

Annual Report of the Essex Pension Fund Board, covering the period from 1 April 2018 until 31 March 2019.

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 03330 138488 and Jody Evans on 03330 138489

1. Purpose of the Report

To present the Pension Fund Strategy Board's annual report to Essex County Council.

2. Recommendation

To note the attached report.

Essex Pension Fund

Annual Report 2018/19

July 2019

1. Introduction

This is the tenth Annual Report of the Essex Pension Fund Board(s), covering the period from 1 April 2018 until 31 March 2019.

2. Roles and Functions

Essex Pension Fund Strategy Board

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

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

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

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

The Board met four times during the period covered by this report: on 4 July 2018, 12 September 2018, 19 December 2018 and 6 March 2019.

Membership

During the period covered by this report the Board had 11 members. They represented Essex County Council, the other local authorities in Essex (including Unitary Councils), Scheme members and Smaller Employing Bodies (i.e. those which are not already specifically represented on the Board).

The membership of the Board as at 31 March 2019 was as follows:

Essex County Council (7)

Councillor Susan Barker	Chairman
Councillor Mark Platt	Vice Chairman
Councillor Chris Pond *	
Councillor Alan Goggin	
Councillor Anthony Hedley	
Councillor Lee Scordis	
Councillor Clive Souter	

** Cllr Malcolm Maddocks replaced Cllr Chris Pond December 2018*

District/City/Borough Councils in Essex (1)

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

Councillor Andrew Moring	Southend-on-Sea
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Scheme Members (nominated by UNISON) (1)

Mrs S Child

Smaller Employing Bodies (1)

Mrs Jenny Moore

Essex Pension Fund Advisory Board

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

The Board has the following remit:

- (i) To assist the Scheme Manager to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS

and to secure compliance with requirements imposed in relation to the LGPS by the Pension Regulator;

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

Membership

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

The membership of the Advisory Board as at 31 March 2019 was as follows:

Employer Representatives (4)

Andrew Coburn	Unison
Paul Hewitt	Deferred Member
Debs Hurst	Active Member
Mark Paget **	Active Member

*** Mark Paget's post became vacant in December 2018*

Scheme Representatives (4)

James Durrant	Essex Fire Authority
Cllr Terry Cutmore	Rochford District Council
Cllr Shane Hebb	Thurrock Council
Cllr Simon Walsh	Essex County Council

Independent Chairman (1)

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

Based on the draft accounts, as at 31 March 2019 the value of the Fund's assets was £7.0bn.

The total value of pensions paid during 2018/19 was £200m, together with other benefits totalling £44m. The average payment made each year is £5k.

The total number of beneficiaries are as follows:

	2018	2019
Contributors	66,449	55,564
Deferred Pensioners	55,904	70,832
Pensioners	40,528	42,430
Total	162,881	168,826

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

The Board exercises on behalf of the Council the management of the Pension Fund whose membership comes from over 650 separate Employing Bodies, including:

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

4. Work of the PSB and the Essex Pension Fund Investment Steering Committee

The following key issues were considered by the Board between 1 April 2018 and 31 March 2019:

Governance

Since 2010, the Fund has formalised a number of objectives covering five key areas: *Governance, Investment, Funding, Administration* and *communications* and during 2018 a review of these was undertaken. Whilst many original objectives remain appropriate the opportunity was taken to update and expand where required. The substantive changes include:

- a new objective making explicit reference to the Fund's compliance with LGPS Regulations, wider legislation and acknowledgement of the role of the Pension Regulator in the LGPS;

- in recognition of the increasing complexity within scheme administration, two new objectives covering the establishment of performance levels for, and partnership working between, both the Fund and its employers;
- recognition of investment pooling with the management of the Fund's assets;
- explicit reference to prudence in setting employer contributions; and
- reference to regulatory compliance in relation to data protection.

These objectives, agreed by the Pension Strategy Board, are the cornerstone of the Fund's governance and provide the foundation for the annual business plan. The revised objectives also formed the basis of the subsequent review of the Fund's risk register. Its completion has seen a reduction in the number of overall risks from 83 to 46 which is the consequence of risks being consolidated and duplication avoided. The scoring of each risk continues to be reviewed on an ongoing basis. The final part of this process will see the Fund's quarterly scorecard reviewed during 2019/20 in line with the revised objectives and risks.

Funding

The relative values of the Fund's assets and liabilities are often expressed as funding level percentage, and the Fund's objectives refer to both maximising the returns from investment within reasonable risk parameters and the prudent setting of employer contributions that aim to achieve a fully funded ongoing position in the timescales identified in the Funding Strategy.

Funding levels alter from time to time, and can be derived in different ways; however, results published in the last year indicate that Essex continues to make progress in this critical area.

31 March 2016

The last full triennial valuation was in 2016 at which point the funding level was 89%. The triennial valuations of all LGPS Funds in England & Wales are subsequently reviewed by the Government Actuary. In September 2018, the findings of the latest review were published. This ranked as Essex as 32nd out of 90 funds, up from 69th at the 2013 review.

31 March 2017

In the intervening years between triennial valuations, the Fund commissions its own Interim Review. The Review as at 31 March 2017 showed the funding level had risen to 93%.

31 March 2018

The Interim Review as at 31 March 2018 showed the funding level had risen to 94%.

31 March 2019

During the 2018/19 year the value of the Fund's assets rose from £6.4bn to £7.0bn – which underpinned an annual investment performance of 8.5% compared to a benchmark of 5.6%. This continues an established Fund trend of outperformance. The results of the 2019 Valuation are expected in autumn 2019 and will include an update on the funding level.

Asset Pooling

Alongside the ten other Funds within the ACCESS, Essex continues to progress the pooling of investment management arrangements. Following last year's successful collective procurement of, and migration to UBS as passive manager, 2018/19 saw significant developments for actively managed listed assets.

By February 2019, ACCESS pool operator Link Fund Solutions had launched 8 equity sub funds, into which seven ACCESS Funds, including Essex, have invested.

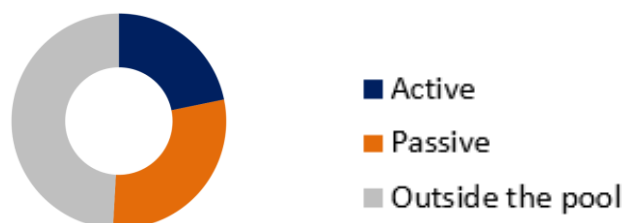
The active assets that migrated to the pool are in the three global equity sub funds listed below:

- Baillie Gifford (Long Term Global Growth)
- Longview
- M&G (Global Dividend)

Essex pooled assets in these sub funds account for approximately £1.5bn of the £8.5bn within the sub funds.

In authorising these transfers, the Investment Steering Committee took the opportunity to align the amounts in each sub fund with the lower allocation to active equities that was agreed in 2017/18 following an asset liability study.

Given the passive mandate placed with UBS Asset Management in early, by the end of 2018/19 Essex had just over half of the asset portfolio under pool governance. Fee savings realised in 2018/19 exceeded £2m. The chart below summarises Essex's pooling progress as at 31 March.



Other areas considered were:

- Reports on the work of the Essex Pension Fund Investment Steering Committee;
- External Audit Programme of Work;
- Reports from Internal Audit regarding the control environment of the Pension Fund and Administration;
- Reports of the Pension Advisory Board;
- Annual Accounts;
- Year-end returns 2018/19 Charging Policy;
- Review of the Administration Policy;
- Review of Governance Compliance Statement;
- Member Training;
- Fund Actuary Contractual Arrangements;
- Independent Governance & Administration Advisor Contractual Arrangements;
- Ministry of Housing, Communities & Local Government (MHCLG) Consultation on Technical Amendments;
- HMRC Guaranteed Minimum Pension (GMP) update;
- Multi Academy Trust (MAT) Liability Transfer;
- Local Government Pension Scheme (LGPS) Governance; and
- Fair Deal Consultation.

6. Member Training

There is a firm commitment to training and development, with a view to ensuring that Members are able to fulfil their roles effectively.

Details of Members' attendance at Essex Pension Fund Boards and Investment Steering Committee meetings and training events (internal and external) are monitored throughout the year.

Member training is predominately delivered within the Board meetings.

7. Three-Year Business Plan

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

Cllr Susan Barker
Chairman of the PSB and of the ISC
Cabinet Member for Customer, Communities, Culture and Corporate
Essex County Council