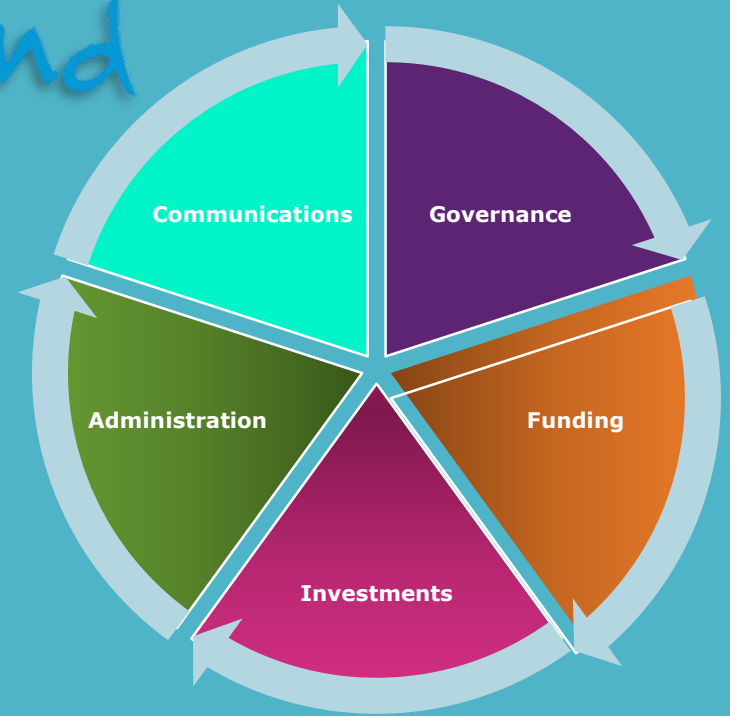
- 8.1 To deliver the activities outlined in the Business Plan for 2020/21 a Budget of £4.62m has been approved which includes an operational internal budget of £3.31m and a budget allocation for third party provider support/advice of £1.31m. This will be periodically kept under review.

9. Background Papers

- 9.1 Update on Pension Fund Activity, PSB 06, 23 September 2020.
- 9.2 Annual Returns 2018/19 Update, PSB 13, 11 September 2019.

Essex Pension Fund

Update on Pension Fund Activity



Contents:

Section A: Business Plan Progress Update
Section B: Budget vs Forecast Update
Section C: Scorecard Update
Section D: Risk Management

01 September 2020 – 30 November 2020

Essex Pension Fund

Section A

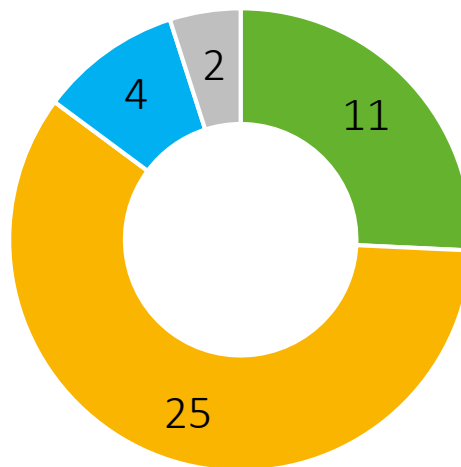
2020/21 Business Plan Progress Update

01 September 2020 – 30 November 2020



Strategic BAU & Key Priorities

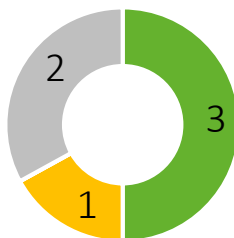
Essex Pension Fund



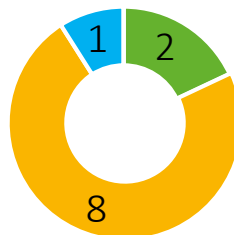
Of 42 Priorities

■ Completed ■ In Progress ■ Delayed ■ Not due to start ■ Not Applicable

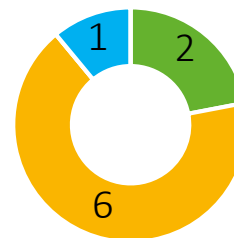
Funding



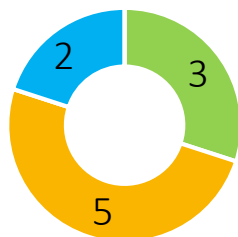
Investments



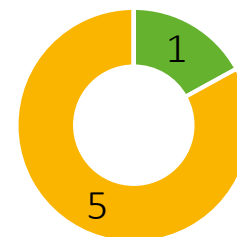
Administration



Governance



Communications

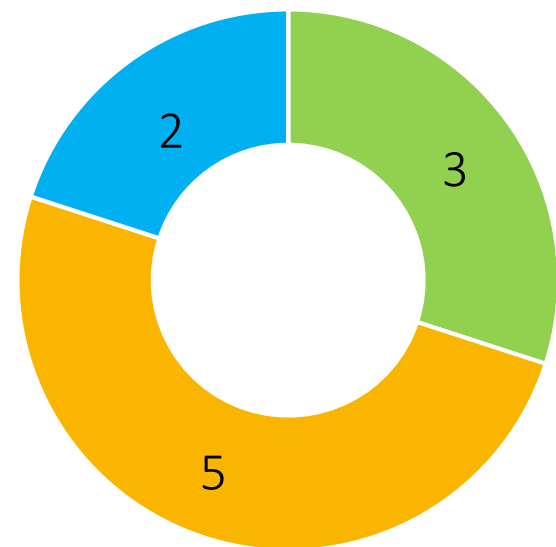


1. Progress - Governance



Key
P: Previous
C: Current

Strategic BAU & Key Priorities



■ Completed
■ Delayed
■ Not Applicable
■ In Progress
■ Not due to start

Strategic BAU & Key Priorities

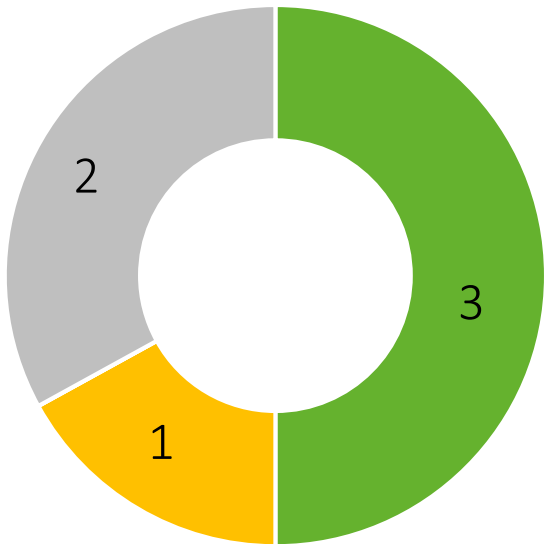
1. Agree 2021/22 Business Plan & Budget
2. Development & Implementation of Risk Management Strategy
3. LGPS Reform
4. Implementation of Members' knowledge and understanding
 - Training Needs Analysis
 - Review the revised Training Strategy (Knowledge & Skills)
5. Development of Business Continuity Policy, Plan (including Cyber security) and Testing
6. Commencement of Governance Review and Effectiveness Survey
7. Annual Review of Governance related Policies including the Governance Policy and Compliance Statement
8. Annual Statement of Accounts including compliance with CIPFA requirements
9. Annual review of Terms of Reference for PSB/ISC/PAB
10. Development & Implementation of Breaches Policy

2. Progress - Funding



Strategic BAU & Key Priorities	P	C
1. Implementation of the outcome of the Actuarial Valuation in line with the Fund's Funding Strategy Statement	Completed	Completed
2. Annual Interim Funding review	Not due to start	Completed
3. Funding Strategy Statement review	Completed	Completed
4. Employing Authority discretions and delegations review	Not Applicable	Not Applicable
5. Employer Risk review	Not Applicable	Not Applicable
6. Undertake Interim review of the Fund's Actuary	Not due to start	In Progress

Strategic BAU & Key Priorities



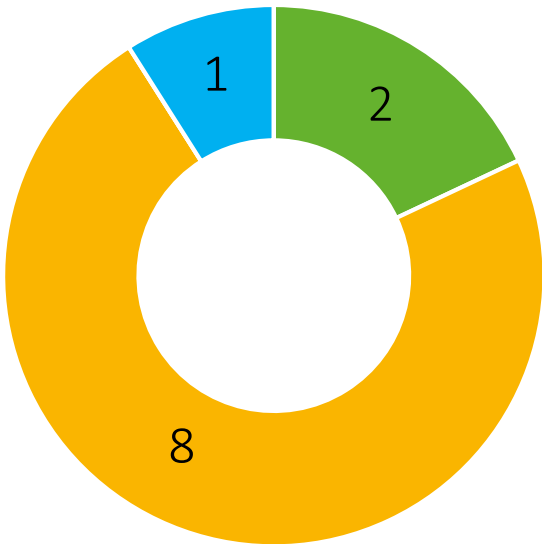
- Completed
- In Progress
- Delayed
- Not due to start
- Not Applicable

3. Progress - Investments

Strategic BAU & Key Priorities	P	C
1. Strategic Asset Allocation review	In Progress	In Progress
2. Commencement of Institutional Investment Consultant procurement	Not due to start	In Progress
3. Institutional Investment Consultant – CMA review	Not due to start	In Progress
4. Implementation of Independent Investment Adviser procurement	In Progress	In Progress
5. Commencement of Global Custody procurement	In Progress	In Progress
6. Asset/Liability Study	In Progress	In Progress
7. Investment Strategy Statement review including Responsible Investment (RI) Policy	In Progress	Completed
8. 2021/22 Treasury Management Strategy review	Not due to start	Not due to start
9. ACCESS collaboration	In Progress	In Progress
10. Individual Manager review	In Progress	In Progress
11. Review of CEM Benchmarking / Cost Transparency	Completed	Completed



Strategic BAU & Key Priorities



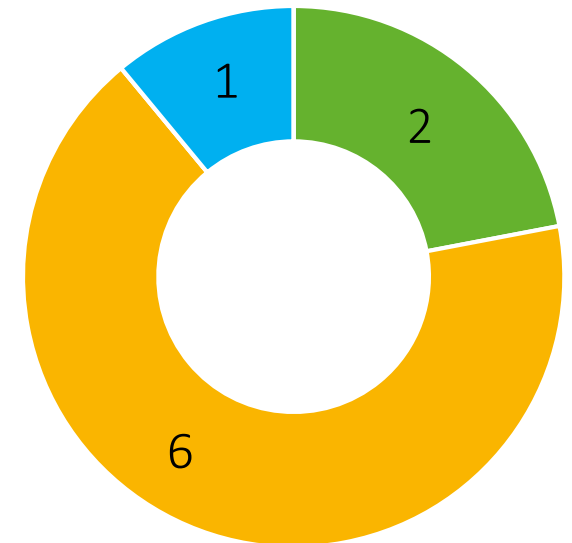
- Completed
- In Progress
- Delayed
- Not due to start
- Not Applicable

4. Progress - Administration



Strategic BAU & Key Priorities

Strategic BAU & Key Priorities	P	C
1. LGPS Reform – Planning for Administration changes: <ul style="list-style-type: none"> Unpausing of Cost Cap £95k Cap Goodwin 	In Progress	In Progress
2. Review/Procure a Administration System Provider	Completed	Completed
3. Review and implementation of Pensions Single Payments provider	Not due to start	Not due to start
4. Greater Digitalisation of the Fund including Member Online, Employer Online and Retire Online	In Progress	In Progress
5. McCloud Preparation / Implementation	In Progress	In Progress
6. Development of Monthly Returns Digital Transformation	In Progress	In Progress
7. Data Improvement Plan	In Progress	In Progress
8. Participation in National Fraud Initiative	In Progress	Completed
9. Monthly Bulk Leaver / Retire Online development/implementation	In Progress	In Progress



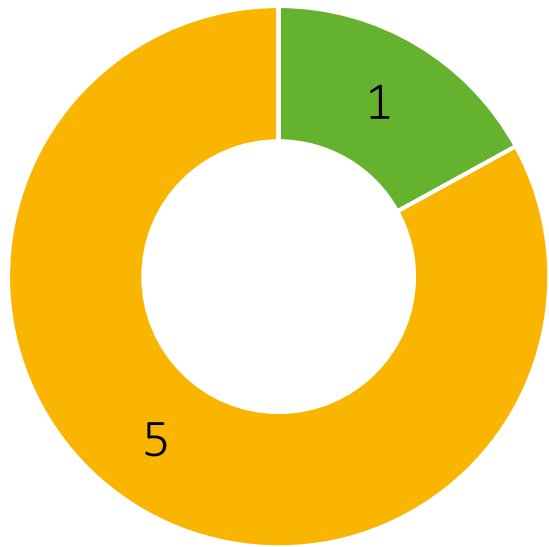
■ Completed
■ Delayed
■ Not Applicable
■ In Progress
■ Not due to start

5. Progress - Communications



Strategic BAU & Key Priorities	P	C
1. LGPS Reform: <ul style="list-style-type: none"> Unpausing of Cost Cap £95k Cap Goodwin 		
2. Greater Digitalisation of the Fund including the exploration of Electronic Communications therein		
3. McCloud Implications		
4. Social Media Channel Exploration		
5. Commencement of the Website review		
6. Annual Benefit Statements review and development		

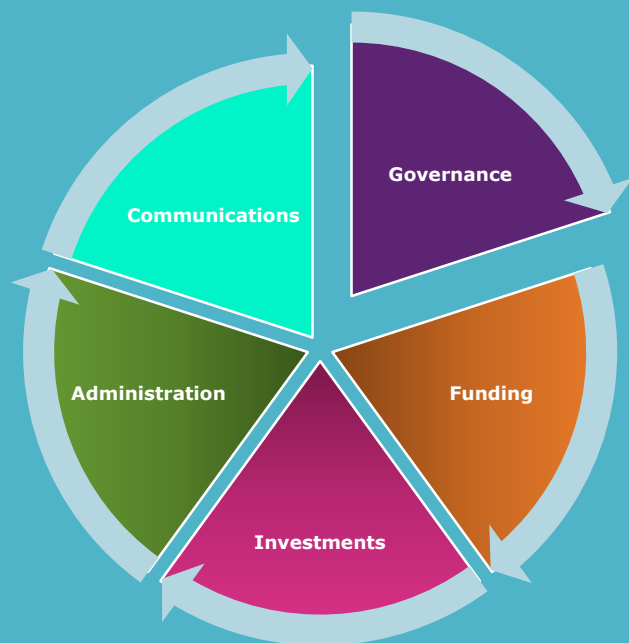
Strategic BAU & Key Priorities



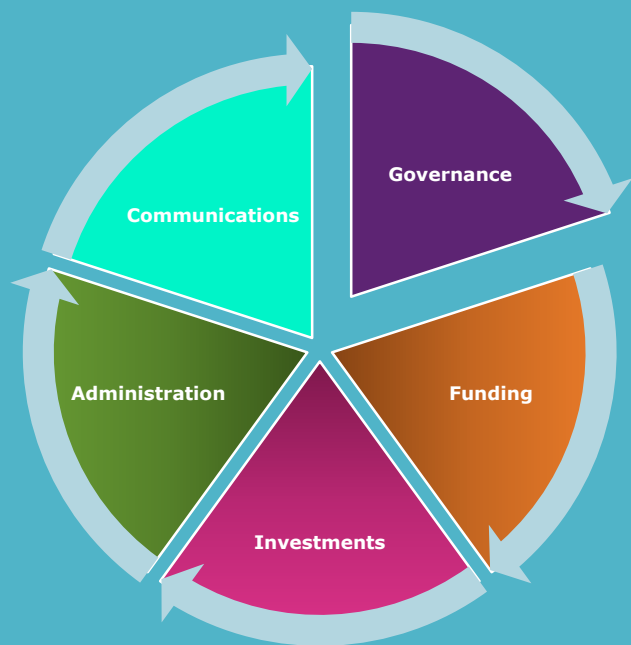
- Completed
- Delayed
- Not Applicable
- In Progress
- Not due to start

Commentary

1. Governance



Strategic BAU & Key Priorities		Commentary
1. Agree 2021/22 Business Plan & Budget		2020/21 Business Plan & Budget was agreed at the 4 March 2020 PSB meeting. The 2021/22 Business Plan & Budget process will commence in Q4 2021.
2. Development & Implementation of Risk Management Strategy		Complete.
3. LGPS Reform		Ongoing. Development periodically reviewed throughout the year.
4. Implementation of Members' knowledge and understanding <ul style="list-style-type: none"> • Training Needs Analysis • Review the revised Training Strategy (Knowledge & Skills) 		Agenda Item 6 of the 16 December 2020 PSB Agenda Pack includes the revised Knowledge and Skills Strategy and Training Plan for approval.
5. Development of Business Continuity Policy, Plan (including Cyber security) and Testing		In consultation with the Independent Governance & Administration Adviser (IGAA), the outcome of the review will be reported to the PAB at their 16 December 2020 meeting.
6. Commencement of Governance Review and Effectiveness Survey		This is due to commence in Q4 2020/21.



Strategic BAU & Key Priorities		Commentary
7. Annual Review of Governance related Policies including the Governance Policy and Compliance Statement		The annual review of the Governance Policy and Compliance Statement has commenced.
8. Annual Statement of Accounts including compliance with CIPFA requirements		Complete.
9. Annual review of Terms of Reference for PSB/ISC/PAB		Commenced in conjunction with the annual review of the Governance Policy and Compliance Statement.
10. Development & Implementation of Breaches Policy		Complete.
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Commentary

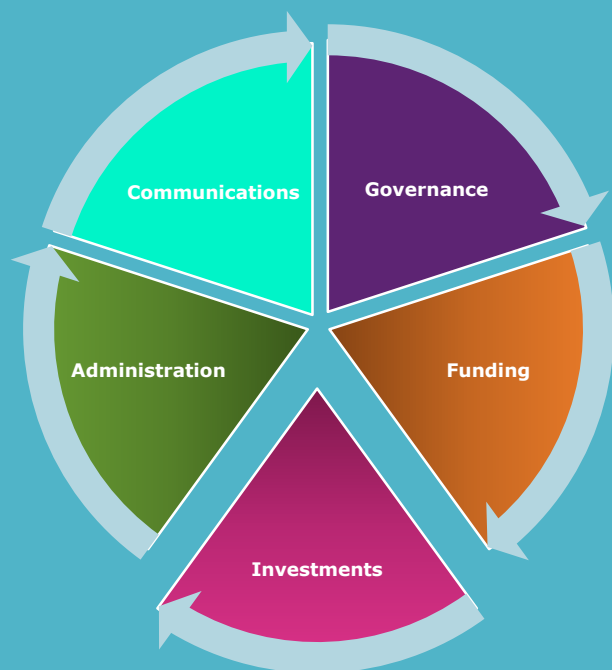
2. Funding



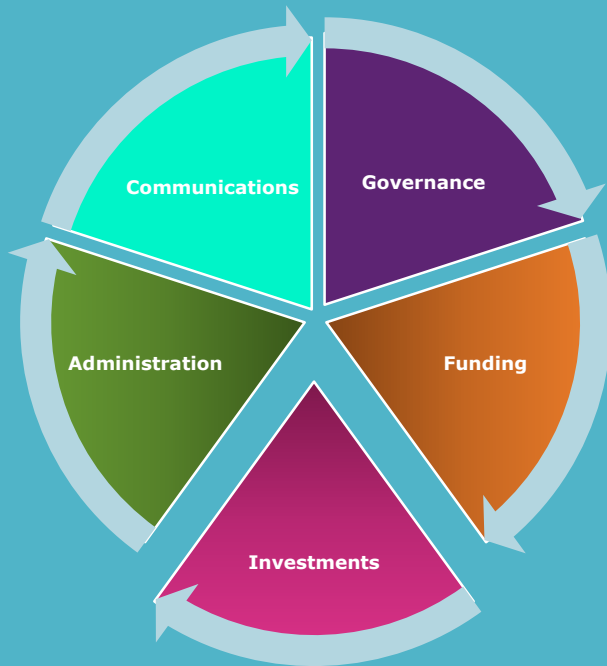
Strategic BAU & Key Priorities		Commentary
1. Implementation of the outcome of the Actuarial Valuation in line with the Fund's Funding Strategy Statement		Complete.
2. Annual Interim Funding review		Complete. Agenda item 7 of the 16 December 2020 PSB meeting provides the outcome of the Annual Interim Funding Review.
3. Funding Strategy Statement review		Complete.
4. Employing Authority discretions and delegations review		Periodically reviewed as and when required.
5. Employer Risk review		Periodically reviewed as and when required.
6. Undertake Interim review of the Fund's Actuary		This review has commenced and the outcome will be reported to the PSB at their 17 March 2021 meeting.

Commentary

3. Investments



Strategic BAU & Key Priorities		Commentary
1. Strategic Asset Allocation review		The Strategic Asset Allocation review is conducted on a Biannual basis and is reported to the ISC for decisions to be made as and when required. A review of the Fund's investment managers' as at 31 March 2020 was presented to the July 2020 ISC meeting. A follow-up review will take place during February 2021.
2. Commencement of Institutional Investment Consultant procurement		This procurement has commenced with an update being provided to the ISC at their 20 January 2021 meeting.
3. Institutional Investment Consultant – CMA review		The CMA review for 2020/21 has been arranged for 14 December 2020. The outcome will be reported to the 20 January 2021 ISC meeting.
4. Implementation of Independent Investment Adviser procurement		Commenced. The ISC Appointment-Sub Committee will interview shortlisted candidates on 9 December 2020. The outcome will be reported to the ISC at its 20 January 2021 meeting.
5. Commencement of Global Custody procurement		The Fund is working with the National LGPS Framework colleagues on populating the providers on the Custody Framework. The timetable is on target for a go live of February 2020. The Fund is on schedule to commence procurement during Q4 2020/21.
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Strategic BAU & Key Priorities		Commentary
6. Asset/Liability Study		Preliminary work has commenced with the outcome to be reported in Q4 2020/21.
7. Investment Strategy Statement review including Responsible Investment (RI) Policy		Complete.
8. 2021/22 Treasury Management Strategy review		The 2021/22 Treasury Management Strategy review will commence in Q4 2021.
9. ACCESS collaboration		Ongoing.
10. Individual Manager review		Progress periodically reported to each ISC meeting.
11. Review of CEM Benchmarking / Cost Transparency		Complete.

Commentary

4. Administration



Strategic BAU & Key Priorities		Commentary
1. LGPS Reform – Planning for Administration changes <ul style="list-style-type: none"> Unpausing of Cost Cap £95k Cap Goodwin 		Agenda Item 3 of the 16 December 2020 PSB includes an update in regard to the Fund's responses to the £95k Cap and McCloud MHCLG Consultations.
2. Review/Procure a Administration System Provider		Complete.
3. Review and implementation of Pensions Single Payments provider		New timeline to be agreed in line with ECC Corporate Systems Project.
4. Greater Digitalisation of the Fund including Member Online, Employer Online and Retire Online		Ongoing. An update was provided to the Board at the 11 November 2020 "Back to basics" Training Day.
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Strategic BAU & Key Priorities		Commentary
5. McCloud Preparation / Implementation		Agenda Item 3 of the 16 December 2020 PSB includes an update in regard to the Fund's response to the MHCLG Consultation.
6. Development of Monthly Returns Digital Transformation		The Fund is on target to complete the development of the facility for the Fund Employers' to provide Monthly Returns digitally by the end of 2021/22.
7. Data Improvement Plan		In progress.
8. Participation in National Fraud Initiative		Complete.
9. Monthly Bulk Leaver / Retire Online development / implementation		In progress.
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Commentary

5. Communications

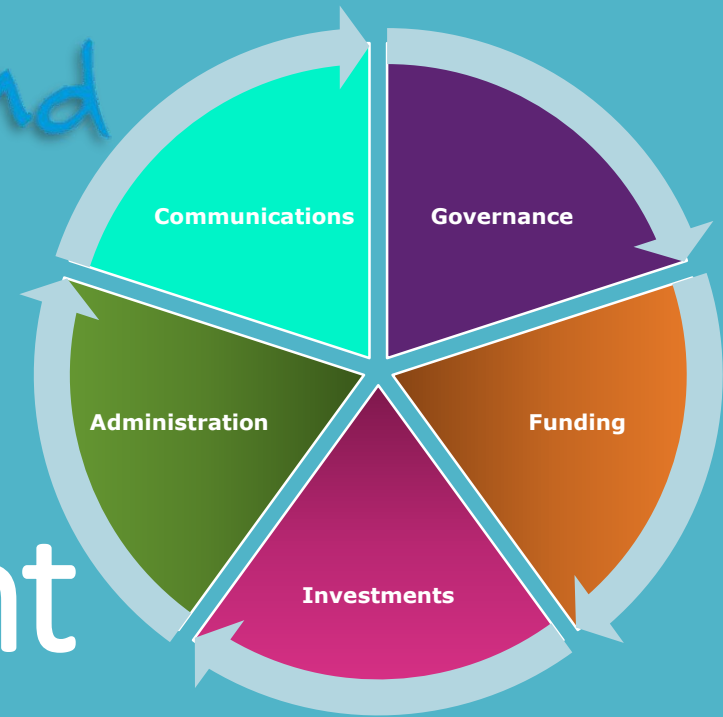


Strategic BAU & Key Priorities		Commentary
1. LGPS Reform: <ul style="list-style-type: none"> Unpausing of Cost Cap £95k Cap Goodwin 		Agenda Item 3 of the 16 December 2020 PSB includes an update in regard to the Fund's responses to the £95k Cap and McCloud MHCLG Consultations. These have been shared with Fund Employers.
2. Greater Digitalisation of the Fund including the exploration of Electronic Communications therein		In progress. The Fund have secured a LinkedIn account and are in the process of securing a YouTube account.
3. McCloud Implications		In progress. The Fund will continue to communicate with Employers and updates on the latest developments will be provided throughout the year.
4. Social Media Channel Exploration		In progress. The Fund have a LinkedIn Social Media Channel and are now exploring the use of a YouTube Channel to enable training webinars for Employers and/or Members to view as and when required.
5. Commencement of the Website review		The website review is in progress and is due for completion by the end of 2021/22.
6. Annual Benefit Statements review and development		Complete.
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Essex Pension Fund


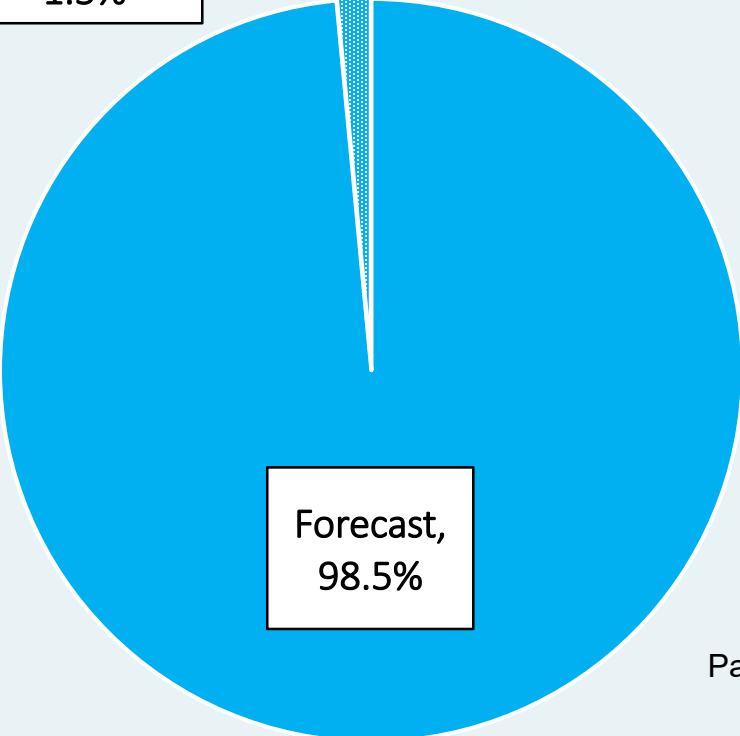





Section B 2020/21 Budget vs Current Forecast Progress Update

Date produced: 30 November 2020

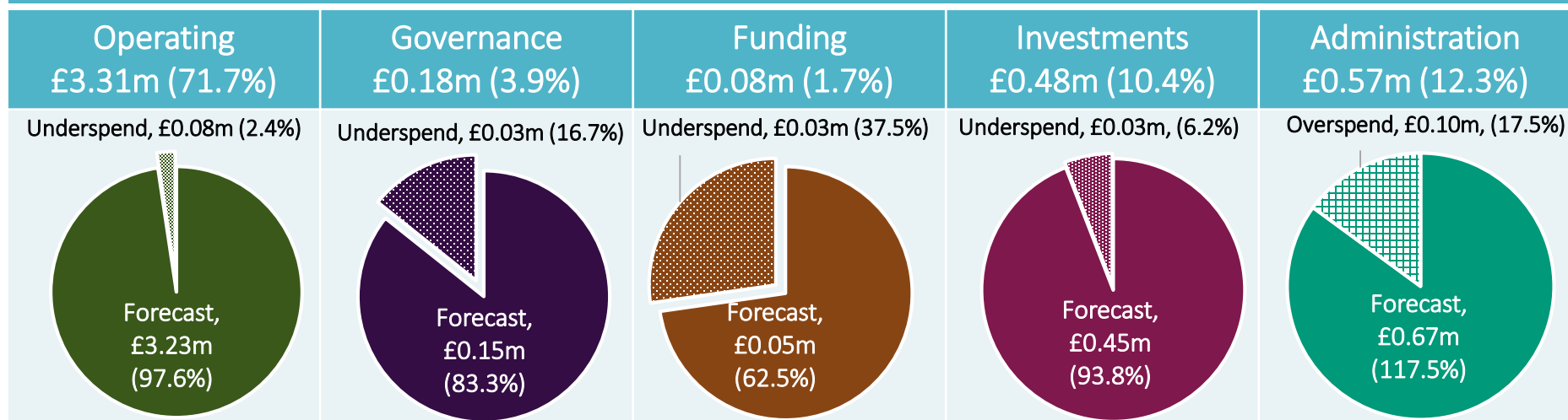


EPF Budget vs Forecast 2020/21

Q3 Progress Update

EPF Budget £4.62m	Current Forecast £4.55m	Variance (Under)/ Overspend (£0.07m)	Rating 	Progress Update Commentary	Variance against Budget Key
 <div>Underspend, 1.5%</div> <div>Forecast, 98.5%</div>				<p>Continue to forecast a slight underspend against EPF 2020/21 Budget.</p> <p>The Forecast is based on the Fund's current FTE staffing structure and does not reflect the impact of the recent LGPS Reform announcements on the Fund's staffing resources and systems.</p> <p>A Resource Impact Assessment and Gap Analysis is in progress to assess the affect on delivery of statutory duties. At this stage we anticipate little impact to the current Budget. However, the assessment will inform assumptions in regard to formulating the 2021/22 Budget.</p>	<div>(Under) spend > 5% </div> <div>(Under) spend < 5% </div> <div>On Budget </div> <div>Over spend < 5% </div> <div>Over spend > 5% </div>

EPF Budget 2020/21: £4.62m



Variance against Budget: Rating



Budget Commentary

EPF Staffing Budget slight underspend due to 1 FTE vacancy for half the year. This vacancy has now been filled. The budget line also includes travel/conferences expenses. In the current climate with the continued reliance on virtual, rather than physical meetings/conferences an underspend is still forecast.

Underspend due to cancellation of June PSB/PAB and July training day and the current reliance on virtual meetings. Advice for the second half of the year currently within Budget.

Budget line includes actuarial and legal advice. Actuarial advice currently significantly under Budget. This is due to the Employer Team being in a position to undertake some of the funding work internally with advice utilised only as and when required.

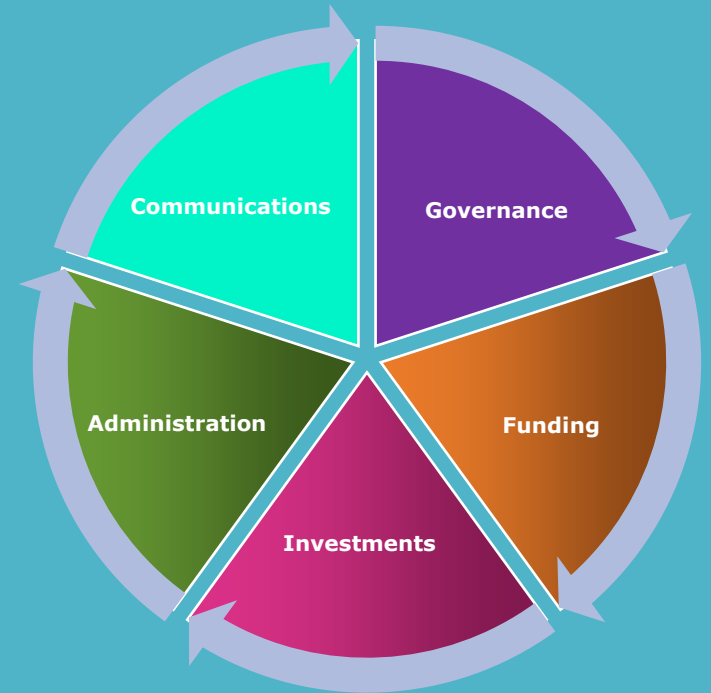
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Continue to forecast a slight underspend for the year. Budget line contains a contingency for additional advice/work on Responsible Investment.

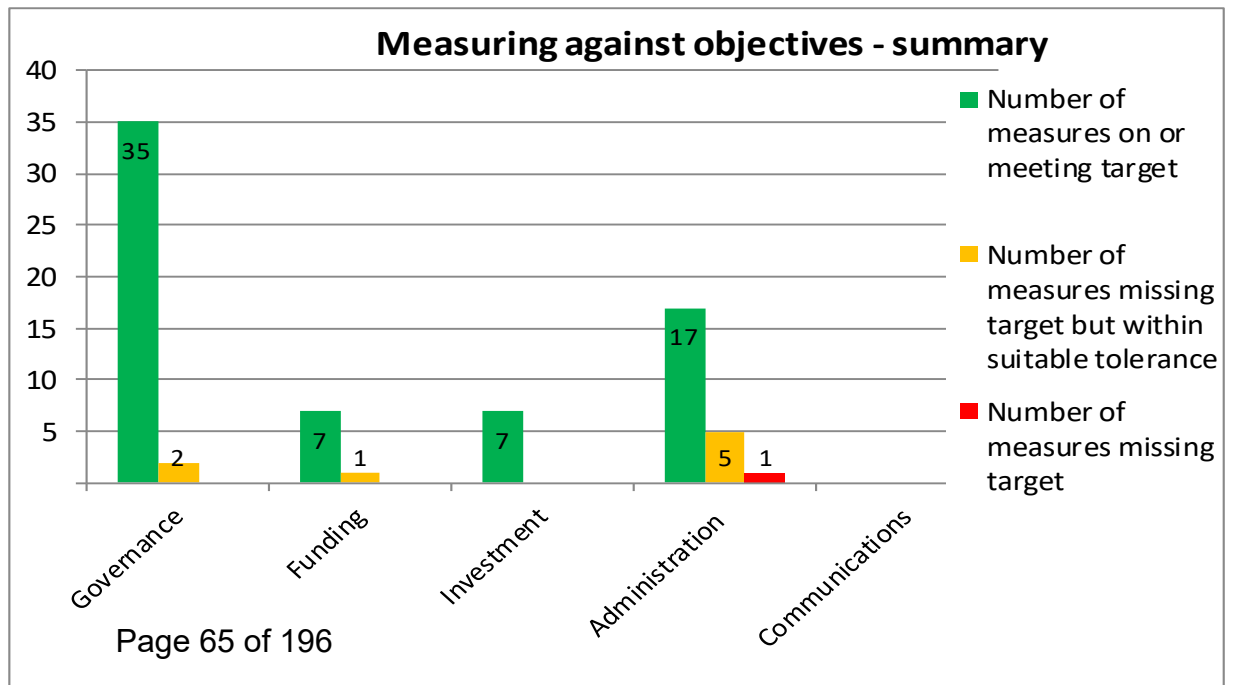
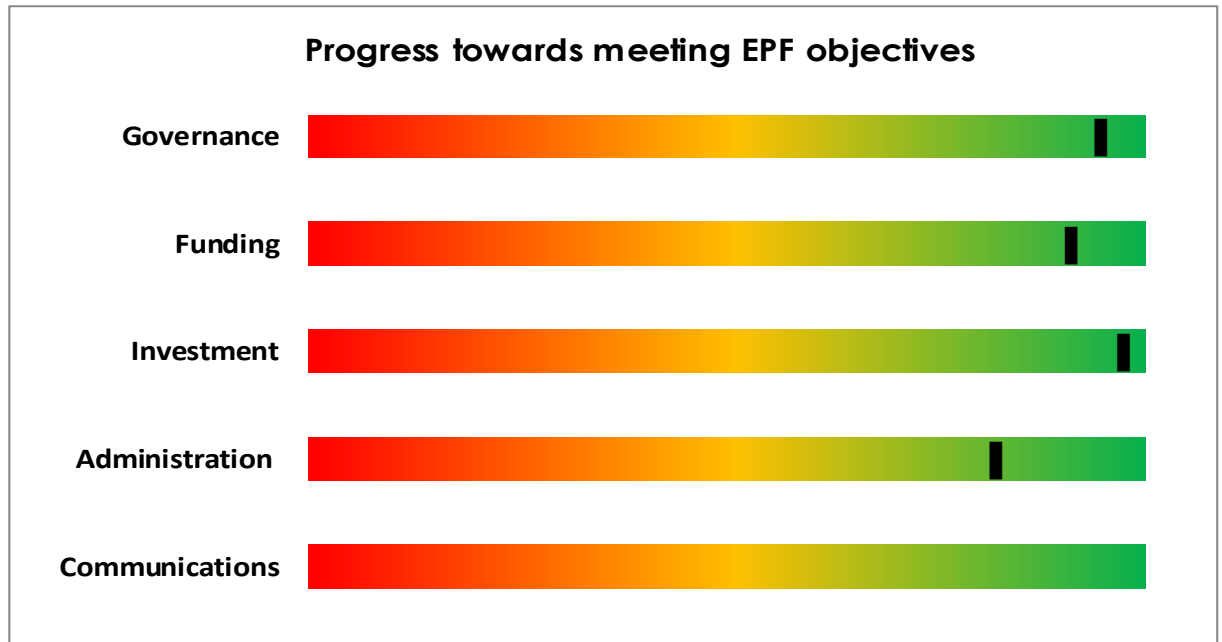
Current forecast reflects the new contract terms of Civica (administration system provider) contract that commenced in late August. As part of the call off from the LGPS Framework the Fund is required to pay a one off fee in regard to licencing and hosting. These costs were not fully anticipated when formulating the 2020/21 Budget.

2020/21 Scorecard Update

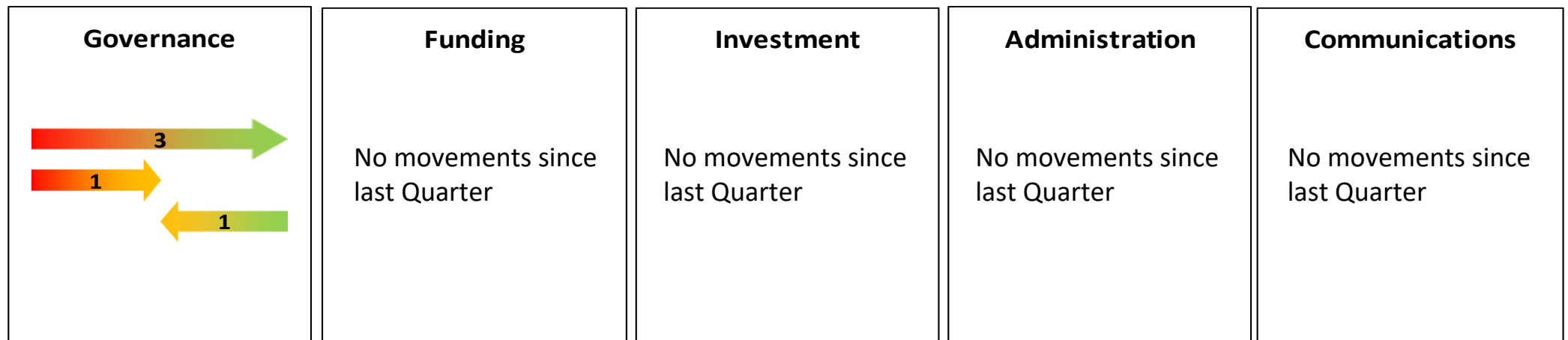
01 September 2020 - 30 November 2020



Current Status

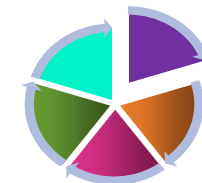


Movements since previous Scorecard



The numbers on the arrows represent the number of measures moving each way


Exceptions - Governance



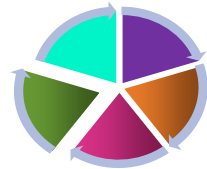
Measure	Score as at 31 August 2020	Score as at 30 November 2020	Detail	Trend
1.2.4 % of Board/Committee minutes uploaded to internet within 12 working days after meetings	0%	100%	Since 1 September to 30 November, 1 PSB & PAB on 23 September and 1 ISC on 21 October, with all meeting minutes issued by the required deadline. 0% was reported to 23 September PSB.	
1.3.3. All new PSB, ISC, PAB members have internal induction training carried out within 3 months of confirmed appointment	No	Yes	All new PSB/ISC/PAB Members have received their induction training.	
1.3.10. PAB Members achieved required training credits within a rolling 2-year period	100%	76%	For 23 September 2020 this was 53% red. The Training Credits in the revised Training Strategy have been reviewed as the current credits target is not deemed as achievable.	
1.3.11. % attendance at meetings by PAB	100%	78%	For the 23 September 2020 meeting, 2 PAB Members were unable to attend.	
1.5.3. EPF declaration forms completed or reaffirmed by PSB/ISC and PAB Members with Third Party Transactions Declarations completed to fulfil the statutory requirements for the production of the Fund's Financial Statements on an annual basis	No	Yes	The Fund have now received all annual declarations from Board/Committee Members.	

Exceptions - Funding



Measure	Score as at 31 August 2020	Score as at 30 November 2020	Detail	Trend
2.6.1. Potentially unrecoverable deficit due to employers leaving scheme (as a percentage of Total Fund deficit)	0.001%	0.001%	The Fund now has one liquidation in progress as a result of Covid-19, the value at this stage is unknown and will be shared with the PSB at a future meeting.	

Exceptions - Administration



Measure	Score as at 31 August 2020	Score as at 30 November 2020	Detail	Trend
4.2.1 % of contributing employers submitting timely payments	98.5%	98.2%	Previous score reported to 23 September PSB was 98.5%	↔
4.2.2. % of employers submitting employer contribution amounts in accordance with rates and adjustments certificate	99.8%	99.8%	Previous score reported to 23 September PSB was 99.8%	↔

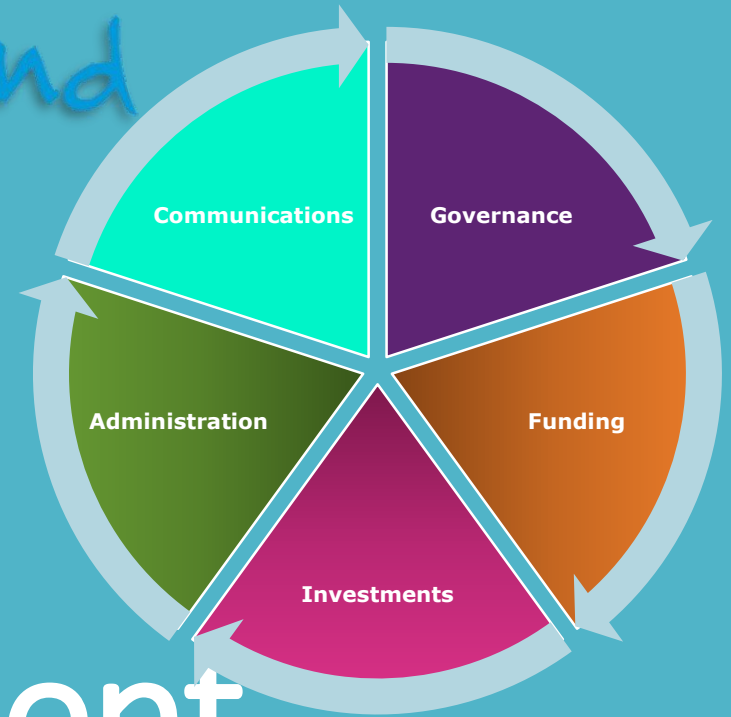
Essex Pension Fund

Section D

2020/21

Risk Management Update

01 September 2020 – 30 November 2020



Essex Pension Fund

Current Status

Probability

Almost Certain (4)		1 (1)	1 (1)	
Likely (3)		4 (4)	4 (4)	
Possible (2)		4 (4)	7 (7)	2 (2)
Unlikely (1)		5 (5)	10 (10)	8 (8)
	Minor (1)	Moderate (2)	Major (3)	Critical (4)

mpact

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(No. in brackets represents the previous scores reported to the 23 September PSB)
The Exception Report only shows those that have not yet reached their target score.

Assessments

BAU

Risk	Reported at 23 September PSB	As at 30 November 2020
G3. Lack of expertise, insufficient knowledge and maintenance of PSB/ISC/PAB	4 (Yellow) Risk has been partially mitigated due to the appointment of the Employer Representative on the PSB.	4 (Yellow) As previous.
G14. Regulatory Risks impacting on Investments, Funding and Administration	12 (Red) <ul style="list-style-type: none"> - £95k Cap - McCloud - Goodwin - Unpausing of Cost Cap 	12 (Red) As previous.
A3. Failure to pay people at right time in right amount	6 (Yellow) Imminent risk has now been mitigated effectively however a lower risk still remains due to further BACs Cloud procurement/	6 (Yellow) Pending BACS Cloud Procurement update.



1. Exceptions - Governance

Risk Details	23 Sep Rating	Current Rating	Controls / Mitigations	Target Score
<p>G14. Regulatory risks impacting on Investments, Funding and Administration:</p> <ul style="list-style-type: none"> - McCloud, Cost Cap, £95k Cap and Goodwin - MHCLG Consultations likely to impact on the Fund i.e. resources to deliver the required outputs; - Academisation of Schools, the possibility of Multi-academy Trust (MAT) breakups and cross fund movements with potential for further schools to convert to academy status and MATs to breakdown leading to additional governance and administration risk; - Current cost management review where a flawed process will result in better benefits for scheme members that will mean employers having to pay more than they otherwise would have; - Superannuation Contributions Adjusted for Past Experience (SCAPE) rate changes that will significantly increase transfer values paid out (increase of liabilities) and impact on the Funding Strategy via s13 which could mean unforeseen increases to employer contributions; - Increased centralisation of the Local Government Pension Scheme (LGPS) and HM Treasury taking all the assets / structural change; 	12	12	<ol style="list-style-type: none"> 1. Regular communications with schools to understand their intentions. 2. Essex Pension Fund (EPF) and their Advisers are actively involved in the development of the LGPS. 3. EPF monitor the current and new regulations and correspondence from Ministry of Housing, Communities and Local Government (MHCLG) and Local Government Association (LGA). 4. EPF keeps abreast of developments, participating in consultations and collaborating with other Funds. 5. EPF utilise the expertise of their Independent Administration and Governance Adviser (IGAA) 	4



1. Exceptions - Governance

Risk Details	23 Sep Rating	Current Rating	Controls / Mitigations	Target Score
<p>G14 continued.</p> <ul style="list-style-type: none"> - Guaranteed Minimum Pension (GMP) equalisation resulting in potentially additional costs and/or administration; - National Pensions Dashboard resulting in major changes to data provision; - Separation of the Fund from the Administering Authority; - Government intervention in Fund asset allocation decisions. 	12	12	6. McCloud Working Group established and initial communications issued to Employers to ensure data is retained.	4
<p>G9. Failure to undertake business as usual service due to events outside of Essex Pension Fund (EPF) control resulting in loss of service provision</p>	8	8	<ol style="list-style-type: none"> 1. EPF Business Continuity Plan (BCP) in place. 2. EPF BCP regularly tested including call cascades and desk-top exercises. 3. Testing is recorded and monitored. 4. Essex County Council (ECC) also exercise their BCP which includes EPF. 	6



4. Exceptions - Administration

Risk Details	23 Sep Rating	Current Rating	Controls / Mitigations	Target Score
<p>A1. Failure to administer scheme correctly in line with all relevant Regulations and policies owing to circumstances such as, but not limited to:</p> <ul style="list-style-type: none">- lack of regulatory clarity;- system issues;- insufficient resources.	9	9	<ol style="list-style-type: none">1. Essex Pension Fund (EPF) ensure the System complies with the latest regulatory requirements through:<ul style="list-style-type: none">• Technical Hub help to translate regulations and ensure new systems meet regulatory requirements;• Robust testing for system changes• Linking to knowledge and information from software supplier and other Local Government Pension Scheme (LGPS) clients using the same administration software.2. EPF management monitor workload through reporting and align with business plan to ensure sufficient resources.3. EPF have clear business continuity plans including disaster recovery and management succession planning in place.	6



4. Exceptions - Administration

Risk Details	23 Sep Rating	Current Rating	Controls / Mitigations	Target Score
A3. Failure to maintain proper records leading to inadequate data resulting in failure to pay the correct pensions to the right people at the right time.	6	6	<ol style="list-style-type: none">1. Data cleansing exercises take place at least annually or as and when required. Common and Scheme Specific data checks are carried out.2. Essex Pension Fund (EPF) ensure the System is tested regularly to ensure compliance with regulations.3. Robust checking and validation of data takes place in calculations and receipt of information from employers.4. EPF ensures staff are adequately trained by developing and implementing training plans along with encouraging staff to undertake professional qualifications.5. Payroll is conducted earlier than required to allow issues to be rectified prior to payment.	3

4. Exceptions - Administration



Risk Details	23 Sep Rating	Current Rating	Controls / Mitigations	Target Score
A3 Continued.	6	6	6. Liaise with Essex County Council (ECC) Supplier and Service team to ensure ECC BACS system is secure, reliable and up-to-date with required software on an ongoing basis. There is reliance on ECC BACS software solution to ensure payroll is completed at the right time.	3

Essex Pension Fund Strategy Board	PSB 05
Date: 16 December 2020	

External Audit 2019/20: Essex Pension Fund Audit Completion Report

Report by the Interim Director for Essex Pension Fund

Enquiries to Jody Evans 03330 138489

1. Purpose of the Report

- 1.1 To present BDO LLP's Audit Completion Report in relation to the 2019/20 external audit of the Essex Pension Fund (EPF).

2. Recommendation.

- 2.1 That the Board should note the content of the report.

3. Background

- 3.1 The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the National Audit Officer (NAO) Code of Audit Practice.
- 3.2 The Code of Practice requires BDO to report to those formally charged with governance on the work they have carried out to discharge their statutory audit responsibilities. To this end the Audit, Governance and Standards Committee (Audit Committee) has ultimate responsibility for the governance of Essex County Council (ECC).

4. 2019/20 External Audit

- 4.1 At its September meeting, the Board was provided with BDO LLP's 2019/20 EPF Audit Plan. In addition, it was explained that due to pressure on local authorities to deal with the Covid 19 pandemic a revised audit timetable for ECC and EPF had been agreed with BDO.
- 4.2 The revised timetable agreed was annual draft accounts presented for external audit by 30 June and for the publishing of final audited and approved accounts by 30 September. These dates were within the Government's revised statutory deadlines of 31 August (previously 31 May 2020) and 30 November (previously 31 July 2020) respectively.

5. Accounts Closure & BDO External Audit Completion report

- 5.1 At this meeting it was confirmed that the Fund had successfully closed the accounts in accordance with the Fund's year-end closure timetable and ECC's revised timetable and were presented to the auditors by the 30 June deadline.
- 5.2 BDO commenced the external audit on 6 July 2020. However, a loss of planned and booked resource in the early phase, resulting in the audit becoming delayed and behind schedule. As a result, BDO was not in a position to issue their audit completion reports and their opinions at the Audit Committee on 28 September 2020 as originally planned.

- 5.3 A further meeting of the Audit Committee was arranged for 16 November 2020. Unfortunately, further delays in completing ECC's audit resulted in BDO only being in a position to provide an update at that meeting on the status of both audits. Again, as a result they were not be in a position to issue their opinion on the Fund's accounts as this was dependent on the completion of ECC's audit.
- 5.4 A further meeting was arranged for 30 November 2020. At this meeting BDO presented their completions reports and ECC and the Pension Fund Accounts were both approved and issued with an unqualified opinion. BDO's Audit Completion Report for EPF is provided at Appendix A.

6. Pension Fund Annual Report & Accounts 2019/20

- 6.1 Following this meeting, the Pension Fund Annual Report & Accounts were approved by the Chairman of the Board and were subsequently uploaded to the Essex Pension Fund website by the statutory deadline of 1 December 2020.

7. Link to Essex Pension Fund Objectives

- 7.1 Audit work assists the Fund in achieving a number of its objectives, including:
- ensuring 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;
 - understand and monitor risk and compliance; and
 - provide a high-quality service whilst maintaining value for money.

8. Risk Implications

- 8.1 Audit work is a means of both identifying and mitigating risk.

9. Communication Implications

- 9.1 Other than ongoing reporting to the Board and ECC's Audit, Governance and Standards Committee, there are no communications implications.

10. Finance and Resources Implications

- 10.1 As highlighted in the attached Audit Completion Report, the charge to the Fund in 2019/20 was £40,500 (2018/19: £29,575), of which £12,250 (2018/19: £5,500) is recharged back to those employers in respect of assurance required for IAS19 purposes. This fee was £750 more than originally communicated to the Board and relates to the additional work around IAS19 assurance requests.

11. Background Papers

- 11.1 BDO LLP Audit Completion Report: Year ended 31 March 2020.
- 11.2 The Local Government Pension Scheme (Administration) Regulations 2008.
- 11.3 The National Audit Office's Code of Audit Practice.
- .



Report to the Audit, Governance and Standards Committee

ESSEX PENSION FUND

Audit Completion Report: year ended 31 March 2020

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Pension Fund for the co-operation and assistance provided during the audit.

David Eagles, Partner
for and on behalf of BDO LLP, Appointed Auditor

16 September 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit, Governance and Standards Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2020.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2020 in line with the revised timetable.

Outstanding matters are listed on page 35 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

The financial statements include disclosures about a material valuation uncertainty in respect of directly held properties due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

THE NUMBERS

Executive summary

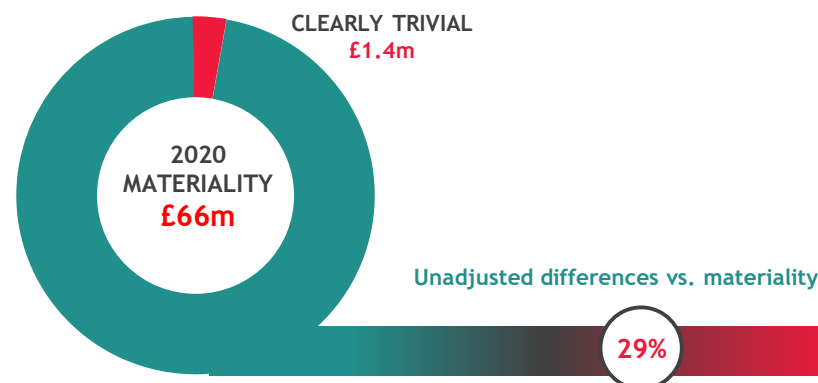
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Final materiality

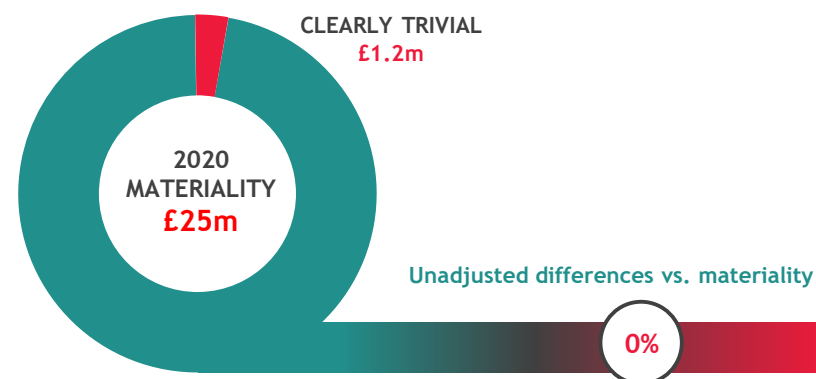
Final materiality was determined based on 1% of net assets. Specific materiality (at a lower level) was set for the fund account balances (excluding changes in market value of investments) and this was based on 7.5% of gross expenses in the Fund Account.

Following receipt of the draft financial statements for audit we updated the materiality figures. This decreased the materiality from £70m to £66m. Specific materiality for Fund Account was increased from £24m to £25m.

FINANCIAL STATEMENTS OVERALL MATERIALITY



FUND ACCOUNT SPECIFIC MATERIALITY



Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified two audit adjustments that, if posted, would increase the 'Net decrease in the assets available for benefits during the year' in the Fund Account and decrease 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £19,123k.

OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- We are yet to review the annual report to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Pension Fund in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.



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CORONAVIRUS

The effects on year-end reporting and auditing

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, directors are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from directors, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern directors are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.

- The assessment needs to consider the entity’s resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the directors consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government’s commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the directors’ assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor’s review of directors’ assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS 2

The effects on year-end reporting and auditing

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Financial reporting implications

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Pension Fund Annual Report

Pension Funds will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Annual Reports.

Other guidance

The National Audit Office (NAO) has published a Guide for Audit Committees on financial reporting and management during the Coronavirus pandemic. This guide aims to help Audit Committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help Audit Committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and Audit Committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

CORONAVIRUS 3

The effects on year-end reporting and auditing

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Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
 - The valuation and disclosure of investment assets
 - Going concern assessment and disclosure
 - Risk disclosures
 - Subsequent event disclosures
 - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Pension Fund Annual Report, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
 - Consider the impact on the audited entity
 - Consider alternative ways of working including the use of our technology tools
 - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of directly held properties, auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Pension Fund's financial statements and may be referred to by the auditor in their opinion/report.

OUR METHODOLOGY

Summary

We obtain our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. Given the control activities we identified and the nature of activities, we determined that substantive testing to directly verify items in the Fund Account and Net Assets Statement would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.



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AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Valuation of investments (unquoted and direct property investments)	Significant	Yes	Yes	Yes, unadjusted	No	No
Pension liability valuation	Significant	Yes	Yes	No	No	Yes - management representation about pension assumptions
Valuation of investments (pooled investments)	Normal	No	No	No	No	No
Contributions receivable	Normal	No	No	No	No	No



 Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- We reviewed journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results and conclusions

From the work completed we have identified no evidence of systematic bias or management override in the processing of journals entries and other adjustments.

Material accounting estimates for the Pension Fund included valuation of investments and pension liability. Our audit work on these accounting estimates are set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates are reasonable and free from management bias.

We have not identified any management bias or deliberate misstatements by reviewing the unadjusted audit differences.

We have not identified any unusual transactions or transactions that are outside the normal course of business for the Pension Fund.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

The valuation of unquoted and direct property investments is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Risk description

The investment portfolio includes unquoted private equity, debt, infrastructure and timberlands which are valued by the fund managers. The pension fund also makes direct investments in freehold and leasehold properties which are based on valuations received from the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.

In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.

As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers and requested copies of the audited financial statements (and member allocations) from the fund;

Results and conclusions

The direct confirmations obtained from fund managers identified that the valuation of private equity was overstated by a non material amount of £3,621k, with a total overstatement of investments of £5,239k across all categories of investments. These variances are due to some investment reports used during the preparation of financial statements not being coterminous with the year-end date and therefore estimates needed to be made. The updated information was available during the audit which identified the above variances against the estimated amounts used. The variance identified was included within the uncorrected misstatements schedule for the impact of change in market value in the Fund Account and investment value in the Net Assets Statement.

For investments in private equity, illiquid debt, infrastructure and timberlands, we obtained audited financial statements of the underlying investee funds, and valuations were recalculated by adjusting the additional contributions and distributions where relevant. Given the extended period to prepare financial statements during the year, net asset statements at 31 March 2020 were available for the investment in illiquid debt, infrastructure and timberland. Our recalculations of valuations for these investment categories did not identify any non-trivial variances.

In respect of private equity investments, the valuations were initially based on net assets as at 31 December 2019, adjusted for additional contributions and distributions. However, given the impact of Covid-19, the valuations were further reduced by 4.95% based on an estimate provided by the private equity fund manager. For a sample of private equity funds, we have recalculated the valuations based on the net assets at 31 December 2019, adjusted for additional contributions and distributions, and also with the same adjustment of 4.95%. This identified all but one of the sampled items having valuations which were in line with the valuations reported. The variance identified in the remaining sampled item was due to the uncorrected misstatement of £3,621k reported above.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

Continued

(Continued)	
Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

- Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation;
- For property valuations, we agreed input data used by the valuer such as agreeing rental information to the underlying rental agreements, and reviewed the rental yields against the comparable data and indices for reasonableness;
- Where the financial statement date supporting the valuation is not contemporaneous with the pension fund's year end, we confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Checked whether the investments have been correctly valued in accordance with the relevant accounting policies.

We also reviewed reasonableness of the 4.95% adjustment referred to above as having been made to private equity valuations to account for the valuation reduction from January to March 2020, due to the impact of Covid-19. We reviewed industry sectors where each of the private equity funds have invested in, and identified that 80% of investments were made in the sectors which were not significantly affected by Covid-19. 18.7% of investments were made in the consumer discretionary sector with another 1.3% in real estate, which are considered to be some of the sectors most heavily affected. To further assess the reasonableness of this adjustment, we obtained partners' capital accounts at 31 March 2020 for the same sampled items referred to above, and reviewed the extent of valuation movements. This identified that, on average, the valuations had decreased by 8.83%. This is 3.88% higher than the adjustment applied by the pension fund. When this is applied to the total private equity valuation reported in the financial statements, this gives an overstatement of private equity investments by £13,884k which was included in the uncorrected misstatements schedule.

The direct investment properties held by the pension fund have been revalued by external professional valuers Knight Frank LLP. We are satisfied with the skills and expertise of the valuer and concluded that we can rely on the management expert. Our review of the input used by the valuer (i.e. rental information) confirmed that they are accurate and reasonable. The overall valuation of investment properties has decreased by approximately 4.9% during the year to £398m. The MSCI sector capital value index has decreased by 5.0% during the year, with the MSCI sector rental value index decreasing by 1.0%. The overall decrease in valuation (£20.4m) is therefore considered to be reasonable and is well within out materiality of £66m. We are therefore satisfied that the valuation of direct properties held by the Pension Fund is reasonable.

The valuer of the property assets has included a material valuation uncertainty disclosure due to Covid-19 within their valuation report. This disclosure has also been included within the Pension Fund financial statements and we anticipate including an Emphasis of Matter paragraph within our audit opinion to refer to this.

PENSION LIABILITY VALUATION

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability was carried out during the 2019/20 year to calculate the liability as at 31 March 2019. This involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary and re-setting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2020 is based on a roll-forward of data from the 2019 triennial valuation, updated where necessary.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Tested a sample of membership and cash flow data sent to the actuary for existence and accuracy, and reconciled the membership data sent to the actuary to the membership administration system for completeness;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Agreed the disclosure to the information provided by the actuary.

PENSION LIABILITY VALUATION

Continued

(Continued)

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Results and conclusion

The Pension Fund has established controls and procedures to ensure completeness and accuracy of membership data provided to the actuary. Our review of the controls to ensure data provided to the actuary is complete and accurate did not identify any issues.

We obtained the final data return submitted to the actuary in respect of the triennial valuation and agreed number of members to the UPM system. We reconciled the number of members by each category (active members, deferred members and pensioners) per the final data return to the membership data reported in the final triennial valuation report. We selected a sample of 40 members across the whole pension fund, split into the active members, deferred members and pensioners (including dependent pensioners), and tested the key data points such as date of birth, gender, pensionable salary and qualifying service period etc. to underlying supporting documents. Our audit work did not identify any issues.

In respect of cash flow data provided to the actuary for the triennial valuation, we identified no issues. However, testing of the cash flow data provided to the actuary for the roll forward valuation at 31 March 2020 identified some differences between the estimated contributions based on month 10 actual amounts plus two months estimates and the actual amounts for the year, but we did not consider these to be significant differences that would materially impact on the liability valuation.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

The annual data return template from the actuary included details of bulk transfers as these are estimated by the actuary. This data is subjected to data confirmation with individual employers to ensure that they are reasonable. We are therefore satisfied that any significant changes in membership data have been communicated to the actuary.

We agreed the disclosures in Note 16 to the pension fund financial statements to the information provided by the actuary and have identified no issues.

Following the ruling on age discrimination on the McCloud case and gender discrimination on a Lloyds case in the prior year, the actuary has made an allowance at the last accounting date and therefore was already included in the opening liability for this year. This allowance was therefore incorporated in the roll forward approach and the actuary has confirmed that this was re-measured 31 March 2020. The approach adopted by the actuary is considered to be reasonable.

PENSION LIABILITY VALUATION

Continued

Significant accounting estimate: pension liability

Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

Changes in 2019/20

The actuarial valuation of future benefits has decreased by £546 million, from £9,805 million to £9,259 million.

Changes in assumptions that have decreased the liability include a decrease in CPI and future pension increases (from 2.40% to 1.90%) and decrease in salary increase (from 3.90% to 2.90%), which was partially offset by reduction to the discount rate (from 2.40% to 2.35%). Mortality assumptions have not been changed significantly during the year, as such this has resulted in a decrease in the liabilities from these actuarial assumptions only by £95 million (1%). The liability has increased by £131 million (1.3%) due to experience loss.

Discussion

The pension liability to pay future pensions has decreased by £546 million to £9,259 million at 31 March 2020.

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
RPI increase	2.70%	2.65% - 2.80%	Reasonable
CPI increase	1.90%	1.85% - 1.95%	Reasonable
Salary increase	2.90%	2.85% - 2.95%	Reasonable
Pension increase	1.90%	1.85% - 1.95%	Reasonable
Discount rate	2.35%	2.35%	Reasonable
Mortality - LGPS:			
- Male current	23.2 years	22.8 - 24.7	Reasonable
- Female current	25.2 years	25.2 - 26.2	Reasonable
- Male retired	21.8 years	21.4 - 23.3	Reasonable
- Female retired	23.7 years	23.7 - 24.7	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable.

The pension liability has increased by £131 million due to experience loss, which represents 1.3% of opening liability. This is considered to be reasonable given the inherent limitations of roll forward approach.

We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges. We have included specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

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VALUATION OF INVESTMENTS (POOLED INVESTMENT)

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There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuations are reported on a monthly/ quarterly basis although there may be amendments to the 'flash' valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts;
- Checked that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

Results and conclusion

The investment valuations included in the financial statements for pooled investments were agreed to the valuations provided by the fund managers with trivial variances.

We agreed that the investments have been correctly valued using the closing bid market price in line with the accounting policy.

We obtained independent assurance reports for each fund manager and the custodian and these did not reveal any issues with the effectiveness of controls operated by fund managers and custodian for valuations and existence of underlying investments in the funds. The assurance report for one of the fund managers had a qualification in respect of change management and logical access controls. Whilst we have not identified any control issues affecting the valuation and existence of investments managed by the fund manager in question, we agreed investment managed by the fund manager to independent market prices and confirmed that the valuations are accurate.

Where the assurance reports obtained were not coterminous with pension fund year end, we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian.

CONTRIBUTIONS RECEIVABLE

There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Risk description

Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.

There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Reviewed contributions receivable and checked that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results and conclusion

We carried out analytical procedures to establish expected normal and deficit contributions to be receivable during the year. Our analytical procedures used the prior year amounts received and these were adjusted for the known and expected changes during the year such as the change in membership, contribution rates and the deficit contributions set out in the actuary report. This produced expected normal and deficit contributions which were within our tolerable threshold.

We also substantively tested normal contributions for active members by agreeing a sample of contributions to payroll records and to the employer returns received. For a sample of active members we recalculated the employee and employer contributions by the relevant rates and confirmed the accuracy of calculations. We identified no issues from the testing.

For deficit contributions, we agreed a sample to the Actuary's report and identified no issues.

We also reviewed monthly contributions received from employers and confirmed that these have been recognised in the correct financial year.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the Council (as administering authority) and the Executive Director, Finance and Technology have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 23 March 2020.

Internal audit

We reviewed the audit work of the Pension Fund's internal audit function to assist our risk scoping at the planning stage.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities. We consider pension regulations to be the most relevant for your business.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

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We are required to bring to your attention unadjusted differences and we request that you correct them.

We identified two audit adjustments that, if posted, would increase the ‘Net decrease in the assets available for benefits during the year’ in the Fund Account and decrease ‘Net assets of the scheme available to fund benefits’ in the Net Asset Statement by £19,123k.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Fund Account			Net Assets Statement	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Net decrease in the assets available for benefits during the year	399,663				
Adjustment 1: The difference between the investment valuation per draft accounts and fund manager confirmations (see page 13)					
DR Changes in market value of investments	5,239	5,239			
CR Investments					5,239
Adjustment 2: Potential overstatement of private equity investments due to the movement in valuation from 31 December 2019 to 31 March 2020 (see page 14)					
DR Changes in market value of investments	13,884	13,884			
CR Investments					13,884
Total unadjusted audit differences	19,123	19,123	-	-	19,123
Net decrease in the assets available for benefits during the year if above issues adjusted	418,786				

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.

The following unadjusted disclosure matter was noted:

- Investment management expenses do not include disclosure in respect of performance related fees.



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ADJUSTED AUDIT DIFFERENCES: SUMMARY

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There were no audit differences identified by our audit work that were adjusted by management.

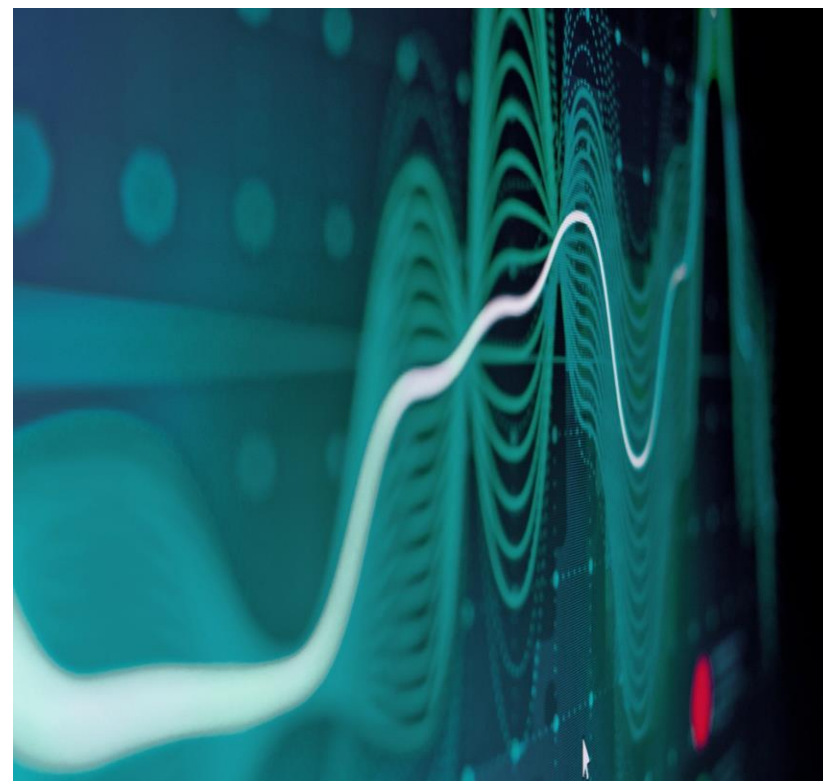
ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.

The following adjusted disclosure matters were noted:

- A number of prior year restatements had been made within notes to the pension fund accounts which were not material. These were removed in the updated financial statements.
- The Code requirements relating to the disclosure of fair value hierarchy and financial instruments had been combined in one note, which in some instances resulted in the disclosures which were not in line with the Code. Management has subsequently included two separate notes in line with the Code guidance.
- A number of immaterial disclosures have been removed from the financial statements.
- A number of minor disclosure corrections and enhancements throughout the financial statements.



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REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Pension Fund Annual Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are yet to review the pension fund Annual Report to ensure that the information included in the Annual Report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit, Governance and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Pension Fund’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant deficiencies in internal controls.

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OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

The financial statements include disclosures about a material valuation uncertainty in respect of directly held properties due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but signposts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We are yet to review the pension fund annual report to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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INDEPENDENCE

Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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Fees summary	2019/20	2019/20	2018/19
	Actual	Planned	Actual
	£	£	£
Fees:			
Code audit fee	(1) 28,000	(1) 28,000	24,075
Additional fee for IAS19 assurance requests from scheduled bodies	(2) 12,250	(2) 11,500	5,500
Total fees	£40,250	£39,500	£29,575

- (1) The increased code audit fee reflects the increased expectations relating to the work necessary to audit valuations of pension investments (particularly unquoted and direct property investments) and the fund liability applied nationally. The fee variation is subject to PSAA approval.
- (2) The increased assurance requests fee of £6,000 represents the work necessary in 2019/20 to audit the data cleansing work undertaken by the actuary in connection with the triennial valuation of the pension fund liability (and asset allocations). This element is only relevant in the year of triennial valuation and will not recur until the next triennial valuation (i.e. 2022/23). The increase in actual fee from the planned fee is due to a request received from an additional body (from the NAO in respect of CQC).



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OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to members of the Council (as the Administering Authority).

We read and consider the ‘other information’ contained in the Pension Fund Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	23 March 2020	Audit, Governance and Standards Committee
Audit progress report	At the Audit, Governance and Standards Committee meetings	Audit, Governance and Standards Committee
Audit completion report	28 September 2020	Audit, Governance and Standards Committee

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting at which this report is considered:

- Completion of partner, manager and quality control review of the audit file and clearance of review points
- Completion of the review of pension fund annual report
- Subsequent events review
- Management letter of representation, as attached in Appendix D to be approved and signed



LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

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A number of corporate governance, financial reporting and audit failures since the ‘financial crises’ have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	‘Carillion’ report issued 5/2018	‘Future of audit’ report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report ‘Statutory Audit Services Market Study’	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
‘Report of the Independent Review in to the quality and Effectiveness of Audit’ - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
‘Independent Review of the FRC’ by Sir John Kingman	Kingman Report published - 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

LATEST REGULATORY DEVELOPMENTS 2

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Report	Topic	Key points
‘Independent Review of the FRC’ by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	<ul style="list-style-type: none"> Highlighted deficiencies in FRC and its operating effectiveness New regulator to replace FRC ‘Audit, Reporting and Governance Authority’ Reconsideration of which entities are classed as ‘public interest’ <p>A number of changes require legislation changes but the FRC is working on implementation where possible.</p>
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	<p>The proposals being classed as:</p> <ul style="list-style-type: none"> FRC and BEIS will implement as soon as possible Can be implemented once considered, in advance of legislation Primary legislation required <p>Further consultations are expected and will form part of the 2020 suite of consultations undertaken.</p>
Competition and Markets Authority (CMA) Report ‘Statutory Audit Services Market Study’	April 2019 - Future of market competition	<p>Report 18 April 2019 - suggestions include</p> <ul style="list-style-type: none"> Increased accountability of Audit Committee / Pensions Committees including a focus on how they select auditors and their consideration of audit quality Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews An operational split between the audit and non audit practices of the big 4 A 5 year review of progress by the new regulator <p>Further consultations are expected and will form part of the 2020 suite of consultations undertaken.</p>

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Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April	Consideration of 2 reports - CMA and Kingman - to ensure they will lead to coherent framework	<p>This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular:</p> <ul style="list-style-type: none"> • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGAs - deal with failures more quickly and more stringently <p>Published June 2019.</p>

LATEST REGULATORY DEVELOPMENTS 4

Brydon

In December 2019 Sir Donald Brydon published his “Report of the Independent Review in to the quality and Effectiveness of Audit” . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee / Pensions Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors’ Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGAs - the new regulator.

Key considerations for Audit Firms

- A new definition of audit: “ The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”
- Recognition of other stakeholders alongside the company’s shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for ‘professional suspicion’ alongside ‘professional scepticism’;

- Replace ‘true and fair’ with ‘present fairly, in all material respects’;
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors’ statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees / Pensions Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company’s internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee / Pensions Committee Chair and the auditor.

LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - an annual report being submitted to Full Council by the external auditor;
 - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
 - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

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FRC ETHICAL STANDARD

Issued in December 2019

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In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	<p>OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which:</p> <ul style="list-style-type: none">– Have more than 2000 employees; and / or– Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. <p>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.</p>

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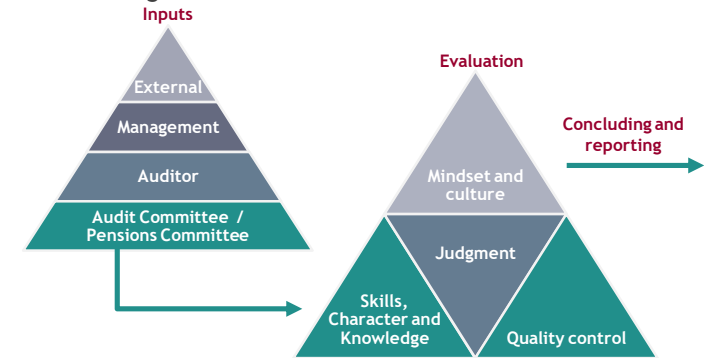
FRC PRACTICE AID FOR AUDIT COMMITTEE / PENSIONS COMMITTEES

The FRC issued an updated practice aid for Audit Committees / Pensions Committees in December 2019 and a full copy can be found on the [FRC website](#). In their practice aid the FRC note: ‘The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company’s internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.’

The practice aid then discusses how the role of Audit Committee in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the Audit Committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees / Pensions Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by Audit Committees / Pensions Committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the Audit Committee / Pensions Committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the [FRC website](#).

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BDO LLP
16 The Havens
Ransomes Europark
Ipswich

Dear Sir / Madam

Financial statements of Essex Pension Fund for the year ended 31 March 2020

We confirm that the following representations given to you in connection with your audit of the Pension Fund’s financial statements for the year ended 31 March 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Executive Director, Finance and Technology has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Pension Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

[Client name and Letter headed paper]

Going concern

We have made an assessment of the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 1 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Pension Fund’s ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Pension Fund’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than those disclosed in the financial statements, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 14 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

The value at which investment assets are recorded in the net assets statement is the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 2.70%
- CPI increase 1.90%
- Salary increase 2.90%
- Pension increase 1.90%
- Discount rate 2.35%
- Mortality: Current pensioners - male 21.8 years and female 23.7 years / future pensioners - male 23.2 years and female 25.2 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.

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Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each officer and member has taken all the steps that they ought to have taken as an officer or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Nicole Wood

Executive Director, Finance and Technology
S151 Officer, Essex County Council & Essex Pension Fund
Date:

Cllr Anthony Michael Hedley

Chairman of the Audit, Governance and Standards Committee
Date:

AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the FRC’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Essex Pension Fund Strategy Board	PSB 06
Date: 16 December 2020	

Essex Pension Fund (EPF) Policies

Report by the Interim Director for Essex Pension Fund in consultation with the Independent Governance & Administration Adviser (IGAA)

Enquiries to Jody Evans on 0333 0138 489

1. Purpose of the Report

1.1 To provide the Board:

- the revised Knowledge and Skills Strategy;
- an update regarding the November Training Day;
- an update in regard to the review of the Governance Policy and Compliance Statement (GP&CS); and
- the Full Risk Register for its annual review.

2. Recommendations

- 2.1 That the Board **approve** the Knowledge and Skills Strategy and Training Plan and **note** the outcome of the 11 November Training Day.
- 2.2 That the Board **note** the progress to date in regard to the review of the GP&CS.
- 2.3 That the Board **review** the Full Risk Register and pass to the Essex Pension Fund Advisory Board for noting.

3. Knowledge and Skills Strategy for Board/Committee Members

Background

- 3.1 The Board were provided with an update on the development of the Knowledge and Skills Strategy for Board/Committee Members at their 23 September 2020 meeting.
- 3.2 Further development has been carried out by Fund Officers to include the Training Plan which has been incorporated within the Strategy document which can be found at Appendix A of this Report.
- 3.3 This Strategy will aid Essex Pension Fund Strategy Board (PSB), Investment Steering Committee (ISC) and Essex Pension Fund Advisory Board (PAB) Members in performing and developing personally in their individual roles, with the ultimate aim of ensuring the Fund is managed by individuals who have appropriate levels of knowledge and skills.
- 3.4 The revised Knowledge and Skills Strategy incorporates the Chartered Institute of Public Finance and Accountancy (CIPFA), The Pensions Regulator (TPR), Markets in Financial Instruments Directive (MiFID II) requirements and Ministry of Housing, Communities and Local Government (MHCLG) Statutory Governance Guidance.
- 3.5 The Knowledge and Skills Strategy will be continually reviewed in line with future reforms.

Next Steps

- 3.6 To implement the Strategy, individual training plans will be developed for each Board/Committee Member. An initial questionnaire will be issued followed by an informal meeting to discuss personal requirements.

Approach

- 3.7 Training plans will be delivered through a variety of methods including:
 - One-to-One Briefings with Officer/Adviser(s);
 - Members' Briefing Notes;
 - Bitesize training;
 - In-house Training Events / Workshops;
 - External Conferences & Training Seminars; and
 - E-Learning / Webinars.

4. Feedback from the 11 November Training Day

4.1 In line with the Knowledge and Skills Strategy the Fund launched a “Back to Basics” training event, in part to address areas / topics that arise from time to time at meetings and to commence areas of training as per the new Strategy. All three Boards/Committee Members were invited to attend on 11 November 2020.

4.2 Fund Officers covered:

- facts about the Essex Pension Fund family;
- Essex Pension Fund and LGPS Governance (provided by AON);
- the make-up of the Administration Team including a brief history of the LGPS;
- the digitalisation work undertaken by the System Support Team including a demonstration of Member Online;
- an overview of the Fund’s Business Plan including:
 - Governance and Board/Committee facts;
 - Funding facts;
 - History of the Funds’ Investments;
 - Administration facts; and
 - the way the Fund communicates with all Stakeholders.

4.3 Feedback was received by 82% of those who attended the training session, and of those 100% of the feedback across all areas was positive.

4.4 Regarding areas of additional training that were requested on the feedback forms, these will be incorporated into future training events where applicable.

5. Governance Policy and Compliance Statement (GP&CS)

Background

5.1 Regulation 55 of the LGPS Regulations 2013 requires each Administering Authority to prepare, publish and maintain a GP&CS setting out whether the Administering Authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority, and if so:

- the terms, structure and operational procedures of the delegation;
- the frequency of any committee or sub-committee meetings;

- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not comply, the reasons for not complying; and
- details of the terms, structure and operational procedures relating to the local pension board.

5.2 Each Administering Authority is required to:

- keep the statement under review;
- make such revisions as are appropriate following a material change;
- consult such persons as it considers appropriate; and
- publish any revised statement.

5.3 In line with the Fund's Business Plan, an annual review of the GP&CS is required.

Process undertaken for review

5.3 Fund Officers are currently reviewing the Boards/Committee Terms of Reference (TORs) which will be incorporated into the Fund's GP&CS which in turn will be referred to within the Fund's Annual Report and Accounts. Due to the full review of the Boards/Committee TORs carried out during 2019/20, it is not envisaged that any major changes will be required.

5.4 Fund Officers are in the process of developing a revised GP&CS which will be provided to the Board at their March 2021 meeting for approval.

5.5 Once approved, the GP&CS will be published on the Fund's website.

5.6 It is also worth noting that as a direct result of the Good Governance Project, the LGPS Scheme Advisory Board (SAB) have commissioned further work in relation to the Phase 2 recommendations.

5.7 The outcomes will be monitored by Fund Officers and the IGAA.

6. Risk Register

Background

6.1 The Fund's current Risk Strategy was approved on 23 September 2020.

- 6.2 Within the Strategy there is a requirement for the Board to review the Full Risk Register on an annual basis. This can be found at Appendix B of this report.

Process undertaken for review

- 6.3 The Board are invited to review and provide comments to Fund Officers during the meeting. In addition, the Board may like to invite the PAB to note. Fund Officers will then review the Risk Register having regard to comments from the Board and PAB.

7. Link to Essex Pension Fund Objectives

- 7.1 Developing and publishing a Knowledge and Skills Strategy for Board/Committee Members will assist the Board in achieving the following Fund objectives:

- Act with integrity and be accountable to our stakeholders;
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise; and
- To ensure the Fund's investments are properly managed before, during and after pooling is implemented.

- 7.2 Reviewing and updating the GP&CS will assist in the Board in achieving the following Fund objectives:

- Ensure compliance with the LGPS regulations, other relevant legislation and The Pensions Regulator's Codes of Practice; and
- Act with integrity and be accountable to our stakeholders.

- 7.3 Annual review of the Full Risk Register will assist the Board in achieving the following Fund objectives:

- Act with integrity and be accountable to our stakeholders;
- Understand and monitor risk and compliance;
- Continually measure and monitor success against our objectives.

8. Risk Implications

- 8.1 Failure to develop and publish a Knowledge and Skills Strategy for Board/Committee Members could result in:

- Failure of governance arrangements to match up to statutory requirements and recommended best practice leads to financial loss and reputational damage;
- A lack of expertise, insufficient knowledge and maintenance of the PSB, ISC and PAB arising out of high turnover and/or changes within the LGPS benefit structure, regulations and associated directives/deliverables; and
- The implementation of MiFiD II (January 2018) leads to the Fund being categorised by some / all of its service providers as a 'retail client' - the result of which could reduce the range of sub asset classes in which the Fund is able to invest, and may even require disinvestment from the current portfolio.

8.2 Failure to review and update the GP&CS could result in:

- Non-compliance with regulations caused by lack of knowledge by staff, changes in government policy/LGPS reforms and systems not kept up-to-date leading to reputational damage and financial loss; and
- Failure of governance arrangements to match up to statutory requirements and recommended best practice leads to financial loss and reputational damage.

8.3 Failure to review the Full Risk Register on an annual basis could result in:

- Failure of governance arrangements to match up to statutory requirements and recommended best practice leads to financial loss and reputational damage;
- New risks are not identified or risk register is not kept up to date; and
- Inadequate, inaccurate or misrepresented management information leads to financial loss or reputational damage.

9. Communication Implications

- 9.1 If approved, the Knowledge and Skills Strategy for Board/Committee Members and the Governance Policy and Compliance Statement will be published on the Fund's website.
- 9.2 The Full Risk Register will also be published on the Funds website.
- 9.3 Other than ongoing reporting to the PSB, there are no communication implications.

10. Finance and Resource Implications

10.1 None.

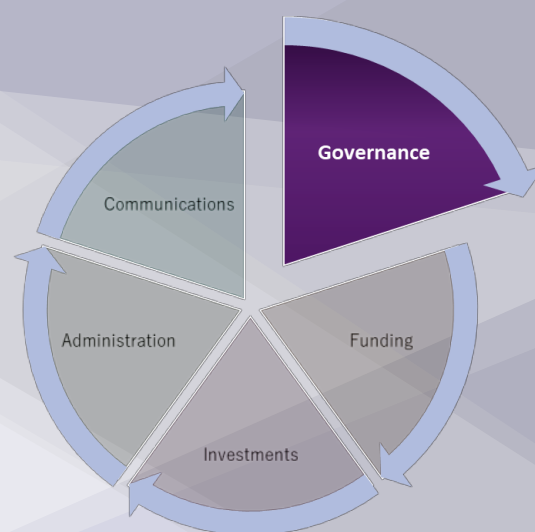
11. Background Papers

11.1 Essex Pension Fund Policies, PSB 05, 23 September 2020.

11.2 Scheme Advisory Board (SAB) Good Governance Project, PSB 07, 04 March 2020.

Knowledge and Skills Strategy for Board/Committee Members

December 2020



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Essex Pension Fund Knowledge and Skills Strategy for Board/Committee Members

Background and Introduction

This is the Knowledge and Skills Strategy for the Essex Pension Fund (the “**Fund**”) which details the knowledge and skills strategy for Members of the Essex Pension Fund Strategy Board (PSB), Investment Steering Committee (ISC) and Pension Advisory Board (PAB).

This Knowledge and Skills Strategy has been established to aid PSB, ISC and PAB Members in performing and developing personally in their individual roles, with the ultimate aim of ensuring the Fund is managed by individuals who have appropriate levels of knowledge and skills.

This Strategy has been developed covering the five key areas of the Fund:



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Essex Pension Fund Knowledge and Skills Strategy for Board/Committee Members

Aims and Objectives

The aims and objectives of this Strategy is to:

- ensure the Fund is managed and its services delivered by people who have appropriate levels of knowledge and expertise;
- ensure Board/Committee Members receive the right training to give them the required knowledge to enable robust decision-making;
- ensure training is delivered at the right time in the most effective way; and
- ensure refresher training takes place at the most relevant time to ensure the knowledge level of Members is appropriately maintained.

To whom this Strategy applies

In accordance with the Council's Constitution, Essex Pension Fund Board and Committee Members are expected to attend regular training sessions in order to maintain an appropriate level of knowledge and skills to perform their roles effectively.

This Knowledge and Skills Strategy applies to all members of the PSB, ISC and PAB, including Substitute Members, Scheme Member and Employer representatives.

Senior Officers within the Essex Pension Fund Management Team, the Director for Essex Pension Fund and the Executive Director Finance and Technology (Section 151 Officer) will also be required to have appropriate knowledge and skills relating to their role which is captured in a separate knowledge and skills strategy for Officers.

Knowledge and Skills Requirements

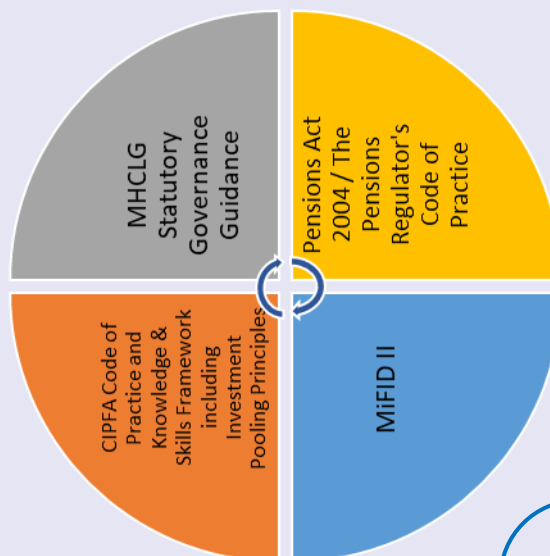
Chartered Institute of Public Finance and Accountancy (CIPFA) launched a Code of Practice and Technical Guidance for Representatives on Pension Fund Committees (PSB/ISC) and Local Pension Board (PAB) Members within knowledge and skills frameworks.

The Frameworks detail the knowledge and skills required for those involved in the management and decision making of LGPS funds. They cover eight areas of knowledge and skills identified as the core requirements including areas such as: Legislation; Governance; Administration; Investment matters; and Actuarial matters.

CIPFA's guidance highlights that, with the introduction of investment pooling arrangements, comes a need for a wider range of knowledge. The guidance specifies that LGPS funds will need to ensure elected members who are members of the oversight committee (ACCESS Joint Committee (AJC)) have a more in-depth level of knowledge in relation to investment pooling arrangements.

The implementation of Markets in Financial Instruments Directive (MiFID II) led to the need for the Fund to be opted up to professional status to allow the Fund to continue to access the full range of vehicles and managers needed to meet the needs of the Investment Strategy.

As part of this process the Fund had to provide evidence that PSB/ISC Members had an appropriate level of knowledge and that adequate governance arrangements were in place. In order to maintain this status, the Fund will need to continue to demonstrate the competency of existing and new PSB/ISC Members and this Knowledge and Skills Strategy will support that aim.



[MHCLG Statutory Governance Guidance](#) states:

- That where Members sit on a main or secondary Committee, they are treated equally in terms of access to papers and meetings, training and are given the full opportunity to contribute to the decision-making process, with or without voting rights.
- In line with the Myrers Principles, Members of formal Committees who take investment decisions should have sufficient expertise to be able to evaluate critically any advice they take.
- The Administering Authority must report on the extent to which training facilities are extended to lay members sitting on either main or secondary LGPS Committees.
- That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training in respect of Members involved in the decision-making process.
- That where such a policy exists it applies to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
- That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

[The Pensions Act 2004](#) includes a requirement for Local Pension Board members to have a degree of knowledge and understanding appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Local Pension Board (PAB). This is expanded on in [The Pensions Regulator Code of Practice](#).

Application to the Essex Pension Fund

PSB, ISC and PAB Members, including Substitute Members, Scheme Member and Employer representatives are expected to maintain an appropriate level of knowledge and skills to perform their role effectively, and to meet the requirements of overriding legislation, statutory and professional guidance.

All Board/Committee members will receive appropriate training to fill any knowledge gaps identified and must seek to maintain their knowledge.

The Fund fully supports the use of the CIPFA Code of Practice on LGPS Knowledge and Skills, and its associated Frameworks, and TPR's Code of Practice, as well as understanding the need for appropriate knowledge and skills to allow professional status to be awarded for MiFID II purposes. The Fund adopts the principles and requirements of these, and this Knowledge and Skills Strategy highlights how the Fund will strive to achieve those through the use of a two-year rolling Training Plan together with regular monitoring and reporting.

Essex Pension Fund

Knowledge and Skills Strategy for Board/Committee Members

Delivery

The Fund recognises that attaining and maintaining relevant knowledge and skills is a continual process for PSB/ISC Members and PAB Members, and that training is a key element of this process. The Fund has, therefore, developed a two-year rolling Training Plan based on the following key elements and is provided at Appendix A to this Strategy.

Induction Training

- On joining the PSB, ISC or PAB, a new Member will be provided with electronic documentation to assist in providing a basic understanding of the Fund, e.g. the Fund's three-year Business Plan, Annual Report and Policies.
- Within 3 month's of appointment, a new Member will also receive formal Induction Training carried out by Fund Officers as part of a one-to-one briefing or, if there is more than one new member, in-house training.
- In addition, an individual training plan will be developed to assist each PSB/ISC Member and PAB Member in achieving, within 12 months of assessment, their identified individual training requirements (captured by the completion of the Training Needs Analysis).

Individual Training Needs Analysis

- An individual Training Needs Analysis has been developed for the main roles of PSB/ISC Members and PAB Members customised appropriately to the key areas in which they should be proficient. This will include all the areas highlighted within CIPFA Knowledge and Skills Frameworks.
- Training will be required in relation to each of these areas and will be delivered in the most effective way e.g. one-to-one briefing, training days or Bitesize Training for all Members as part of a Board/Committee meeting.

Bitesize Training

- A Training Plan has been developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or an area of change for the Fund. An example of this would be Valuation training leading up to the Valuation process.
- This training will usually be delivered through PSB, ISC or PAB meetings as bitesize training to effectively cover the required topic and to aid decision-making where applicable.

General Awareness

- PSB/ISC Members and PAB Members are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the Fund.
- This training will be covered throughout the 24 month period and an assessment will be made on how the training is most effectively delivered, either through: in-house training days provided by Fund Officers and/or external Advisers / Suppliers; training as part of meetings (bitesize training) provided by Fund Officers and/or external Advisers; external training events; circulation of reading material; attendance at seminars and conferences offered by industry-wide bodies; attendance at meetings and events with the Fund's investment managers and advisers; links to on-line training and webinars; and access to the Essex Pension Fund website where useful Fund specific material will be available.

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Essex Pension Fund Knowledge and Skills Strategy for Board/Committee Members

Monitoring Knowledge and Skills

In order to identify whether we are meeting the objectives of this Strategy we will:

- 1) Compare and report on attendance at training based on the following:
 - Induction training – ensuring initial induction training is completed by new Members within 3 months of appointment;
 - Individual Training Needs Analysis (for new Members) – ensuring a Training Needs Analysis is undertaken for each new Member within 3 months of appointment with the identified training requirements delivered within 12 months of assessment;
 - Individual Training Needs Analysis (for existing Members) – ensuring a Training Needs Analysis is undertaken for each individual at least once every 2 years with the identified training delivered within 12 months of the assessment;
 - EPF in-house training – ensuring attendance by at least 80% of the required PSB/ISC/PAB Members at planned EPF training days and Bitesize Training sessions as part of Board/Committee meetings;
 - General Awareness – each PSB/ISC Member and PAB Member achieving the required training credits within a two-year rolling period.
- 2) Ask our Independent Governance and Administration Adviser to assist in the annual evaluation on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Strategy.

Key Risks

The key risks to the delivery of this Strategy are contained within the Fund's Risk Register which can be found on the essexpensionfund.co.uk website.

Reporting

The following information will be included in the PSB, ISC and PAB meeting Agenda Packs on an annual basis:

- the training provided / attended in the previous year at an individual level; and
- the results of the measurements identified above.

In addition, quarterly reporting through the Fund's Scorecard will be provided to the PSB and PAB at each meeting in regard to the progress in achieving the above.

Furthermore, at each PSB, ISC and PAB meetings, Members will be provided with details of forthcoming seminars, conferences and other relevant training events that are on the horizon.

Approval, Review and Consultation

This Knowledge and Skills Strategy was approved on XXXXXXXX by the PSB. It will be formally reviewed and updated by the PSB at least every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about this Strategy, please contact:

Amanda Crawford, Compliance Manager, Essex Pension Fund

Email – Amanda.crawford@essex.gov.uk

Jody Evans, Interim Director for Essex Pension Fund

Email – Jody.evans@essex.gov.uk

Essex Pension Fund

Seax House

County Hall

Chelmsford

Essex

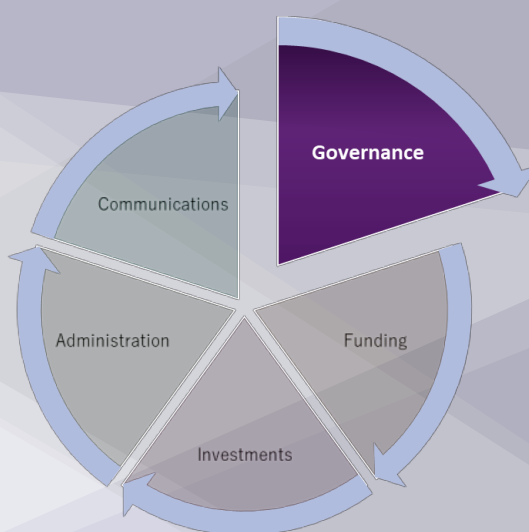
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Essex Pension Fund

Training Plan for Board/Committee Members

December 2020



Essex Pension Fund

Training Plan for Board/Committee Members

Objective

The objective of this Training Plan is to deliver informative and relevant training to the Essex Pension Fund Strategy Board (PSB), Investment Steering Committee (ISC) and Essex Pension Fund Advisory Board (PAB) Members, including Substitute Members, on a two-year rolling programme to enable efficient and effective decision-making and oversight of the Fund's processes.

Delivery Methods

The delivery of training will be carried out through the following channels:

- One-to-one briefing with a Fund Officer;
- Members' briefing notes as part of Boards/Committee Agenda Packs;
- Bitesize Training - delivered during Boards/Committee meetings;
- In-house training events / workshops - delivered by Fund Officers and/or Advisers;
- External Conferences and Seminars; and
- E-learning and Webinars.

Induction Training

On joining the PSB, ISC or PAB, a new Member will be provided with:

- Electronic documentation to assist in providing a basic understanding of the Fund;
- Within three month's of appointment, a formal Induction Training session will be carried out by Fund Officers; and
- Completion of a Training Needs Analysis to assist in the development of an individual training plan and the Boards/Committee training plans.

The formal Induction Training Session will cover:

- Governance Structure including the role of the:
 - Administering Authority;
 - S151 Officer; and
 - PSB/ISC/PAB Members including Scheme Employer and Scheme Member representatives.
- LGPS Landscape;
- Actuarial Valuation;
- Funding Strategy;
- Investment Strategy;
- ACCESS—Investment Pooling;
- Administration of the Fund; and
- How the Fund communicates with its stakeholders.

Training Credits

Training credits will be awarded to each Board/Committee Member where training events (approved / recommended by the Fund) has been undertaken either in person or by virtual means.

Method of attaining credit	No. of credits awarded for Members who are on both PSB and ISC	No. of credits awarded for PSB only Members and PSB / ISC Substitute Members	No. of credits awarded for PAB Members
Training within meetings	1 credit per meeting		
Fund Specific Training Days	2 credits for a full day's attendance 1 credit for a half day's or less attendance		
Completion of any relevant module of the CIPFA Knowledge and Skills Framework	1 credit per module passed and valid for 2 years		
Completion of any relevant module or subject within The Pensions Regulators (TPR) Code of Practice	1 credit per module passed and valid for 2 years		
Attendance at an approved conference, seminar or external training event / meetings	2 credits for a full day's attendance 1 credit for a half day's or less attendance		
Expected number of credits to be achieved within a 2-year rolling period	<u>18 credits</u>	<u>12 credits</u>	

Training Plan

The Training Plan has been developed in totality and is detailed below. However, there will be some subject areas that will not be relevant to all Members.

Essex Pension Fund

Training Plan for Board/Committee Members



Training Plan

1. Governance



Training Title	Training Need	Linked to:
Governance Structure Overview	An understanding of the Fund's Governance Structure including the roles of: the Administering Authority; S151 Officer; Monitoring Officer, Senior Officers within the Fund, PSB/ISC/PAB Members including Scheme Employer and Scheme Member Representatives	<ul style="list-style-type: none"> • Induction / Refresher Training • Governance Policy and Compliance Statement • Conflicts of Interest Policy • The recording and reporting of Breaches of the Law
Regulations	<p>An understanding of the wider pensions and LGPS Landscape including the LGPS Regulations, MHCLG, Scheme Advisory Board (SAB), Pensions Ombudsman, TPR and Regulatory Reform (current topics include McCloud, £95K Cap, Cost Cap etc)</p> <p>Awareness of relevant statutory guidance and the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Pension Regulator's Code of Practice.</p>	<ul style="list-style-type: none"> • Current LGPS Regulations • Historic LGPS Regulations • CIPFA Training Modules • TPR Code of Practice
Policies	An understanding of the Fund's Policies, Strategies and Publications	<ul style="list-style-type: none"> • Business Plan • Governance Policy and Compliance Statement • Risk Strategy
Financials	The statutory requirements for the compliance with Account and Audit Regulations including the roles of Internal and External Audit	<ul style="list-style-type: none"> • Annual Report and Accounts • Audit Regulations
Procurement	The Procurement for 3 rd Party Service Providers e.g. Independent Governance & Administration Adviser; Administration Software Provider; Investment Consultants etc	<ul style="list-style-type: none"> • LGPS National Frameworks • Public Procurement Regulations



Training Plan

2. Funding



Training Title	Training Need	Linked to:
Triennial Valuation	An understanding of the Triennial Valuation and Interim Valuation processes and the role of the Fund Actuary including the setting of employer contributions	<ul style="list-style-type: none"> The latest Actuarial Valuation Report Public Service Pensions (valuations and employer cost cap) Directions 2014 Annual Interim Review
Funding Strategy	An understanding of the Essex Pension Fund's Funding Strategy	<ul style="list-style-type: none"> Funding Strategy Statement LGPS Regulations 2013 Government Actuary Department (GAD) S13
Employer Risk	An understanding of the different types of employer including employer risk, eg. employer covenant, and the requirements for employer specific Funding Objectives	<ul style="list-style-type: none"> The latest Actuarial Valuation Report Funding Strategy Statement
Employing Authority Discretions	The requirements for Employing Authority Discretions and Delegations	<ul style="list-style-type: none"> The latest Actuarial Valuation Report Funding Strategy Statement
Accounting Standards	How the Fund communicate IAS19/FRS102 requirements to Employers	<ul style="list-style-type: none"> Accounting Standards Communications Policy The Fund's Annual Report and Accounts Audit reports



Training Plan

3. Investments



Training Title	Training Need	Linked to:
Investment Strategy	An understanding of the Fund's Investment Strategy including the Fund's Responsible Investment Policy	<ul style="list-style-type: none"> Investment Strategy Statement Responsible Investment Policy Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
Cost Transparency	How the Fund review Investment Manager Fees through CEM Benchmarking as part of Cost Transparency	<ul style="list-style-type: none"> Cost Transparency Initiative
Investment Performance	How the Fund carry out Investment Performance measurement	<ul style="list-style-type: none"> Investment Strategy Statement
Asset Management	An understanding of the Fund's Cash Flow arrangements including: the Safeguarding of the Fund's Assets; the Role of the Global Custodian; and Treasury Management	<ul style="list-style-type: none"> Treasury Management Strategy ACCESS Pooling Investment Strategy Statement
Pooling	An understanding of the Investment Pooling Collaboration and the Fund's role within the ACCESS Pool including the roles and responsibilities of the various parties involved within ACCESS	<ul style="list-style-type: none"> Inter-Authority Agreement Investment Strategy Statement
Regulations	Awareness of relevant statutory guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) Investment Pooling Principles and Markets in Financial Instruments Directive (MiFID II)	<ul style="list-style-type: none"> Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 CIPFA Training Modules MiFID II Directive



Training Plan

4. Administration



Training Title	Training Need	Linked to:
Administration Strategy	An understanding of the Fund's Administration Strategy and other areas including: Eligibility and Contributions; Additional Voluntary Contributions (AVCs); Transfers and Increasing Benefits; Retirement Benefits; and Annual and Lifetime Allowances	<ul style="list-style-type: none"> • Administration Strategy • Automatic Enrolment • Internal Dispute Resolution Procedure (IDRP) • Annual Allowance Legislation • AVCs in the LGPS • Retirement Planning
Regulations	Regulatory impacts on the Fund in regard to the wider pensions and LGPS Landscape – Regulatory Reform (including McCloud, £95K Cap, Cost Cap etc)	<ul style="list-style-type: none"> • Historic LGPS Regulations • Current LGPS Regulations
Discretions	The requirements for Administering Authority Discretions and what these mean for the Fund	<ul style="list-style-type: none"> • Administering Authority Policy on Discretions
Digital Transformation	An understanding of the Fund's ambition for greater Digitalisation of the Fund and Digital Transformation and delivery methods and what this involves	<ul style="list-style-type: none"> • Business Plan • Communications Policy



5. Communications		
Training Title	Training Need	Linked to:
Communications	How communications impacts on every area of the Fund's work and how this links into the Fund's Communications Policy	<ul style="list-style-type: none">Communications Policy

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Essex Pension Fund Training Plan for Board/Committee Members



Conferences and Seminars

Examples of Board/Committee Conferences is detailed below:

Conference / Seminar	Time of year / frequency	Board / Committee
LGA Annual LGPS Governance Conference	January / Annual	PSB / PAB
LGC Investment Seminar	February / Annual	ISC
CIPFA Local Pension Board Training	February and October / Biannual	PAB
ACCESS Investor Days	April and October / Biannual	ISC
PLSA LA Conference	May / Annual	PSB
LGC Investments & Pension Summit	September / Annual	ISC
Investment & Training Seminar	October / Triennial	ISC
LGA LGPS Fundamentals	October – December / Annual (3x1 day sessions Induction/Refresher)	PSB / ISC / PAB
LAPFF Members Meetings	Quarterly	ISC Chairman / Vice Chairman
LAPFF Annual Conference	December / Annual	ISC Chairman / Vice Chairman

Essex Pension Fund

Risk No.	Objective at Risk	Risk Event, to include: - the area of uncertainty in terms of the threat - cause / trigger - the event or situation that gives rise to the risk - impact – the effect or impact the risk would have if it occurs	Review period	Current Mitigating Actions / Controls	Current Assessment of Risk			Risk Owner	Mitigation Approach
					Current				Treat Tolerate Transfer Terminate
					Likelihood	Impact	Risk Rating		
G1	Act with integrity and be accountable to our stakeholders	JCAD Ref: EPFU0030 Failure of governance arrangements to match up to statutory requirements and recommended best practice leads to financial loss and reputational damage	Quarterly	1. Essex Pension Fund Strategy Board (PSB) is in place (Essex County Council's (ECC's) s101 Committee). 2. Essex Pension Fund Investment Steering Committee (ISC) is in place (ECC's s101 Sub-Committee). 3. Essex Pension Fund Advisory Board (PAB) is in place (is the local Pension Board as required under Public Service Pensions Act (PSPA) 2013). 4. Essex Pension Fund (EPF) routinely monitor the Business Plan, Risk Register and Scorecard. All of which are reported to the PSB at each meeting. 5. EPF work with the Independent Governance & Administration Adviser (IGAA) to seek guidance on work practices. 6. EPF monitor and use Governance networks for best practice i.e. Local Government Association (LGA). 7. Training Policy for both Members and staff. 8. Advice taken from Advisers.	1	4	4	Amanda Crawford - Compliance Manager	Treat
G2	Provide a high quality service whilst maintaining value for money	JCAD Ref: EPFU0031 Failure to disclose material facts, or the disclosure of incorrect or incomplete information, in the Report and Accounts or during the audit leads to incorrect or incomplete published Report and Accounts	Quarterly	1. External audit programme of works. 2. Internal audit programme of works. 3. External audit provide a consistency comment when reviewing the Annual Report and Accounts. 4. Essex Pension Fund (EPF) follow the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance and Code of Practice for the content of the Annual Report and Accounts.	2	2	4	Samantha Andrews - Investment Manager	Treat
G3	Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	JCAD Ref: EPFU0007 A lack of expertise, insufficient knowledge and maintenance of the Essex Pension Fund Strategy Board (PSB), Essex Pension Fund Investment Steering Committee (ISC) and Essex Pension Fund Advisory Board (PAB) arising out of high turnover and/or changes within the Local Government Pension Scheme (LGPS) benefit structure, regulations and associated directives/deliverables	Quarterly	1. Training Plan is in place. 2. PSB/ISC/PAB Members have to complete the Chartered Institute of Public Finance & Accountancy (CIPFA) modules 1-8 on a two-year cycle. 3. Immediate induction training for new members. 4. Training plan is reviewed/adapted to reflect changes within LGPS. 5. Essex Pension Fund (EPF) use advisers i.e. Independent Governance & Administration Adviser (IGAA) to provide relevant information and recommendations. 6. Progress made against training plan is recorded and monitored. 7. Mechanisms are in place to recruit vacancies as they arise.	2	2	4	Amanda Crawford - Compliance Manager	Treat
G4	Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	JCAD Ref: EPFU0032 Failure of Officers to maintain sufficient level of competence and/or resource to discharge their duties and inefficient retention of staff with over reliance on key officers	Quarterly	1. Essex Pension Fund (EPF) training plans are being implemented through performance plans. 2. EPF staff attend training events, engage with peer groups and are working towards the Chartered Institute of Public Finance & Accountancy (CIPFA) Knowledge and Skills Framework. 3. EPF staff training is recorded and monitored. 4. Teams ensure Standing Operating Procedures (SOPs) are produced to cover key processes. 5. In absence of key officers, EPF utilises external consultants and independent advisers to help in the short-term.	1	3	3	Jody Evans - Interim Director for Essex Pension Fund	Treat
G5	Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	JCAD Ref: EPFU0033 Failure to take advice in accordance with statutory requirements over the appointment and terms of appointment of all 3rd party suppliers	Quarterly	1. Formal procurement procedures are being used for all 3rd party suppliers. 2. Essex Pension Fund (EPF) ensure these arrangements are kept under review.	1	4	4	Amanda Crawford - Compliance Manager	Treat
G6	Evolve and look for new opportunities, ensuring efficiency at all times	JCAD Ref: EPFU0008 Insufficient time and focus taken to look for opportunities	Quarterly	1. Management Team regularly attend appropriate conferences/events/forums. 2. Advisers keep Essex Pension Fund (EPF) team up-to-date on opportunities.	3	2	6	Jody Evans - Interim Director for Essex Pension Fund	Treat
G7	Act with integrity and be accountable to our stakeholders	JCAD Ref: EPFU0034 Failure to recognise, disclose, monitor and prevent conflicts of interest	Quarterly	1. Essex Pension Fund (EPF) ensure conflicts of interest are recorded and monitored. 2. Advice provided to members to enable them to recognise potential conflicts. 3. Members adhere to Essex County Council's (ECC's) code of conduct. 4. Members adhere to EPF's Conflict of Interest Policy.	1	3	3	Amanda Crawford - Compliance Manager	Treat
G8	Act with integrity and be accountable to our stakeholders	JCAD Ref: EPFU0009 Failure to effectively manage contracts for the supply of services to the Pension Fund leads to reputational damage and financial loss	Quarterly	1. Essex Pension Fund (EPF) monitor all contracts via performance measures and contract fulfilment checks. 2. EPF liaise with Essex County Council (ECC) Contract Managers to ensure compliance with ECC policy and guidance, seeking support and guidance as and when required.	1	3	3	Amanda Crawford - Compliance Manager	Treat

Essex Pension Fund

Risk No.	Objective at Risk	Risk Event, to include: - the area of uncertainty in terms of the threat - cause / trigger - the event or situation that gives rise to the risk - impact – the effect or impact the risk would have if it occurs	Review period	Current Mitigating Actions / Controls	Current Assessment of Risk			Risk Owner	Mitigation Approach
					Current				Treat Tolerate Transfer Terminate
					Likelihood	Impact	Risk Rating		
G9	Understand and monitor risk and compliance	JCAD Ref: EPFU0010 Failure to undertake business as usual service due to events outside of Essex Pension Fund (EPF) control resulting in loss of service provision	Quarterly	1. EPF Business Continuity Plan (BCP) in place. 2. EPF BCP regularly tested including call cascades and desk-top exercises. 3. Testing is recorded and monitored. 4. Essex County Council (ECC) also exercise their BCP which includes EPF.	4	2	8	Amanda Crawford - Compliance Manager	Treat
G10	Understand and monitor risk and compliance	JCAD Ref: EPFU0011 New risks are not identified or risk register is not kept up to date	Quarterly	1. Risk is part of Business As Usual (BAU) and is discussed at monthly Essex Pension Fund (EPF) Management Team (MT) meetings. 2. Director for EPF and MT formally review risks each quarter. 3. Changed risks and key risks are reported to the Essex Pension Fund Strategy Board (PSB) at each meeting. 4. Key risks are reported to Essex County Council (ECC) via JCAD on a quarterly basis. 5. This is recorded and monitored.	1	4	4	Amanda Crawford - Compliance Manager	Treat
G11	Continually measure and monitor success against our objectives	JCAD Ref: EPFU0012 Inadequate, inaccurate or misrepresented management information leads to financial loss or reputational damage	Quarterly	1. A risk register is in place. 2. A Scorecard is developed from Key Performance Indicators (KPI's) and Business Plan objectives. 3. Progress in their achievement is reported to the Essex Pension Fund Strategy Board (PSB) at each meeting. 4. This is recorded and monitored.	1	4	4	Amanda Crawford - Compliance Manager	Treat
G12	Ensure compliance with the Local Government Pension Scheme (LGPS) regulations, other relevant legislation and the Pensions Regulator's Codes of Practice	JCAD Ref: EPFU0035 Non compliance with regulations caused by lack of knowledge by staff, changes in government policy / Local Government Pension Scheme (LGPS) reforms and systems not kept up-to-date leading to reputational damage and financial loss	Quarterly	1. Essex Pension Fund (EPF) monitor the current and new regulations and correspondence from Ministry of Housing, Communities and Local Government (MHCLG) and Local Government Association (LGA). 2. EPF ensure systems are monitored for accuracy and compliance. 3. The Systems are updated for any new regulatory requirement. 4. EPF keeps abreast of developments, participating in consultations and collaborating with other Funds. 5. EPF Officers participate in various scheme and industry groups i.e. the Chartered Institute of Public Finance & Accounting (CIPFA). 6. EPF utilise the expertise of their Independent Administration & Governance Adviser (IGAA). 7. Essex Pension Fund Strategy Board (PSB) and Essex Pension Fund Investment Steering Committee (ISC) receive regular reports on scheme developments. 8. Regular review of Distribution Lists i.e. LGA to ensure correct Officers are receiving relevant information.	1	4	4	David Tucker - Technical Hub Manager	Treat

Essex Pension Fund

Risk No.	Objective at Risk	Risk Event, to include: - the area of uncertainty in terms of the threat - cause / trigger - the event or situation that gives rise to the risk - impact – the effect or impact the risk would have if it occurs	Review period	Current Mitigating Actions / Controls	Current Assessment of Risk			Risk Owner	Mitigation Approach
					Current				Treat Tolerate Transfer Terminate
					Likelihood	Impact	Risk Rating		
G13	Provide a high quality service whilst maintaining value for money	JCAD Ref: EPFU0036 Cyber crime activities impacting on integrity and ability to carry out day-to-day business functions leading to reputational damage and financial loss	Quarterly	1. Essex County Council (ECC) mitigations for Cyber Crime have been collated however they do not have Cyber Crime Insurance. 2. AON have a Member data and Cyber Security Policy and hold insurance that covers Cyber Crime. 3. CIVICA mitigations for Cyber Crime have not yet been provided and Essex Pension Fund (EPF) are waiting for confirmation if they have Cyber Crime Insurance. This is being chased. 4. LINK have a Cyber Security Policy and place and hold appropriate Cyber Crime insurance. 5. Barnett Waddingham have a Cyber Security Policy in place and hold appropriate Cyber Crime insurance. 6. Investment Managers: a) Partners Group have elements of cyber security coverage but do not have a standalone Cyber Security Policy in place or insurance; b) Stafford CP have a Cyber Security Policy in place and hold appropriate Cyber Crime insurance; c) Northern Trust have a Cyber Security Policy in place however it is unclear if they hold appropriate insurance. EPF will hasten to confirm; d) GSAM have a Cyber Security Policy in place and hold appropriate Cyber Crime insurance; e) M&G have a Cyber Security Policy in place however do not hold insurance; f) AVIVA have a Cyber Security Policy in place and hold appropriate Cyber Crime insurance; g) Hamilton Lane have a Cyber Security Policy in place and hold appropriate Cyber Crime insurance; h) Stewart Investors have a Cyber Security Policy in place and hold appropriate Cyber Crime insurance; i) Alcentra have a Cyber Security Policy in place and hold appropriate Cyber Crime Insurance; j) Marathon have a Cyber Security Policy in place and hold insurance that covers Cyber Crime; k) UBS have a Cyber Security Policy in place however it is unclear if they hold appropriate insurance. EPF will hasten to confirm. 7. Tracesmart mitigations have a Cyber Security Policy and hold insurance that covers Cyber Crime. 8. EPF liaise with all control owners at regular intervals to ensure controls remain in place.	1	4	4	Jody Evans - Interim Director for Essex Pension Fund	Treat
G14	Ensure compliance with the Local Government Pension Scheme (LGPS) regulations, other relevant legislation and the Pensions Regulator's Codes of Practice	JCAD Ref: EPFU0028 Regulatory risks impacting on Investments, Funding and Administration: - McCloud, Cost Cap, £95k Cap and Goodwin - MHCLG Consultations likely to impact on the Fund i.e. resources to deliver the required outputs; - Academisation of Schools, the possibility of Multi-academy Trust (MAT) breakups and cross fund movements with potential for further schools to convert to academy status and MATs to breakdown leading to additional governance and administration risk; - Current cost management review where a flawed process will result in better benefits for scheme members that will mean employers having to pay more than they otherwise would have; - Superannuation Contributions Adjusted for Past Experience (SCAPE) rate changes that will significantly increase transfer values paid out (increase of liabilities) and impact on the Funding Strategy via s13 which could mean unforeseen increases to employer contributions; - Increased centralisation of the Local Government Pension Scheme (LGPS) and HM Treasury taking all the assets / structural change; - Guaranteed Minimum Pension (GMP) equalisation resulting in potentially additional costs and/or administration; - National Pensions Dashboard resulting in major changes to data provision; - Separation of the Fund from the Administering Authority; - Government intervention in Fund asset allocation decisions.	Quarterly	1. Regular communications with schools to understand their intentions. 2. Essex Pension Fund (EPF) and their Advisers are actively involved in the development of the LGPS. 3. EPF monitor the current and new regulations and correspondence from Ministry of Housing, Communities and Local Government (MHCLG) and Local Government Association (LGA). 4. EPF keeps abreast of developments, participating in consultations and collaborating with other Funds. 5. EPF utilise the expertise of their Independent Administration & Governance Adviser (IGAA). 6. McCloud working group established and initial communications with Employers have commenced to request that data be retained.	4	3	12	Sara Maxey - Employer Manager	Treat

Essex Pension Fund

Risk No.	Objective at Risk	Risk Event, to include: - the area of uncertainty in terms of the threat - cause / trigger - the event or situation that gives rise to the risk - impact – the effect or impact the risk would have if it occurs	Review period	Current Mitigating Actions / Controls	Current Assessment of Risk			Risk Owner	Mitigation Approach Treat Tolerate Transfer Terminate
					Likelihood	Impact	Risk Rating		
G15	Ensure compliance with the Local Government Pension Scheme (LGPS) regulations, other relevant legislation and the Pensions Regulator's Codes of Practice	JCAD Ref: EPFU0037 Fraud against the Fund or insufficient checks and controls results in benefits being paid to the incorrect person or paid when they are not due to an existing beneficiary, and/or loss of assets and/or reputational impact on Essex Pension Fund (EPF)	Quarterly	1. The Fund participates in the National Fraud Initiative (NFI) in line with Audit requirements using the Tell Us Once system, with Pensions paid via BACs as standard/extra verification undertaken for overseas and non-BACs cases. 2. Internal and External Audit regularly test that controls are in place and working. 3. Age and status verification checks are conducted prior to all benefits being released. 4. Authorised signature list- plus Essex County Council's (ECC's) version. 5. EPF undertake General Data Protection Regulation (GDPR) training with all staff and adhere to relevant ECC data protection policies. 6. Segregation of duties i.e. two signatures are required for any payments directly out of the Fund (Fund Managers). Other payments are verified by one person raising, one person checking and one person authorising. 7. Custodian asset pool - proper process for transfer of assets through LINK.	1	4	4	Jody Evans - Interim Director for Essex Pension Fund	Treat
G16	Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved	JCAD Ref: EPFU0026 Failure to comply with General Data Protection Regulation (GDPR) and keep data secure, leading to reputational issues or legal/financial penalties	Quarterly	1. Essex Pension Fund (EPF) conduct a System back-up to protect against data loss. 2. EPF ensure data encryption and password protection. 3. Continuous staff training on data protection / GDPR. 4. All information security breaches are reported and any systematic issues identified and corrected. 5. EPF ensure use of file transfer protocol.	2	4	8	Jody Evans - Interim Director for Essex Pension Fund	Treat

Essex Pension Fund

Risk No.	Objective at Risk	Risk Event, to include: - the area of uncertainty in terms of the threat - cause / trigger - the event or situation that gives rise to the risk - impact – the effect or impact the risk would have if it occurs	Review period	Current Mitigating Actions / Controls	Current Assessment of Risk			Risk Owner	Mitigation Approach Treat Tolerate Transfer Terminate
					Current				
					Likelihood	Impact	Risk Rating		
11	To maximise the returns from investments within reasonable risk parameters	JCAD Ref: EPFU0021 The total Fund Investment return does not meet expectations which could lead to underfunding	Quarterly	1. Essex Pension Fund (EPF) Investment Strategy is reviewed and monitored on a regular basis. 2. Monitoring of: investment manager performance; market conditions. Performance of both assets and liabilities is monitored periodically.	3	3	9	Samantha Andrews - Investment Manager	Treat
12	To maximise the returns from investments within reasonable risk parameters	JCAD Ref: EPFU0022 Investment Managers and/or ACCESS Operator underperform or do not have appropriate benchmarks leading to lower investment returns	Quarterly	1. The performance of Investment Managers and/or ACCESS Operator is subject to regular review.	3	2	6	Samantha Andrews - Investment Manager	Treat
13	To ensure the Fund's investments are properly managed before, during and after pooling is implemented	JCAD Ref: EPFU0038 Failure by Essex Pension Fund (EPF) or the ACCESS Operator to take advice in accordance with statutory requirements and best practice over appointing and the terms of appointment of investment managers	Quarterly	1. The Fund procures and utilises an Institutional Investment Consultant and an Independent Investment Adviser. 2. EPF ensure these arrangements are kept under review. 3. ACCESS Escalation Policy in place. 4. Appointed Contract Manager within the ACCESS Support Unit (ASU).	1	3	3	Samantha Andrews - Investment Manager	Treat
14	To ensure the Fund's investments are properly managed before, during and after pooling is implemented	JCAD Ref: EPFU0023 Delays in: - implementation of decisions; - availability of suitable solutions within the Pool; which reduces the effectiveness of the decision which could lead to loss of potential return	Quarterly	1. Essex Pension Fund (EPF) works proactively with Investment Advisers, ACCESS Pool and Investment Managers to scope, propose and implement viable revisions to the Investment Strategy.	3	2	6	Samantha Andrews - Investment Manager	Treat
15	To ensure the Fund's investments are properly managed before, during and after pooling is implemented	JCAD Ref: EPFU0024 Failure of 3rd party service providers to maintain obligations in respect of investments leading to potential loss of return or liquidity, or ability to access or control investment	Quarterly	1. AAF0106 Annual Control Reviews are carried out. 2. Within the Pool environment the Depository has liability for safekeeping of Pool investments. 3. ACCESS Support Unit (ASU) Contract Manager ensures adherence to the Operator Agreement by the 11 ACCESS Funds and LINK. 4. Formal procurement procedures are being used for all 3rd party suppliers. 5. Essex Pension Fund (EPF) ensure these arrangements are kept under review. 6. Fund's assets are not included on Custodian's Balance Sheet. Separate Designated Accounted for each mandate.	3	2	6	Samantha Andrews - Investment Manager	Treat
16	Ensure investment issues are communicated appropriately to the Fund's stakeholders	JCAD Ref: EPFU0039 Failure to communicate and consult on Investment Matters with stakeholders resulting in lack of understanding and potentially poor decisions being made	Quarterly	1. Investment Strategy Statement is subject to stakeholder consultation. 2. Essex Pension Fund Strategy Board (PSB) / Essex Pension Fund Investment Steering Committee (ISC) Members are appropriately trained prior to key decisions being made. 3. Engagement with Employers at triennial valuation.	1	2	2	Samantha Andrews - Investment Manager	Treat
17	To ensure the Fund's investments are properly managed before, during and after pooling is implemented	JCAD Ref: EPFU0040 The implementation of Markets in Financial Instruments Directive (MiFid) II (January 2018) leads to the Fund being categorised by some / all of its service providers as a 'retail client' - the result of which could reduce the range of sub asset classes in which the Fund is able to invest, and may even require disinvestment from the current portfolio	Quarterly	1. The Fund has arrangements to ensure that relevant MiFid II "opt ups" to Elective Professional status for all asset mandates is kept under review. 2. Member attendance and participation at Investment Conferences / Seminars including but not limited to: Local Government Chronicle (LGC) Investment Seminar; ACCESS Investor Day(s); LGC Investments & Pensions Summit; and Baillie Gifford Investment & Training seminar.	1	4	4	Samantha Andrews - Investment Manager	Treat
18	To maximise the returns from investments within reasonable risk parameters	JCAD Ref: EPFU0041 Lack of consideration of all financial and non-financial risks relating to Environmental, Social and Governance (ESG) / Responsible Investment (RI) issues leading to poor investment returns, increased employer contribution rates and reputational damage	Quarterly	1. Use of expert consultants in the selection of Investment Strategy and Investment Managers. 2. Regular monitoring of Investment Managers. 3. Regular reviews of Investment Strategy. 4. Compliance with Stewardship Code. 5. Membership of Local Authority Pension Fund Forum (LAPFF) agreed at Essex Pension Fund Investment Steering Committee (ISC) meeting on 27/11/2019.	1	3	3	Samantha Andrews - Investment Manager	Treat

Essex Pension Fund

Risk No.	Objective at Risk	Risk Event, to include: - the area of uncertainty in terms of the threat - cause / trigger - the event or situation that gives rise to the risk - impact – the effect or impact the risk would have if it occurs	Review period	Current Mitigating Actions / Controls	Current Assessment of Risk			Risk Owner	Mitigation Approach
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F1	To prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement	JCAD Ref: EPFU0013 Failure to set and collect contributions sufficient to achieve a fully funded ongoing position in the timescales determined by the Funding Strategy Statement	Quarterly	1. At each triennial valuation, assess funding position and progress made to full funding. 2. Full annual interim reviews to enable consideration of the position. 3. A specific Scorecard measure is in place on this matter to monitor the % of contributing employers submitting timely payments. 4. Work with Employers to ensure they understand their responsibilities. 5. Year-end reconciliation of Member data.	2	3	6	Sara Maxey - Employer Manager	Treat
F2	To prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement	JCAD Ref: EPFU0014 Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	Quarterly	1. Longevity analysis is conducted by the Actuary at each valuation.	2	3	6	Sara Maxey - Employer Manager	Treat
F3	To prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement	JCAD Ref: EPFU0042 Demographic experience of Fund population is not in line with actuarial assumptions resulting in increases required in Employer contributions	Quarterly	1. Essex Pension Fund (EPF) ensures the Employer pay the rates set at each valuation. 2. The Actuary provides a prudent assessment to allow for ill-health cases within the calculations. 3. Any change in demographics are reviewed at subsequent valuations and any underfunding will be addressed.	1	3	3	Sara Maxey - Employer Manager	Treat
F4	To recognise in drawing up the funding strategy the desirability of employer contribution rates that are as stable as possible	JCAD Ref: EPFU0015 Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant	Quarterly	1. Essex Pension Fund (EPF) carries out an analysis at each triennial actuarial valuation to assess covenant and affordability on a proportional basis. 2. A risk analysis is conducted at each triennial valuation by the Funds Actuary. 3. Ongoing monitoring of contributions to identify significant change and continuous dialogue with employers.	2	3	6	Sara Maxey - Employer Manager	Treat
F5	To recognise in drawing up the funding strategy the desirability of employer contribution rates that are as stable as possible	JCAD Ref: EPFU0016 Pay and price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	Quarterly	1. Essex Pension Fund (EPF) carries out an analysis at each triennial actuarial valuation to ensure that the assumptions adopted are appropriate and monitor actual experience. 2. Discussions with employers over affordability and pay policy are held. 3. Discretions Policy to control discretionary costs.	2	3	6	Sara Maxey - Employer Manager	Treat
F6	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives	JCAD Ref: EPFU0017 Failure to: - recognise a weakening (strengthening) in an employer's covenant; - lack of, or inaccurate, information about an employer; leads to an inappropriate funding approach in respect of that employer	Quarterly	1. Essex Pension Fund (EPF) monitors and send reminders of employer's responsibilities. 2. EPF carries out an analysis at each triennial actuarial valuation to assess covenant and affordability on a proportional basis. 3. A risk analysis is conducted at each triennial valuation. 4. Use of bonds and guarantees. 5. Ongoing monitoring of contributions to identify significant change and continuous dialogue with employers.	3	3	9	Sara Maxey - Employer Manager	Treat
F7	To ensure consistency between the investment strategy and funding strategy	JCAD Ref: EPFU0018 Funding strategy is not aligned with Investment Strategy leading to adverse funding outcomes (over / under funding)	Quarterly	1. The Asset Liability Study is undertaken on a triennial basis. 2. The Funding Strategy and Investment Strategy are reviewed and monitored on a regular basis. 3. The Funding Strategy is aligned with the Investment Strategy.	2	3	6	Sara Maxey - Employer Manager	Treat
F8	Maintain liquidity in order to ensure benefits can be met as and when they fall due over the lifetime of the Fund	JCAD Ref: EPFU0043 The Fund has insufficient cash to pay pensions as they fall due	Quarterly	1. Essex Pension Fund (EPF) ensures sufficient investment income is available to supplement contribution income to meet benefit payments. 2. This is reported to the Essex Pension Fund Strategy Board (PSB). 3. A specific Scorecard measure, 3.5.1 to ensure sufficient investment income is available to supplement contribution income to meet benefit payments, is in place on this matter. 4. Limit on illiquid assets and levels of diversification from equities and bonds. 5. Projection of expected cash flows and daily monitoring of cash.	1	3	3	Sara Maxey - Employer Manager	Treat
F9	Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the tax payer from an employer defaulting on its pension obligations to minimise unrecoverable debt on termination of employer participation	JCAD Ref: EPFU0019 An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee leads to unrecoverable debt and residual liability falls on remaining employers	Quarterly	1. New employers joining the Fund are required to meet the Funds expectations, covenant, security and guarantee as set out in the Funding Strategy. 2. Existing employers are required to meet the Funding Strategy and Actuarial Valuation obligations. 3. Monitoring of bonds and ongoing monitoring of Employer covenant.	3	3	9	Sara Maxey - Employer Manager	Treat
F10	To prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement	JCAD Ref: EPFU0020 The adoption of a funding strategy that causes the Fund to fail any of the Government Actuary's Department (GAD) s13 tests or be named in the GAD s13 report that causes reputational damage	Quarterly	1. In consultation with the Actuary, Essex Pension Fund (EPF) determine an appropriate funding strategy that meets s13 requirements.	2	3	6	Sara Maxey - Employer Manager	Treat

Essex Pension Fund

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					Current				Treat Tolerate Transfer Terminate
					Likelihood	Impact	Risk Rating		
A1	Deliver a high quality friendly and informative service to all beneficiaries and employers at the point of need	JCAD Ref: EPFU0025 Failure to administer scheme correctly in line with all relevant Regulations and policies owing to circumstances such as, but not limited to: - lack of regulatory clarity; - system issues; - insufficient resources.	Quarterly	1. Essex Pension Fund (EPF) ensure the System complies with the latest regulatory requirements through: - Technical Hub help to translate regulations and ensure new systems meet regulatory requirements; - Robust testing for system changes - Linking to knowledge and information from software supplier and other Local Government Pension Scheme (LGPS) clients using the same administration software. 2. EPF management monitor workload through reporting and align with business plan to ensure sufficient resources. 3. EPF have clear business continuity plans including disaster recovery and management succession planning in place.	3	3	9	Jody Evans - Interim Director for Essex Pension Fund	Treat
A2	Deliver a high quality friendly and informative service to all beneficiaries and employers at the point of need	JCAD Ref: EPFU0044 Excessive costs of administration lead to lack of Value For Money (VFM) and poor reputation	Quarterly	1. Essex Pension Fund (EPF) benchmarks its costs against other Funds and regularly look for efficiency savings for VFM. 2. Costs are monitored and reviewed on a regular basis. 3. Budget and Monitoring processes are in place.	1	3	3	Jody Evans - Interim Director for Essex Pension Fund	Treat
A3	Ensure benefits are paid to the right people at the right time in the right amount	JCAD Ref: EPFU0029 Failure to maintain proper records leading to inadequate data resulting in failure to pay the correct pensions to the right people at the right time	Quarterly	1. Data cleansing exercises take place at least annually or as and when required. Common and Scheme Specific data checks are carried out. 2. Essex Pension Fund (EPF) ensure the System is tested regularly to ensure compliance with regulations. 3. Robust checking and validation of data takes place in calculations and receipt of information from employers. 4. EPF ensures staff are adequately trained by developing and implementing training plans along with encouraging staff to undertake professional qualifications. 5. Payroll is conducted earlier than required to allow issues to be rectified prior to payment. 6. Liaise with Essex County Council (ECC) Supplier and Service team to ensure ECC BACS system is secure, reliable and up-to-date with required software on an ongoing basis. There is reliance on ECC BACS software solution to ensure payroll is completed at the right time.	2	3	6	Holly Gipson and Daniel Chessell - Payroll Manager and Retirement Manager	Treat
A4	Ensure contribution income is collected from, the right people at the right time in the right amount	JCAD Ref: EPFU0045 Failure to collect pension contributions in line with regulatory guidelines leads to loss on income to Essex Pension Fund (EPF)	Quarterly	1. All contributing Employers are provided with deadlines for payments and clear guidelines for providing associated information. 2. EPF monitor receipt of contributions to ensure compliance. 3. EPF follow the Administration Strategy in relation to late payments.	1	2	2	Sara Maxey - Employer Manager	Treat
A5	Deliver a high quality friendly and informative service to all beneficiaries and employers at the point of need	JAD Ref: EPFU0046 Failure to deal with concerns, complaints and Internal Dispute Resolution Procedures (IDRPs) appropriately results in poor customer satisfaction, further time spent resolving issues, potential compensation payments and reputation impact, particularly us escalated to the Pensions Ombudsman	Quarterly	1. A process is in place to ensure concerns and complaints are dealt with promptly. 2. Complaint levels and reasons are monitored and process issues are identified and corrected. 3. Complaint levels, IDRPs are reported through the Scorecard and are reported at each Essex Pension Fund Strategy Board (PSB).	1	2	2	Kelly Armstrong - Contact and Customer Manager	Treat
A6	Deliver a high quality friendly and informative service to all beneficiaries and employers at the point of need	JCAD Ref: EPFU0027 Unable to meet statutory requirements due to poor employer data	Quarterly	1. Administration Strategy is in place which confirms responsibilities, details points of contact with reference to the website for further information, timescales etc. 2. Administration Strategy is reviewed on a regular basis in consultation with Employers where changes are made. 3. Essex Pension Fund (EPF) communicates to Employers regularly on all aspects of provision which includes training sessions and guidance notes. 4. EPF conducts year-end data cleansing.	2	4	8	Sara Maxey - Employer Manager	Treat

Essex Pension Fund

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A7	Ensure the Fund employers are aware of and understand their roles and responsibilities, and carry out their functions in line with legislation, guidance and the Fund's agreed policies and procedures	JCAD Ref: EPFU0047 Failure to administer the scheme correctly due to circumstances such as, but not limited to: - Poor employer data; - Unable to clearly articulate what is required from employers; and - Unable to clearly articulate what is required from the Fund itself in order to deliver the Fund's administrative functions	Quarterly	1. Administration Strategy is in place. 2. Administration Strategy is reviewed on a regular basis in consultation with Employers. 3. Essex Pension Fund (EPF) communicates to Employers regularly on all aspects of provision which includes training sessions and guidance notes. 4. EPF ensure all staff adheres to the training requirements set for their posts through regular performance monitoring.	1	3	3	Jody Evans - Interim Director for Essex Pension Fund	Treat
A8	Ensure the Fund employers are aware of and understand their roles and responsibilities, and carry out their functions in line with legislation, guidance and the Fund's agreed policies and procedures	JCAD Ref: EPFU0048 Unable to develop and maintain good working relationships between the fund and our employers due to, but not limited to: - Lack of resource at Essex Pension Fund (EPF) and employers; - Lack of engagement due to other priorities; - Major growth in employer numbers leading to lack of time to build relationships etc.	Quarterly	1. EPF maintain a Communication Plan which is reviewed and monitored on a regular basis. 2. Forums are held for Employers to keep them up-to-date with Fund information on an annual basis. 3. Workshops are carried out to ensure year-end requirements are communicated.	1	2	2	Sara Maxey - Employer Manager	Treat

Essex Pension Fund

Risk No.	Objective at Risk	Risk Event, to include: - the area of uncertainty in terms of the threat - cause / trigger - the event or situation that gives rise to the risk - impact – the effect or impact the risk would have if it occurs	Review period	Current Mitigating Actions / Controls	Current Assessment of Risk			Risk Owner	Mitigation Approach
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C1	Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally	JCAD Ref: EPFU0049 Issuing incorrect or inaccurate communications leads to lack of understanding and/or complaints	Quarterly	1. Essex Pension Fund (EPF) ensure they align their practices to the Communication Policy to enable accurate communications. 2. Dedicated resource for communications. 3. Maintain and update EPF website. 4. Monitor feedback from stakeholders and ensure action taken to address complaints. 5. Staff training is provided to EPF staff to ensure they are kept up-to-date with best practice.	1	3	3	David Tucker - Technical Hub Manager	Treat
C2	Deliver information in a way that suits all types of stakeholders including providing more accessibility through greater use of technology	JCAD Ref: EPFU0050 Information delivered in a way that is not appropriate for members or employers, e.g. too complex, not relevant or in an unsuitable format	Quarterly	1. Essex Pension Fund (EPF) ensure communications are suitable for all stakeholders and are clear and concise via continual review. 2. An Annual Survey is undertaken to obtain feedback from Employers and Members on the suitability of our communications. 3. Dedicated and specialist resource for communications. 4. Maintain and update EPF website.	1	2	2	David Tucker - Technical Hub Manager	Treat
C3	Ensure our communications are useful and easy to follow	JCAD Ref: EPFU0051 Communications are not customised to specific needs and/or are overly complicated resulting in lack of understanding by all stakeholders	Quarterly	1. An Annual Survey is undertaken to obtain feedback from Employers and Members on the suitability of our communications. 2. Any required changes are reflected in the Communications Policy. 3. Checks are made regularly to ensure Essex Pension Fund (EPF) complies with the Disclosure Regulation requirements.	2	2	4	David Tucker - Technical Hub Manager	Treat
C4	Aim for full appreciation of the pension scheme benefits and changes to the scheme by all scheme members, prospective scheme members and employers	JCAD Ref: EPFU0052 Poor quality or lack of communications can lead to lack of understanding by all stakeholders	Quarterly	1. An Annual Survey is undertaken to obtain feedback from Employers and Members on the suitability of our communications. 2. Any required changes are reflected in the Communications Policy. 3. Forums are held for Employers to keep them up-to-date with Fund information as and when required. 4. Communications plan developed annually and updated in line with further changes to the scheme. 5. Workshops are carried out to ensure year-end requirements are communicated.	2	2	4	David Tucker - Technical Hub Manager	Treat

Essex Pension Fund Strategy Board	PSB 07a
Date: 16 December 2020	

Investment Steering Committee (ISC) Quarterly Report

Report by the Investment Manager

Enquiries to Samantha Andrews: 03330 138501

1. Purpose of the Report

- 1.1 To provide a report on ISC activity since the last Essex Pension Fund Strategy Board meeting.

2. Recommendations

- 2.1 The Board agree that the report be noted.

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 Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on one occasion, 21 October 2020.

4. Report of the meeting of ISC on 21 October 2020

- 4.1 The Committee considered the responses to the stakeholder consultation on the Investment Strategy Statement (ISS). It was highlighted that sixteen responses had been received from various stakeholders, however, three of those related to the individuals benefit entitlement rather than the ISS. It was explained that minor changes had been made to the draft ISS to improve clarity and that it had been passed to the Essex Pension Fund Advisory Board for noting. The updated version of the ISS was approved for subsequent publication.
- 4.2 Members were provided with an explanatory paper on the Financial Reporting Council's (FRC) new 2020 UK Stewardship Code and an outline of the steps required for the Fund to become a signatory. It was explained that twelve principles would need to be met. Details of each principle and a guide to the scale, complexity and resource required for each was also provided. It was felt that signing up to the Code would demonstrate the Fund's commitment to Responsible Investment (RI) and would formalise existing activities. It was therefore agreed that the Fund should look to become a signatory of the new Code for March 2022.
- 4.3 The Committee were provided with a report summarising the current views on the Fund's Investment Managers and reports of the meetings that Officers and Advisers had held with the Fund's property managers.
- 4.4 The meeting's main focus of business was in regard to a review of the Fund's property mandates. This was followed by a presentation from Aviva Investors, the Fund's UK property manager. Agreement was given that further consideration be given with a further report to be brought to the next meeting.

- 4.5 The Committee agreed the options available, process and timeline for appointing an additional direct lending manager to manage 2.5% of the Fund's mandate.
- 4.6 It was confirmed that the decision to trim one third of the overweight position of Baillie Gifford had been completed with the proceeds transferred to UBS's RAFI All World Equity Fund and Longview respectively. The Committee agreed to proceed with the second tranche further trimming Baillie Gifford's overweight position by £110m.
- 4.7 A presentation from the Interim Director of the ACCESS Support Unit was received updating Members on ACCESS's latest developments including current work in process. Background and subsequent agreement were also provided on the proposed changes to the Operator Agreement and the process by which the revised Inter-Authority Agreement (IAA) will be formalised.
- 4.8 Following referral, the Committee approved a set of investment scorecard measures to be included into the Fund's overall scorecard to be reported to the Board on a quarterly basis. In addition, it was explained to assist with measuring and monitoring the Fund's investment managers and Responsible Investment Policy going forward, a further set of investment scorecard measures had been developed for incorporating within the ISC's Annual Performance Review which were subsequently approved.
- 4.9 Details of the Fund's investment manager performance for the quarter ended 30 June 2020 along with an overview of capital markets to date was discussed. Members were pleased to note that the Fund value had increased to a new high of £7.9bn.
- 4.10 Members received an update in regard to the procurement of the Independent Investment Adviser. It was noted that seven candidates had been longlisted and invited to attend an interview in November 2020. After which a shortlist would be drawn up for interview by the ISC Appointment Sub Committee.

5. Link to Essex Pension Fund Objectives

5.1 Investments:

- To maximise the returns from investments within reasonable risk parameters;
- To ensure the Fund's investments are properly managed before, during and after pooling is implemented; and
- Ensure investment issues are communicated appropriately to the Fund's stakeholders.

6. Risk Implications

- 6.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Investment Strategy Statement and the Fund's Risk Register.
- 6.2 No new risks have been identified during the quarter.

7. Communication Implications

- 7.1 The outcome of the ISS stakeholder consultation was reported to the 21 October 2020 ISC meeting and following approval the ISS was published on the Fund's website.
- 7.2 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.

8. Finance and Resources Implications

- 8.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £98,000 in 2020/21.

8.2 The cost to the Fund was:

- £62,866 in 2019/20;
- £116,000 in 2018/19;
- £94,000 in 2017/18; and
- £80,000 in 2016/17.

9. Background Papers

9.1 ISC meeting of 21 October 2020– agenda and draft minutes.

Essex Pension Fund Strategy Board	PSB 07b
Date: 16 December 2020	

Pension Advisory Board (PAB) Quarterly Report

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To provide the Board with an update on PAB activity since the last Board meeting.

2. Recommendations

- 2.1 That the Board should note the report.

3. Background

- 3.1 The Essex Pension Fund Advisory Board (PAB) was established as the Local Pension Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the Local Government Pension Scheme (LGPS) Regulations 2013.
- 3.2 Since the PSB's last meeting, the PAB has met on one occasion on the 23 September 2020.

4. Report of the meeting of PAB on 23 September 2020

- 4.1 The PAB received a report from the Interim Director for Essex Pension Fund outlining the work undertaken by the PSB at their 23 September 2020 meeting which had taken place that morning.
- 4.2 Points covered were:
- Terms of Reference (ToR);
 - Andrew Coburn re-appointed as Vice Chairman for a further term of one year;
 - the PAB noted their Annual Report and that it would be published within the Fund's Annual Report & Accounts and issued to the Scheme Advisory Board;
 - the Investment Strategy Statement (ISS) was presented to the PAB to note;
 - an update on the development of the revised Business Continuity Policy and Plan; and
 - a report from the Vice Chairman on two events he had attended in his role as a PAB Member. These were:
 - LGPS Governance Conference; and
 - Chartered Institute of Public Finance and Accountancy (CIPFA) McCloud Implementation Workshop.

5. Activity Since Last Meeting

5.1 Following the recommendation by the PSB that morning to delegate the review of the Fund's Scheme Member and Employer Surveys to the PAB, a Task and Finish Group was established. It was **agreed** that the Group would consist of:

- one PSB Member – Rachel Hadley, Other Employing Bodies;
- two PAB Members – James Sheehy and Stuart Roberts, Scheme Member Representatives (also employers in the Fund);
- the Independent Governance & Administration Adviser (IGAA) – Karen McWilliam; and
- one Lead Fund Officer – Daniel Chessell, Retirement Manager.

5.2 A report on the outcomes of the review will be reported to the PAB at their 16 December 2020 meeting. The PAB will report their recommendations to the Board for consideration at the 17 March 2021 PSB meeting. A proposal of new communications scorecard measures will also be developed for the PSB to consider at the 17 March 2021 PSB meeting.

6. Recommendation

6.1 That the Board note the content report.

7. Link to Essex Pension Fund Objectives

7.1 Ensure compliance with the LGPS regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.

8. Risk Implications

8.1 Non-compliance with regulations caused by lack of knowledge by staff, changes in government policy/LGPS reforms and systems not kept up-to-date leading to reputational damage and financial loss.

9. Background Papers

9.1 PAB agenda and notes of 23 September 2020 meeting.

Essex Pension Fund Strategy Board	PSB 08
Date: 16 December 2020	

2020 Actuarial Interim Review

Joint report by the Employer Manager and the Fund Actuary
 Enquiries to Sara Maxey on 03330 138496

1. Purpose of the Report

- 1.1 To present to the Board an update on the Interim Review undertaken by Graeme Muir, Fund Actuary as at 31 March 2020.
- 1.2 To give the Board the opportunity to consider the impact of the Interim Review on the Funding Strategy.

2. Recommendations

- 2.1 That the Board note:
 - the 31 March 2020 Interim Review; and
 - that no changes are required to the Essex Pension Fund's Funding Strategy.

3. Background

- 3.1 All Local Government Pension Scheme (LGPS) Funds are required to have a full Actuarial Valuation every three years. The last such Valuation was as at 31 March 2019, and the next is due as at 31 March 2022.
- 3.2 Alongside Actuarial Valuations, Funds are required to produce, consult on, and publish a Funding Strategy Statement (FSS). The Board agreed the FSS as part of an Out of Committee Process, undertaken during March 2020 with a further Out of Committee Process to approve the Exit Credit policy in June 2020.
- 3.3 A later paper at this meeting provides the proposed Ill Health Policy to be considered and subsequently included within the FSS.
- 3.4 The objectives of the FSS include:
- to prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement; and
 - to recognise in drawing up its funding strategy, the desirability of employer contribution rates that are as stable as possible.
- 3.5 The Funds 2020/21 Business Plan includes the following two areas of activity that the Actuary will be commissioned to undertake:
- an interim Fund review as at 31 March 2020; and
 - an FSS review as required to take account of results of the Interim Review.

4. Interim Review 31 March 2020

- 4.1 The Actuary has now completed this Review and the report is attached at Appendix A. This indicates that the funding level has marginally declined from 97% to 96.2% in the 12 months to 31 March 2020.
- 4.2 At the 16 December 2020 Board meeting, the Actuary will take Members through a presentation regarding the Interim Funding Review, with the opportunity for questions and discussion.

5. Funding Strategy Statement

- 5.1 The Fund Actuary and Fund Officers do not recommend that any changes to the FSS are required following the results of the Interim Review.

6. Link to Essex Pension Fund Objectives

- 6.1 Prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the FSS.
- 6.2 Recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible.
- 6.3 To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives.

7. Risk Implications

- 7.1 Both the Interim Funding Review as at 31 March 2020 and reviewing the FSS in conjunction with the Interim Review are intended to monitor progress towards achieving assets equal to 100% of liabilities.
- 7.2 The risk implications of setting the Funding Strategy are set out within the FSS.

8. Finance and Resources Implications

- 8.1 Maintaining the existing Funding Strategy (as is proposed at 5.1) will mean there is no change to the financial arrangements determined by the 2019 Actuarial Valuation.

9. Background Papers

- 9.1 The published FSS and 2019 Actuarial Valuation can be found at:
<https://www.essexpensionfund.co.uk/essex-pension-fund/about-us/forms-and-publications/>
- 9.2 Funding Update Report 31 March 2020.

Essex Pension Fund

Funding update report as at 31 March 2020

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Introduction

Essex County Council, as administering authority for the Essex Pension Fund (the Fund) has asked that we carry out an annual monitoring assessment of the Fund as at 31 March 2020. The purpose of this assessment is to provide an update on the funding position.

The Fund participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with Local Government Pension Scheme Regulations 2013 (the Regulations).

We have taken account of current LGPS Regulations (as amended) as at the date of this report. An allowance consistent with the approach at the 2019 valuation has been made for current uncertainties in LGPS benefits (in relation to the effects of the McCloud/Sargeant judgement and cost cap). At the time of producing this report the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown.

The information in this report is addressed to and is provided for use by Essex County Council as the administering authority to the Fund. This report may be shared with other interested parties but it does not constitute advice to them.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.

In addition, we assess the funding position on an unsmoothed basis where assets are taken at market value and discount rates are taken as the spot rates at the reporting date.

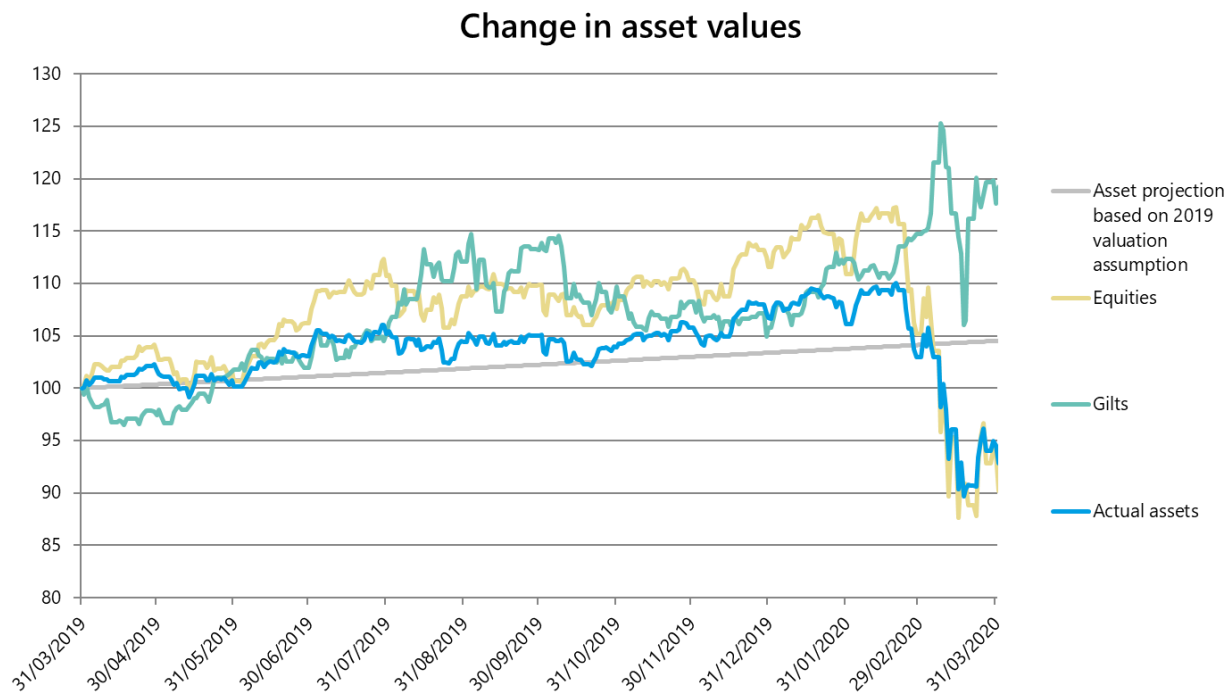
Assets

The market value and asset allocation of the Essex Pension Fund as at 31 March 2020, based on data received from Essex County Council, is as follows:

Assets (market value)	31 March 2020		31 March 2019	
	£000s	%	£000s	%
Equities	3,871,288	58%	4,385,834	62%
Gilts	285,066	4%	391,041	6%
Other bonds	400,724	6%	404,594	6%
Property	594,737	9%	609,876	9%
Cash/temporary investments	287,837	4%	183,309	3%
Alternative Assets	762,729	12%	687,026	10%
Other managed funds	425,244	6%	365,608	5%
Total assets	6,627,625	100%	7,027,288	100%

The investment return achieved by the Fund's assets in market value terms for the year to 31 March 2020 is estimated to be -5.4%.

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



As we can see the asset value as at 31 March 2020 in market value terms is less than where it was projected to be at the previous valuation.

For funding purposes, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the six month period around 31 March 2020. Therefore, we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

Changes in market conditions – market yields and discount rates

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.

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2019 actuarial valuation, updated where necessary to reflect

market conditions. Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	31 March 2020		31 March 2019	
	Nominal	Real	Nominal	Real
	% p.a.		% p.a.	
Pension increases (CPI)	2.20%	-	2.65%	-
Salary increases	3.20%	1.00%	3.65%	1.00%
Discount rate	4.07%	1.87%	4.51%	1.86%

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2019 valuation, we have included in the discount rate assumption an explicit prudence allowance of 1.3%.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is broadly similar as at the 31 March 2019 valuation, maintaining the value of liabilities used for funding purposes.

Results

The funding position for each month has been rolled forward from the formal valuation and is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2020 is 96.2% and the average required employer contribution would be 22.5% of payroll assuming the deficit is to be paid by 31 March 2032. The total employer contribution rate of 22.5% comprises a primary rate of 19.9% and a secondary rate of 2.6%.
- This compares with the reported (smoothed) funding level of 97.0% and average required employer contribution of 21.9% of payroll at the 31 March 2019 funding valuation. The total employer contribution rate of 21.9% comprises a primary rate of 20.0% and a secondary rate of 1.9%.

The discount rate underlying the smoothed funding level as at 31 March 2020 is 4.1% p.a. The investment return required to restore the funding level to 100% by 31 March 2032, without the employers paying deficit contributions, would be 4.4% p.a.

The funding level has decreased very slightly but by less than the drop in market value of the assets due to the smoothing mechanisms in the model. As we smooth assets in the 6 months spanning the valuation date we capture the bounce in markets in the 3 months after the valuation date. However the deficit in cash terms is higher than at 2019 increasing the required deficit contribution whilst the cost of future benefits is broadly unchanged leading to a small increase in the total required contribution rate.

Update to funding assumptions

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends. The funding model assumes that dividends will increase by 1.5% more than CPI in the longer term.

Dividend futures markets can provide an indication of future dividend expectations and although quite volatile in early April, as the pandemic started to hit the Western world, were suggesting potentially a 20% reduction for calendar year 2020 compared to 2019 in US dollar terms. The market was also suggesting that it would take seven years to recover to the same cash levels before the reduction.

However a lot of the reduction in dividends, at least in the UK, is due to the Government requiring banks and encouraging insurers to suspend dividends. The biggest dividend payer in the UK market, the oil company Shell hit the headlines when not long into lockdown, it announced it was cutting its dividend by two thirds. A number of other large companies also decided to reduce or suspend dividends, due to the uncertain times ahead. Dividends paid by Q2 payers in the UK dropped almost 50% in the second quarter of 2020 compared to the second quarter of 2019 with about half of this accounted for by the banks and others in the finance sector.

As at the end of August the dividends from UK companies in the 12 months to 31 August were 11% less than the 12 months to 31 August 2019. Dividends from global equities were down 12% for the same period in sterling terms but only 3% in local currency terms due to the decline in sterling.

If global dividends were to reduce by 20% without any additional long term growth to compensate then the funding level at March 2020 would reduce by around 6% from 96.2% to 90.2% and the total contribution rate would increase by around 7% of payroll from 22.5% to 29.2% of payroll.

The key issue here is if the reduction in dividends is due to a reduction in earnings, or, whether companies are just retaining their earnings to strengthen their balance sheet due to the uncertainty and this may simply just be deferring payment if the outturn is not as bad as they are assuming. In reality it is probably a bit of both. However it would not be unreasonable to assume that with dividends having fallen quite far then the future growth in dividends in the short term is likely to be higher than it otherwise would have been. Increasing 100 by 10 is a 10% increase – 20% if you are starting from 50.

We have therefore modelled two scenarios in terms of higher than average dividend growth in the short term assuming a 20% initial fall in 2020. Under the first scenario we have assumed that dividend growth will be 1.5% more over the next seven years than the long term average assumption of 1.5% more than CPI – so 3% more than CPI. The second scenario assumes 2% extra growth per annum rather than 1.5%.

Under the first scenario, the extra dividend growth means that rather than a 6% fall in funding level, the reduction is only 3.4% resulting in a funding level of 92.8% and the total contribution rate would increase by 3.7% to 26.2% rather than by 7% of payroll. Under the second scenario the reduction in funding level falls further to 2.5% from 96.2% to 93.7% and the total contribution rate would only increase by 2.7% of payroll from 22.5% to 25.2% of payroll.

Once we understand the longer term effects of the current crisis on the investment markets, we suggest we review the valuation assumptions remain appropriate for the purposes of these funding updates.

Impact of the volatility reserve

At the 2019 valuation an asset shock or volatility reserve of 5% was deducted from the smoothed assets to protect the Fund against adverse experience and to achieve stability in funding and contribution rates.

The question is then, given the recent market turmoil, do we have enough volatility reserve to maintain funding levels and more importantly contribution rates at the 2019 valuation levels?

Before allowing for any reduction in dividends, to maintain the average employer contribution rate at the 2019 level of 21.9%, we would need to utilise around 20% of the 5% volatility reserve as at 31 March 2020 – so 1% of the assets still leaving 4%.

Under the scenario where global dividends were to reduce by 20% as described in the previous section and without using the volatility reserve the funding level as at 31 March 2020 would 90.2% and the required employer contribution rate would increase from the current average level of 21.9% to 29.2% at the last valuation.

Under this scenario, using all of the volatility reserve would lead to the funding level increasing from 90.2% to 94.9% and the required total contribution rate would increase by 4.0% of pay from 21.9% to 25.9%. The reserve would therefore help to offset some of the increase in the required contribution rate as a result of the assumed fall in dividend yields, but not all of it.

However, under the higher short term dividend growth scenarios, then assuming 1.5% extra short term growth and using all of the volatility reserve we would produce a funding level of 97.7%. However the total average employer contribution rate would still increase under this scenario from 21.9% to 22.8%. This is primarily to the increase in the primary rate not quite being offset by the reduction in secondary rate.

Finally, assuming an additional 2.0% extra short term growth then using up 65% of the volatility reserve (so 3.25% of the total assets) would be sufficient to broadly maintain both the total average employer contribution rate and the funding level at the 2019 levels.

So in summary we have the following

Scenario	31 March 2019	31 March 2020	31 March 2020 20% dividend fall	31 March 2020 20% dividend fall 1.5% add. growth	31 March 2020 20% dividend fall 2.0% add. growth
Funding level	97.0%	96.2%	90.2%	92.8%	93.7%
Total average contribution rate	21.9%	22.5%	29.2%	26.2%	25.2%
% of volatility reserve used	n/a	20%	100%	100%	65%
Funding level using vol. reserve	n/a	97.2%	94.9%	97.7%	96.9%
Total average contribution rate using vol. reserve	n/a	21.8%	25.9%	22.8%	21.9%

Final comments

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include longevity risk, financial risks (including inflation and investment risk) and regulatory risks. There is more detail on this contained within the Fund's Funding Strategy Statement and the 31 March 2019 actuarial valuation report.

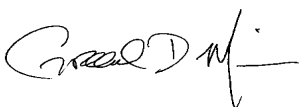
The results of this interim review indicate a slight reduction in funding level and an increase in the average required employer contribution rate at 31 March 2020 compared to 31 March 2019 but perhaps not so bad as might have been expected. This is due to the funding model which aims to smooth out short term market volatility and keep employer contributions rates as stable as possible, even through the most testing times.

Some of this stability comes from the 6 month smoothing mechanism, but some of it also comes from the assumption that companies normally tend to smooth their dividend payments to shareholders. The reduction in dividends so far in 2020 and the outlook for the rest of the year however will be unprecedented and be far more severe than we saw in the financial crisis of 2008/09. However, as in that crisis, we are likely to see some rebound that will make up some of the cuts although it is likely to take some time to get back to pre-crisis levels.

The long term assumption is that dividends will increase by CPI plus 1.5% which is around 4% per annum at current inflation levels. What the scenario testing shows is that if we have a 20% initial drop in dividends in 2020 but then rather than 4% per annum growth we have 6% per annum for the next 7 years (and then reverting to the long term 4%), the volatility reserve set aside at the 2019 valuation will have been sufficient to maintain employer contributions at the 2019 levels.

Of course there is still much uncertainty ahead, but the prudent approach adopted at the 2019 valuation, and the setting aside of the volatility reserve means that the Fund will hopefully come through this crisis relatively unscathed – certainly in better shape than some other Funds.

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



Graeme D Muir FFA
Partner
Barnett Waddingham LLP

Appendix 1 Financial position since previous valuation

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

The smoothed assets shown in the table below include a 5% volatility reserve reduction consistent with the actuarial valuation as at 31 March 2019.

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 9%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 9%.

Smoothed results	Assets (incl. volatility reserve deduction)	Liabilities	Surplus / (Deficit)	Funding level	CARE ongoing cost	Past service ctbn	Total ctbn	Discount rate	Return required to restore funding level
Valuation date	£000s	£000s	£000s	%	% of pay	% of pay	% of pay	% p.a.	% p.a.
31 Mar 2019	6,711,392	6,917,143	(205,751)	97%	20.0%	1.9%	21.9%	4.5%	4.7%
30 Apr 2019	6,757,048	6,992,002	(234,954)	97%	20.3%	2.1%	22.4%	4.5%	4.7%
31 May 2019	6,838,037	7,041,013	(202,976)	97%	20.4%	1.8%	22.2%	4.4%	4.7%
30 Jun 2019	6,879,470	7,084,235	(204,765)	97%	20.5%	1.8%	22.3%	4.4%	4.6%
31 Jul 2019	6,859,096	7,110,517	(251,421)	96%	20.5%	2.2%	22.7%	4.4%	4.6%
31 Aug 2019	6,906,350	7,148,569	(242,219)	97%	20.6%	2.2%	22.8%	4.3%	4.6%
30 Sep 2019	6,941,403	7,183,781	(242,378)	97%	20.7%	2.2%	22.9%	4.2%	4.5%
31 Oct 2019	7,027,276	7,223,437	(196,161)	97%	20.7%	1.8%	22.5%	4.2%	4.4%
30 Nov 2019	7,093,226	7,268,839	(175,613)	98%	20.8%	1.6%	22.4%	4.1%	4.3%
31 Dec 2019	7,015,019	7,203,388	(188,369)	97%	20.4%	1.7%	22.1%	4.1%	4.3%
31 Jan 2020	6,874,759	7,166,062	(291,303)	96%	20.1%	2.7%	22.8%	4.1%	4.4%
29 Feb 2020	6,871,422	7,154,422	(283,000)	96%	19.9%	2.6%	22.5%	4.1%	4.4%
31 Mar 2020	6,900,714	7,173,612	(272,898)	96%	19.9%	2.6%	22.5%	4.1%	4.4%

Appendix 2 Data, method and assumptions

Data

In completing our calculations we have used the following items of data, which we received from Essex County Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes;
- Actual whole Fund income and expenditure items for the period to 31 March 2020; and
- Actual Fund returns based on Fund asset statements provided to 31 March 2020, and Fund income and expenditure as noted above.

The data has been checked for reasonableness and we are happy that the data is sufficient for the purpose of this report.

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS [website](#) and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Method

To assess the value of the Fund's liabilities as at 31 March 2020, we have rolled forward the value of the liabilities calculated for the funding valuation as at 31 March 2019 using the financial assumptions below and actual cashflows paid to and from the Fund.

It is not possible to assess the accuracy of the estimated value of the liabilities as at 31 March 2020 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2020 should not introduce any material assumptions in the results provided that the actual experience of the Fund is broadly in line with the underlying assumptions and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

We have been provided with the Fund assets at various dates but for dates that these are not available, we calculate the Fund assets by rolling forward the previous assets provided allowing for investment returns (estimated where necessary), and actual cashflows paid to and from the Fund. The latest date that we have been provided with the Fund assets is 31 March 2020.

Assumptions

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2019 actuarial valuation, updated where necessary to reflect market conditions.

A summary of the main financial assumptions adopted is set out in the main body of this report.

The post retirement mortality assumptions are:

- The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 115% for females;
- The dependant post retirement mortality tables adopted are the S3DA tables with a multiplier of 95% for males and 105% for females.

These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.5 and an initial addition parameter of 0.5% p.a.

The other key demographic assumptions are:

- Members retire at a single age, based on the average age at which they can take each tranche of their pension; and
- It is assumed that members will exchange 50% of their commutable pension for cash at retirement.

Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

Essex Pension Fund Strategy Board	PSB 09
Date: 16 December 2020	

Schedule of Future Meetings and Events

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To provide the Board with an update on the schedule of future meetings and events.

2. Recommendation

- 2.1 That the Board **agree**:
 - the planned meeting dates for the 2021/22 municipal year; and
 - the extension of the current meeting arrangements for a further 12 months.
- 2.2 That the Board note the content of the report.

3. Background

- 3.1 The Board were made aware, at their meeting on 18 December 2019, that future meetings and events would be brought to each meeting to ensure, where applicable, the process of approval by the Foreign Travel Committee for attendance at any conferences/seminars is incorporated within the Committee's timetable.

4. Upcoming Event(s)

- 4.1 Due to the current restrictions in place as a result of the Covid-19 pandemic, there are no upcoming events to note. However, there is an increase in webinars being hosted by various organisations within the LGPS. As and when any such webinars are announced, the Compliance Team will provide the Board with a communication to invite all Members to register for the event should they wish to do so.

5. Schedule of Meetings

- 5.1 The meeting dates/times for the Board to note for the remainder of the current municipal year are:

Pension Strategy Board	
Wednesday 17 March 2021	10am – 1pm

Investment Steering Committee	
Wednesday 20 January 2021	10am – 4pm
Wednesday 24 March 2021	10am – 1pm

- 5.2 Please note that the timings of the above named meetings may change dependent on the way the meetings are hosted (Committee Room 2 or Virtual).

6. Review of the timetable

- 6.1 As part of the Essex Pension Fund Advisory Board (PAB) Review during 2019/20, with the outcome reported to the 15 January 2020 PAB meeting, part of the review looked into the number and timings of the PAB meetings.
- 6.2 The review acknowledged that the Board could be more effective if they were to observe each PSB meeting and hold their own meeting after the PSB therefore increasing from three meetings to four per year.
- 6.3 The timings of the PSB therefore were also arranged to be in the mornings so the PAB could continue their oversight of the PSB meetings and then conduct their own meeting in the same afternoon. This also allowed the PAB to meet four times a year directly after the PSB allowing any Members of the PAB to continue to observe.
- 6.4 Fund Officers notified the Boards and Committee that this arrangement would be reviewed after 12 months of its implementation. However due to the Covid-19 pandemic causing cancellations of one PSB and one PAB meeting during this municipal year and the use of virtual meetings, this arrangement has not been tested to its full potential. It is therefore, recommended that this arrangement is extended for a further 12 months to allow proper testing of this approach.

7. 2021/22 Municipal Year Proposal

- 7.1 The proposed schedule of meetings for the new municipal year 2021/22 are as follows:

Pension Strategy Board	
Wednesday 7 July 2021	10am – 1pm – to be agreed
Wednesday 22 September 2021	10am – 1pm – to be agreed
Wednesday 15 December 2021	10am – 1pm – to be agreed
Wednesday 23 March 2022	10am – 1pm – to be agreed

Investment Steering Committee	
Wednesday 16 June 2021	10am – 4pm – to be agreed

Wednesday 13 October 2021	10am – 1pm – to be agreed
Wednesday 24 November 2021	10am – 4pm – to be agreed
Wednesday 23 February 2022	10am – 1pm – to be agreed

Pension Advisory Board	
Wednesday 7 July 2021	2pm – 4pm – to be agreed
Wednesday 22 September 2021	2pm – 4pm – to be agreed
Wednesday 15 December 2021	2pm – 4pm – to be agreed
Wednesday 23 March 2022	2pm – 4pm – to be agreed

Training Days	
Day 1	TBC
Day 2	TBC

8. Finance and Resources Implications

- 8.1 If an event costs more than £500 for one member or £1,000 in total, then prior approval for any travel by the Foreign Travel Committee is compulsory.

9. Background Papers

- 9.1 Schedule of Future Meetings and Events, PSB 12, 23 September 2020.