



Essex County Council

Essex Pension Strategy Board

10:00	Wednesday, 07 July 2021	Committee Room 1 County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

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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.

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| 16 | Employer Update <ul style="list-style-type: none"> Information relating to the financial or business affairs of any particular person (including the authority holding that information); |
| 17 | Essex Pension Fund Printing and Posting Contract <ul style="list-style-type: none"> Information relating to the financial or business affairs of any particular person (including the authority holding that information); |

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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: 07 July 2021	

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 07 July 2021 PSB.

2. Recommendation

- 2.1 That the Board should note:

- Membership as agreed at the meeting of Essex County Council Full Council meeting held on 25 May 2021 as shown opposite;
- 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, City 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 Hoy	Essex County Council
Councillor D King	Essex County Council
Councillor C Souter	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

4. Substitute Membership Arrangements

- 4.1 Councillor Mark Durham has been appointed as the Conservative Group substitute.

4.2 Councillor Mike Mackrory has been appointed as the Liberal Democrat substitute.

Essex Pension Fund Strategy Board	PSB 02
Date: 07 July 2021	

Confirmation of the Appointment of the Essex Pension Fund Strategy Board (PSB) Chairman and Vice Chairman

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To note the appointment of the PSB Chairman and Vice Chairman of the Essex Pension Fund.
- 1.2 To note the Fund's representative on the ACCESS Joint Committee (JC).

2. Recommendation

- 2.1 That the Board note:
 - the appointment of Councillor Susan Barker as Chairman of the PSB as agreed at the Essex County Council (ECC) Full Council meeting held on 25 May 2021;
 - the appointment of Councillor Mark Platt as Vice Chairman of the PSB as agreed at the Investment Steering Committee (ISC) meeting held on 16 June 2021; and
 - that the Chairman act as the Fund's representative on the ACCESS JC and that, in their absence, the Vice Chairman act as the Fund's representative as agreed at the ISC meeting held on 16 June 2021.

3. Background

- 3.1 County Council Elections occur every four years. On 06 May 2021 the Local Elections were held.
- 3.2 At the 25 May 2021 ECC Full Council meeting the newly Elected Membership for ECC for the next four years was confirmed.
- 3.3 At this meeting, ECC's Committee Memberships were also agreed along with Chairmen appointments.
- 3.4 Under the PSB Terms of Reference the Chairman and Vice Chairman of the PSB will also act as Chairman and Vice Chairman for the ISC respectively.
- 3.5 Confirmation of the Chairman appointment is then reaffirmed at their respective first meetings. In addition, at the first meeting of either the PSB or ISC the Vice Chairman is also elected.

4. Confirmation of the Chairman and Vice Chairman

- 4.1 At the 25 May 2021 ECC Full Council meeting, Councillor Susan Barker was appointed as the Chairman of the PSB for the Essex Pension Fund.
- 4.2 At the ISC's meeting held on 16 June 2021, the Committee:
 - reaffirmed Councillor Susan Barker as the Chairman of the PSB and ISC;
 - they voted that Councillor Mark Platt be the Vice Chairman for both the PSB and ISC; and
 - agreed that the Chairman act as the Fund's representative on the ACCESS JC and in their absence, the Vice Chairman act as the Fund's representative.

Minutes of the meeting of the Essex Pension Fund Strategy Board (PSB), held at 10:00am as an online video conference on 17 March 2021

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 C Souter	
Cllr M Maddocks	

District/Borough Councils in Essex Representatives

Cllr M Dent	Southend-on-Sea Borough Council
Cllr C Riley	Castle Point Borough Council Part I only

Scheme Member Representative

Sandra Child (UNISON)

Other Employing Bodies Representative

Rachel Hadley	Chelmer Housing Partnership
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It was also noted that Substitute Member Cllr M Durham was in attendance as an Observer.

The following Officers and Advisers were also present in support of the meeting:

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
Amanda Crawford	Compliance Manager
Helen Pennock	Compliance Analyst

Karen McWilliam	Independent Governance & Administration Adviser (IGAA), Aon left after Agenda Item 11
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The following Essex Pension Fund Advisory Board (PAB) Members were present as Observers of the meeting:

Nicola Mark	Independent Chairman	
Cllr S Walsh	Employer Representative	Part I only
Cllr M Bracken	Employer Representative	
James Durrant	Employer Representative	
Andrew Coburn	Scheme Member Representative (UNISON)	
Debs Hurst	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 Members of the Board, Karen McWilliam (IGAA), Cllr M Durham and PAB Members: Nicola Mark; Cllr S Walsh; Cllr M Bracken; James Durrant; Andrew Coburn and Debs Hurst to the meeting.

It was noted that this would be Cllr M Maddocks last PSB and therefore the Chairman took the opportunity to thank him for his contribution and commitment to the work of the Board since his appointment in December 2018.

The Secretariat outlined to Members the protocol on how the virtual meeting would be conducted.

Apologies for Absence

It was noted that Cllr L Scordis was absent from the meeting and that both Cllr C Riley and PAB Member Cllr S Walsh were unable to attend Part II of the meeting. PAB Member Stuart Roberts was also unable to attend the meeting.

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

Cllr A Hedley declared that he was in receipt of an Aviva Group Pension and is the Chairman of the Audit, Governance and Standards Committee;

Cllr M Maddocks, Cllr C 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.

Resolved:

The Board noted the report and update.

2. Minutes of PSB meeting 16 December 2020

The Minutes of the meeting of the PSB held on 16 December 2020 were approved as a correct record and signed by the Chairman.

The Chairman brought to the attention the Matters Arising and it was noted that:

- the outcome of the PAB's Review of the Fund's Annual Surveys was provided at Agenda Item 03b;
- the revised Communications Scorecard measures had been developed and were provided at Agenda Item 03c for the Board's approval;
- the Officer meeting arranged with BDO, the external auditors to discuss the 2019/20 External Audit was unfortunately cancelled. The Chairman agreed with Officers that due to timing this would now be discussed as part of the 2020/21 audit planning process;
- the Fund's full Risk Register was taken to the PAB meeting held on 16 December 2020 for noting;
- the Governance Policy and Compliance Statement had been updated and was provided at Agenda Item 04b for the Board's approval;
- the Knowledge and Skills Strategy and Risk Register had been published on the Fund's website;
- EPF Staff are included within Essex County Council's Wellbeing Agenda. In addition, the Fund is separately monitoring wellbeing and associated risks. It was explained that further mitigations had been added to risk G4 within the Fund's Risk Register; and
- the Funding Strategy Statement had been updated to include the Fund's Employer Ill Health and Death in Service Policy and had been published on the Fund's website.

Members were informed that the remaining matters arising would be dealt with through this Agenda Pack.

3. Update on Pension Fund Activity

3a. Pension Fund Activity: Quarterly Update Report

The Compliance Manager provided the Board with an update on progress in relation to the 2020/21 Business Plan, Budget, Scorecard and Risk Register.

Of the forty-two priorities highlighted in the Business Plan, the Board noted that thirty-five priorities were reported as completed to date and that the four that were currently in progress would be completed by 31 March 2021. Members expressed their thanks to Fund Officers for their hard work and perseverance through such unprecedented and difficult circumstances.

It was noted that the Fund was projecting a slight underspend for the year against the 2020/21 Budget.

The Fund's achievement against scorecard measures was discussed by exception noting two new red measures in regard to attendance at PAB meetings and a PAB vacancy.

A Risk Management Update report was provided detailing the current risk scores against those reported at the previous meeting. It was confirmed that no new risks have been identified. One risk score had increased since the last meeting but remained at yellow, this was in regard to the uncertainty around the pending elections and recent PAB Vacancy.

Resolved:

The Board noted the update on Pension Fund Activity.

3b. Essex Pension Fund Advisory Board Review of the Fund's Annual Surveys

The Board received an update from the Retirement Manager on the outcome of the PAB's Review of the Fund's Annual Surveys and the process undertaken. It was explained that the findings of the Task and Finish Group (T&FG) were reported to the PAB at their 16 December 2020 meeting whereby it was agreed that the recommendations of the Review be presented to next PSB meeting.

In conjunction with the Review the Retirement Manager explained that Officers following on from the discussions had by the T&FG were currently developing a series of illustrative Roadmaps to send to Scheme Members which sets out the process, the role of the Member, their Employer and the Fund and providing an indication of the steps and timescales associated with a particular process i.e. retirement in the hope that this will aid Scheme Members and set expectations. The Board welcomed this development and expressed thanks to all concerned.

Resolved:

The Board **agreed**:

- to move away from the Annual Employer and Scheme Member Surveys;
- to a more target-based, event driven model focusing around a small subset of questions and distributed using a variety of different channels available to the Fund;
- that the composition and design of the Surveys be delegated to Officers to finalise and implement; and
- a further review be carried out in 2022/23 to measure success of the revised approach.

The Board noted the content of the report.

3c. Communications Scorecard Measures

The Interim Director for Essex Pension Fund reminded the Board that at the start of 2018/19 the Board agreed that Officers, in consultation with Fund Advisers, undertake a review of the Fund's Strategic Objectives, Risks and Scorecard.

It was confirmed that following the outcome of the review of the Fund's Surveys, the Communications Scorecard Measures, the last outstanding part of this wider Review have now been developed in consultation with the Fund's IGAA and were presented at Appendix A to the Report.

Resolved:

The Board **agreed** the Communications Scorecard Measures and noted the content of the report.

4. Essex Pension Fund Policies and Publications**4a. Essex Pension Fund Three Year Business Plan and Budget**

The Board received a report from the Interim Director for Essex Pension Fund in relation to the Fund's Three-Year Business Plan which detailed the Fund's priorities from 2021/22 to 2023/24.

Members were made aware of the new items within the Business Plan that were programmed to commence during 2021/22. This included:

- the IGAA Service Review;
- the Review of the Additional Voluntary Contributions (AVC) Provider;
- the Administration Strategy Review (pending Regulatory changes);
- the Development of a Stakeholder Strategy and Investment Managers' Engagement Strategy;
- implementation of Employer Training Webinars;
- becoming a signatory to the Financial Reporting Council (FRC) UK 2020 Stewardship Code;

- the Annual Review of all investment managers' compliance with the Fund's Responsible Investment (RI) and Stewardship Policy;
- developing a Climate Change Policy Objectives and Metrics Framework (Taskforce for Climate related Financial Disclosures (TCFD));
- Exploration of a Responsible Investment Adviser; and
- McCloud Preparation / Implementation.

The Board were also notified of the reasons behind the proposed Budget increase from the previous year. It was explained that £0.49m of this was still subject to S151 Officer approval and was in respect of additional resources required by the Fund as a consequence of forthcoming LGPS legislative changes in order that it can continue to carry out and meet its statutory responsibilities.

Resolved:

The Board **approved:**

- the Essex Pension Fund Three Year Business Plan for 2021/22 to 2023/24; and
- Budget for 2021/22 of £5.65m as detailed in the Business Plan.

4b. Governance Policy and Compliance Statement

The Compliance Manager provided the Board with an update on the changes to the Governance Policy and Compliance Statement since its last iteration.

It was explained that the Policy had been updated to incorporate the changes made to the Essex County Council (ECC) Constitution in respect of the ACCESS Joint Committee's (AJC) roles and responsibilities. In addition, the Policy had been updated to reflect other roles and responsibilities relating to the Fund.

In conjunction with this Review, the PSB, Investment Steering Committee (ISC) and PAB Terms of Reference had also been reviewed with minor amendments made.

Following feedback from the Chairman prior to the meeting it was suggested that Appointment Sub Committees be reflected within the Governance Structure on page 114 and that on page 118 explicit reference be made that the Vice Chairman of the ISC act as substitute for the Chairman at AJC meetings.

The Board also noted that the Fund was fully compliant with the current Ministry of Housing, Communities and Local Government (MHCLG) Statutory Guidance.

Resolved:

The Board **approved** the revised Governance Policy and Compliance Statement and noted the content of the report.

4c. Essex Pension Fund (EPF) Business Continuity Policy and Plan

Members were reminded of their request for the PAB to review the Fund's Business Continuity arrangements at their 11 September 2019 meeting.

The Compliance Manager updated the Board on the outcome of the PAB's Review of the Business Continuity Policy and Business Continuity Plan (BCP) that was agreed by the PAB at their 16 December 2020 meeting.

It was explained that both the Policy and BCP were included at Appendices A and B respectively to the Report. Members noted that the BCP included a revised Business Impact Assessment, Disaster Recovery Plan and a Testing Schedule and was linked to the ECC Business Continuity 2 System.

The Board were reminded that the BCP was a live working document and as such confidential.

Resolved:

The Board **approved** the new EPF Business Continuity Policy and revised BCP.

5. Local Government Pension Scheme (LGPS) and other Pension Reform

The Board received an update from the IGAA on the latest developments of LGPS and other Pension Reforms due imminently.

The Board were also informed that the Consultation on The Pensions Regulator (TPR) Single Modular Code had just been released that morning. It was acknowledged that due to the consultation concluding before the Board's next meeting the Out of Committee Decision Making Process would be adopted.

It was agreed that Fund Officers would provide Members with the link to the TPR Single Modular Code Consultation.

Resolved:

The Board noted the information contained within the Report including the ongoing impact on the delivery of services relating to the Fund.

6. Governance Review and Effectiveness Survey

The IGAA provided the Board with a high-level Summary of the findings from the recent Governance Review and Effectiveness Survey undertaken by PSB and ISC Members.

It was noted that there was 100% response rate and overall, the findings were extremely positive demonstrating that Members had a strong understanding of their roles and responsibilities on the Board and Committee.

Resolved:

The Board noted the high-level Summary in the Report and the next steps outlined in Section 5.

7. Quarterly Reports

7a. Investment Steering Committee (ISC) Quarterly Report

The Investment Manager provided the Board with a report which detailed the ISC activity since the previous Board meeting.

It was confirmed that the ISC had met on one occasion on the 20 January 2021.

The main focus of the meeting was in regard to the Asset Liability Review undertaken as part of the wider review of the Fund's Investment Strategy. It was explained that the Review is undertaken following the outcome of the Triennial Valuation to ensure that the Investment Strategy and Funding Strategy were still aligned and that the Investment Strategy will continue to be able to achieve the performance return in excess of the Actuary's performance return assumption. It was noted that the outcome of the Review demonstrated that the Investment Strategy remained appropriate and that further de-risking could be considered in the future.

The other main areas of business discussed were:

- commencement of a review to ensure the Fund's passively managed assets were invested in line with the Fund's RI Policy;
- the agreement to further trim Baillie Gifford's overweight position by a further £110m;
- the agreement for the Fund to participate in the collective procurement of Global Custodian Services;
- the agreement to the proposed approach for the re-tender of the Institutional Investment Consultant;
- the update in regard to the procurement of an additional direct lending manager;
- the outcome and reappointment of the Independent Investment Adviser; and
- the outcome of the review of the Institutional Investment Consultant against their strategic objectives.

Resolved:

The Board **agreed** that the report be noted.

7b. Essex Pension Fund Advisory Board (PAB) Quarterly Report

Members were provided with an update on PAB activity since the last Board meeting. It was confirmed that the PAB had met on one occasion on 16 December 2020.

The main areas of business discussed by the PAB were:

- the review of the PSB meeting held on 16 December 2020, including the scorecard measures relating to the PAB, the upcoming return of the Independent Chairman and the approval of the Employer Ill Health and Death in Service Policy by the PSB;
- the PAB's Review of the Fund's Business Continuity Arrangements;
- the PAB's Review of the Fund's Annual Surveys; and
- the Fund's compliance with the TPRs Code of Practice 14 which was provided at Appendix A of the report for the Board to note.

Resolved:

The Board noted the report.

7c. Essex Pension Fund Advisory Board (PAB) Recruitment

The Interim Director Essex for Pension Fund informed Members that a resignation had been received from a PAB Scheme Member representative and that the current arrangement in regard to the UNISON Scheme Member position would cease at the end of August 2021.

The proposed recruitment process and timetable for the Scheme Member representative was outlined to the Board for approval.

It was also proposed that Fund Officers liaise with UNISON to establish whether they would consider reappointing the current incumbent in the first instance or nominate a new UNISON Member representative for the PAB. Members praised the current incumbent and requested that Fund Officers write to UNISON expressing their gratitude for his service and their preference to keep continuity if possible.

Resolved:

The Board **agreed:**

- for Fund Officers to start the recruitment process for a Scheme Member representative;
- the proposed timetable for the recruitment; and
- for Fund Officers to liaise with UNISON to establish whether they wish to re-appoint the current incumbent or nominate a new Member, for a term up to six years.

The Board noted:

- the resignation of a Scheme Member representative on the PAB and the subsequent vacancy;

- the Membership of the of the Appointment's Panel in line with the PAB's Terms of Reference; and
- the content of the report.

8. Schedule of Future Meetings and Events

The Board received a report from the Compliance Manager detailing the planned Board meetings for the next municipal year. The Board were advised that these were subject to change and that the training days were to be confirmed in due course.

Resolved:

The Board noted the meetings for 2021/22 and the content of the report.

9. Urgent Part I Business

There were 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 11:10am following a short adjournment.

The meeting was adjourned at 10:53am.

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The Board reconvened at 11:10am.

Opening Remarks

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

10. Pooling Update

The Interim Director for Essex Pension Fund provided the Board with an update from the 12 November 2020 and 13 January 2021 AJC meetings.

12 November 2020 Meeting

The main points covered were:

- the proposal to appoint Engine MHP to provide external communications support;
- an update on sub fund launch progress;
- an update for pooling alternative assets;
- the conclusion of the KPI negotiations;
- the procurement for external professional advice for the Environment, Social and Governance (ESG)/RI Pool Guidance for ACCESS;
- an update on Business Plan deliverables and Key Risks; and
- the BAU Evaluation Workshop provided by Hymans Robertson.

13 January 2021 Meeting

The main points covered were:

- an update on the 2020/21 and the proposed 2021/22 Budget and Business Plan;
- the launch of seven new sub funds during November and December 2020 taking the total to 22;
- a bfinance presentation outlining recommendations to the pooling of illiquid assets;
- presentation by Link, ACCESS's rented Operator;
- the outcome of ACCESS ESG/RI consultation procurement;
- the BAU evaluation update; and
- a Communication workshop.

The Board were informed that the AJC meeting held on the 08 March 2021 would be reported to the ISC at their 24 March 2021 meeting.

Resolved:

The Board noted the presentation and update.

11. Employer Update – Retail Price Index (RPI) Reform and Flexibilities

The Employer Manager notified the Board of the outcome of a recent Consultation in regard to RPI Reform. It was noted that although the Chancellor announced that he would not give consent to the Reform before 2030 to minimise the impact of holders of index-linked gilts, there was a risk this Reform could impact the financial assumptions used by the Actuary for the Fund.

It was explained that whilst LGPS benefits are linked to Consumer Price Index (CPI), the Actuary derives the future CPI assumption from market implied RPI inflation. Following a review by the Actuary it was concluded that the impact of

the Reform would be negligible, with an estimated overall impact of around 1% on liabilities. It was also highlighted that there was a negligible impact on the Fund's Investment Strategy.

The Actuary however, recommended a stepped approach ahead of the next Actuarial Valuation with an update to the derivation of the actuarial assumptions be implemented with effect from 31 March 2021.

Members were also informed that the Statutory Guidance on Employer Flexibilities was recently published on 02 March 2021. Fund Officers were currently reviewing this guidance and would over the current weeks develop Policies and would look to adopt the Out of Committee Decision Making process.

Resolved:

The Board **approved** the derivation of actuarial assumptions with effect from 31 March 2021 and that these be updated within the Funding Strategy Statement.

The Board noted the verbal update in relation to Employer Flexibilities.

Karen McWilliam (IGAA) left the meeting at 11:23am in order for the next agenda item to be discussed.

12. Fund Actuary – Contractual Arrangements

The Board received a report from the Employer Manager following the three yearly Service Review carried out by Fund Officers on the performance of the Funds Actuary.

It was recommended that Barnett Waddington continue as the Fund Actuary for a further three years and that a further Service Review be carried out in 2024 with the outcome brought back to a future meeting.

Resolved:

The Board **agreed:**

- Barnett Waddingham continue as Fund Actuary; and
- a further Service Review be undertaken by Officers in 2024 with the outcome reported back to a future Board meeting.

The Board noted the content of the report.

13. Urgent Exempt Business

The Board were reminded of the Statutory requirement for Members to complete their Related Third Party Transaction Returns, which would be issued by the end of March 2021.

Closing Remarks

Cllr M Maddocks took the opportunity to thank Officers, the Chairman and Vice Chairman for their support whilst being a Member of the Board.

The Interim Director for Essex Pension Fund thanked Members for their continued support during such challenging times and wished them all the best for the future.

The Chairman thanked fellow Members for their support on the Board and Officers for all their hard work, commitment, and efficacy to support all Members.

There being no further business, the meeting closed at 11:30am.

Chairman
07 July 2021

Essex Pension Fund Strategy Board	PSB 04
Date: 07 July 2021	

Essex Pension Fund Strategy Board Terms of Reference

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

1.1 To note the Board's Terms of Reference (TOR).

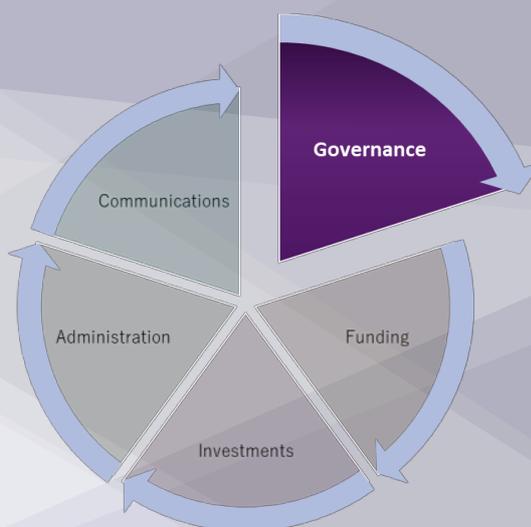
2. Recommendation

2.1 It is recommended that the TOR, set out in Appendix A to this report, are noted.

Essex Pension Fund

Pension Strategy Board Terms of Reference

March 2021



Essex Pension Fund

Strategy Board

Membership

There are 11 Members of the Essex Pension Fund Strategy Board (PSB) including:

All Voting* Members	How Nominated or Appointed	Term of Office
7 Members of the Council	Appointed by the Council	1 year as appointed at the annual meeting of the Council or as changed from time to time by the Constitution
1 Member Councillor representing Borough, City and District Councils in Essex	Nominated by Essex Borough and District Leaders/Chief Executives	4 years from the relevant Borough, City and District Council elections
1 Member Councillor representing Southend on Sea and Thurrock Unitary Councils	Nominated jointly by and from either Southend-on-Sea and Thurrock Councils	4 years from the relevant Unitary Council elections
1 Member representing other Employing Bodies	Nominated by other employers at the employer forum or such other process as agreed by the Chairman and the Director for the Fund and must be in the employment of or hold office in relation to a Fund Employer	6 years from date of appointment
1 Member representing Scheme Members	Nominated by Unison and must be a member of the Fund	6 years from date of appointment

*voting is subject to other provisions within this document.

The Constitution does not permit non-Essex County Council Members to have substitutes.

Quorum

A meeting of the PSB shall only be quorate when:

- i) At least 4 members are present, and
- ii) At least 3 of the members present are Essex County Council members.

Term of Office

The Term of Office may be extended by up to six months if considered necessary for the purpose for the appointment process, for example, due to the timing of local authority elections, with the agreement of the Director for Essex Pension Fund.

Any PSB Member may be re-appointed for further terms following the appropriate appointment process.

A Member may resign by giving notice to the Director for Essex Pension Fund and shall cease to be qualified to be a member of the PSB if they cease to hold the office or employment which qualifies them for the role.

Role and Function

The PSB will 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. Its principal aim is to consider pensions matters with a view to safeguarding the interests of all pension fund Members. In doing so, the PSB will take account of advice from the Director for Essex Pension Fund and the Fund's professional Advisers.

The role of the PSB will include the following specific functions:

- (i) to monitor and oversee the work of the Fund Investment Steering Committee (ISC) through its quarterly reports;
- (ii) to ensure the proper administration of the Fund, including compliance with the LGPS and other legislation, ensuring that it delivers best value and compliance with statutory and non-statutory best practice guidance where considered appropriate;
- (iii) to determine, review and monitor the Fund's aims, objectives, strategies, compliance statements and procedures relating to the funding strategy, including approving its Funding Strategy Statement;
- (iv) to make arrangements for the actuarial valuation, ongoing monitoring of liabilities and to undertake any asset/liability and other relevant studies as required;
- (v) to determine, review and monitor the Fund's policy in regard to Employer admission and cessation arrangements;
- (vi) to determine, review and monitor the Fund's other aims, objectives, policies, strategies, compliance statements and procedures for the overall management of the Fund, including but not limited to administration, communications and governance;
- (vii) to determine how the various Administering Authority discretions are operated for the Fund;
- (viii) to agree Administering Authority responses to consultations by Central Government, professional and other bodies;

Essex Pension Fund

Strategy Board

- (ix) to consider any views expressed by employing organisations and staff representatives;
 - (x) to both appoint and terminate the appointment of the Fund's advisers, including actuaries, governance advisers and specialist lawyers (where required) and periodically to review those arrangements;
 - (xi) to agree the Fund's business plans and monitor progress against them;
 - (xii) to consider the Fund's financial statements and to approve an Annual Report on the activities of the Fund in line with legislation and guidance; and
 - (xiii) to agree a Knowledge and Skills Strategy and ensure its requirements are adhered to.
- No matters relating to Essex County Council's responsibilities as an Employer participating in the Essex Pension Fund are delegated to the PSB.

Officers

The PSB may delegate a range of its functions to one or more officers of the Administering Authority. The PSB will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the PSB. Any delegations the PSB makes to Officers should be notified to the Council's Monitoring Officer.

Chairman

- (i) Only members of Essex County Council may be the Chairman and Vice-Chairman.
- (ii) The Chairman will be elected by the County Council at the annual meeting.
- (iii) The Vice-Chairman will be elected annually by members of Essex County Council at the PSB.

Training

The Essex Pension Fund has a dedicated Knowledge and Skills Strategy which applies to all members of the Board and which includes the expectation to attend regular training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

Essex Pension Fund Advisory Board

Members of the Essex Pension Fund Advisory Board (PAB) are permitted to attend the PSB, including during any items of private business. Comments may also be made by these persons subject to permission to speak being granted by the Chairman. In accordance with the Fund's Conflicts of Interest Policy, a member of the PAB may be asked to leave the room during an item where they have a potential conflict of interest.

NB: Minor wording and layout may be different to the Constitution whilst awaiting an updated publication

Essex Pension Fund Strategy Board	PSB 05
Date: 07 July 2021	

Annual Report to Essex County Council

Report by the Director for Essex Pension Fund
Enquiries to Jody Evans on 03330 138489

1. Purpose of the Report

- 1.1 To present to the Essex Pension Fund Strategy Board (PSB) the Fund's 2020/21 annual report to Essex County Council.

2. Recommendation

- 2.1 To note the attached report.

Essex Pension Fund

Annual Report 2020/21

July 2021

1. Introduction

This is the twelfth Annual Report of the Essex Pension Fund Board(s), covering the period from 1 April 2020 until 31 March 2021.

2. Roles and Functions

Essex County Council's (ECC) functions as the Administering Authority are delegated to the Essex Pension Fund Strategy Board (PSB), the Essex Pension Fund Investment Steering Committee (ISC) and its Officers.

The Terms of Reference (TOR) for the PSB, ISC and Essex Pension Fund Advisory Board (PAB) are reviewed periodically as part of the Governance Policy and Compliance Statement and were last reviewed by the PSB at their meeting in March 2021. The TORs can be found within the [ECC Constitution](#).

Essex Pension Fund Strategy Board

The Essex Pension Fund Strategy Board (PSB) was established by Essex 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 (LGPS) Regulations 1997.

The PSB met three times during the period covered by this report: on 23 September 2020, 16 December 2020 and 17 March 2021. Due to the COVID-19 Pandemic and no legislation being in place at the time to allow for meetings to take place virtually the meeting scheduled for 17 June 2020 was cancelled.

Membership

During the period covered by this report the PSB had eleven Members. They represented ECC, the other local authorities in Essex (including Unitary Councils), Scheme Members and Other Employing Bodies (i.e. those which are not already specifically represented on the PSB).

The membership of the PSB as at 31 March 2021 was as follows:

Essex County Council (7)

Councillor Susan Barker	Chairman
Councillor Mark Platt	Vice Chairman
Councillor Alan Goggin	
Councillor Anthony Hedley	
Councillor Malcolm Maddocks	
Councillor Lee Scordis	
Councillor Clive Souter	

District/City/Borough Councils in Essex (1)

Councillor Colin Riley

Castle Point Borough Council

Unitary Councils in Essex (1)

Councillor Matt Dent

Southend-on-Sea Borough Council

Scheme Members (nominated by UNISON) (1)

Mrs Sandra Child

Other Employing Bodies (1)

Mrs Rachel Hadley

Chelmer Housing Partnership

Attendance

Attendance at PSB meetings during 2020/21 was 94% against a target of 80%.

Investment Steering Committee

The Essex Pension Fund Investment Steering Committee (ISC) is a sub-Committee of the PSB and its Membership is drawn from the PSB made up of 7 ECC voting Members, 1 Employer representative (non-voting member) and 1 Scheme Member representative (non-voting member).

The ISC reviews the Essex Pension Fund's ("the Fund") management of investments including, but not limited to, the approval of the Investment Strategy Statement.

Attendance

Attendance at ISC meetings during 2020/21 was 94% against a target of 80%.

Essex Pension Fund Advisory Board

The Essex Pension Fund Advisory Board (PAB) has been established as the Local Pensions Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the LGPS Regulations 2013.

The remit of the PAB includes assisting the Administering Authority as Scheme Manager:

- to secure compliance with the LGPS regulations and any other legislation relating to governance and administration of the LGPS;
- to secure compliance with requirements imposed in relation to the LGPS by The Pensions Regulator (TPR).

Membership

During the period covered by this report the PAB had 9 Members. They represented Employer and Scheme Member Representatives and an Independent Chairman.

The membership of the PAB as at 31 March 2021 was as follows:

Independent Chairman (1)

Nicola Mark

Independent

Scheme Member Representatives (4)

Andrew Coburn

Pensioner, Ex County Council, UNISON (Vice Chairman)

Debs Hurst

Active Member, Chelmsford College

Stuart Roberts

Active Member, Shenfield High Academy

James Sheehy (until 22 February 2021)

Active Member, Witham Town Council

Vacant (from 23 February 2021)

-

Employer Representatives (4)

James Durrant

Essex Fire Authority

Councillor Shane Hebb

Thurrock Borough Council

Councillor Simon Walsh

Essex County Council

Councillor Terry Cutmore (until 02 April 2021)

Rochford District Council

Councillor Martin Bracken (from 11 June 2020)

Chelmsford City Council

Attendance at PAB meetings during 2020/21 was 81% against a target of 80%.

3. Dimensions of the Fund

In March 2020 there was a decline in the value of the Fund's assets falling to £6.6bn resulting from the stock market's reaction to the Covid-19 crisis, over the last year the Fund's value has reached an all-time high and based on the draft accounts, as at 31 March 2021 the value of the Fund's assets was £8.7bn.

The total value of pensions paid during 2020/21 was £220m, together with other benefits totalling £38m. The average payment made each year is c£4.8k.

The total number of beneficiaries are as follows:

	2020	2021
Contributors	57,498	54,568
Deferred Members	69,857	68,914
Pensioners	44,682	46,210
Total	172,037	169,692

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

The PSB exercises on behalf of the Council the management of the Pension Fund whose membership comes from over 700 separate Employing Bodies, including:

- Essex County Council;

- Scheduled Bodies, which are Local Authorities/Academies and similar bodies who are automatically entitled to be members of the Fund; and
- Admitted Bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted Bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

4. Work of the PSB and the ISC

The following key issues were considered by the PSB/ISC between 1 April 2020 and 31 March 2021:

Governance

At the start of 2020/21, the Fund was faced with an unprecedented change in legislation that would allow the PSB, ISC and PAB meetings to be held on a virtual platform enabling the Fund's key decisions to continue to be made by PSB and ISC Members. The Fund adapted to this change seamlessly allowing Part I Public meetings to be carried out via Zoom in line with ECC Democratic Services guidance and Part II via Microsoft Teams.

During the year key Fund Policy documents were reviewed including the Knowledge and Skills Strategy setting out a full programme of training for the PSB and ISC, in order to allow its Members to acquire the detailed knowledge necessary to exercise their responsibilities effectively. Other policies reviewed by the PSB included: Recording and Reporting Breaches of the law; Risk Strategy; Business Continuity Policy; and the Governance Policy and Compliance Statement. The PSB also concluded the review of the Fund's Strategic Objectives, Risks and Scorecard Measures with the final element being the agreement of the new Communication Scorecard Measures at their March 2021 meeting.

Funding

In April 2020, the 2019 Valuation rates set by the Funds Actuary commenced. The pandemic affected some Employers' cashflows and the Fund worked with these Employers to set a manageable approach to enable the continuation of contributions in line with the regulations.

Further work was undertaken by the PSB regarding the Fund's Funding Strategy Statement with the inclusion of an Employer Ill Health Policy and more recently the development of Employer Flexibilities Policies. These policies will help Employers in regard to unforeseen costs by way of an in-house insurance policy for Ill Health and the management of exits without requiring full exit costs to be met in one payment. It should be noted that these policies do not impact on the Employers' decision when awarding an Ill Health pension.

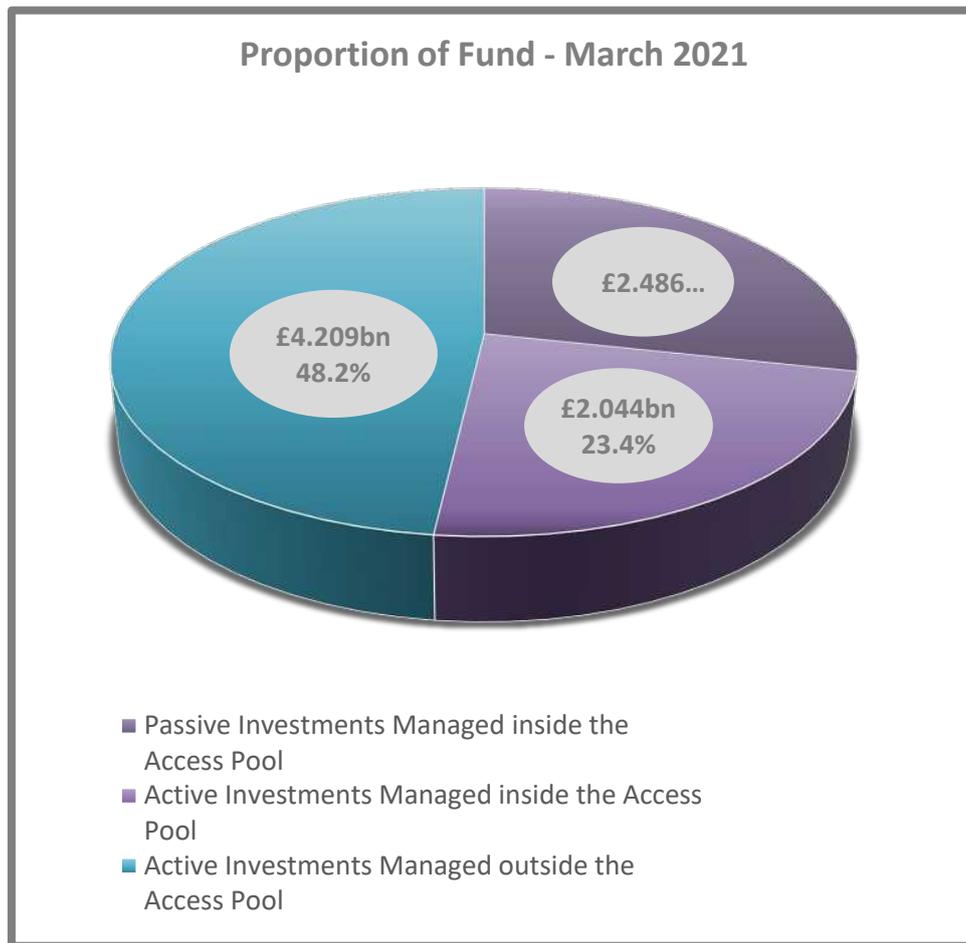
Despite the market volatility experienced, the Funding level suffered little impact as demonstrated in the table below. The latest Interim Valuation (as at 31 March 2020) presented to the PSB's December 2020 meeting highlighted that the new approach to hold back 5% of the assets in an asset shock reserve at the last Valuation was a key factor in maintaining the Funding level by using just 20% of this reserve.

Valuation Date	Assets	Liabilities	Surplus/(Deficit)	Funding Level
31-Mar-19	6,711,392	6,971,143	-205,751	97%
31-Mar-20	6,900,714	7,173,612	-272,898	96.2%
31-Mar-20 Invoking 20% of asset shock reserve				97.20%

Asset Pooling

Alongside the ten other Funds within the ACCESS Pool, Essex continues to progress the pooling of its investment management arrangements.

Despite challenges that this year has brought, a further seven sub funds were launched by ACCESS’s Pool Operator, Link Asset Solutions taking the number to twenty-two.



Investment Strategy and Responsible Investment

The ISC continued to make significant progress in its migration away from equities to alternative assets. In order to reach its target strategic allocation of 45% the ISC agreed to further increase

the Fund's strategic allocation to infrastructure and timber of an additional 4% and 2% taking the total allocation to 10% and 4% respectively.

This decision has seen the Fund's investments in sustainable timber and renewable energy increase from 5.1% as at 31 March 2020 to 6.1% as at 31 March 2021. It is expected as commitment is drawn down over the next few years the Fund's exposure will continue to rise. Direct investment in fossil fuels has also been steadily decreasing; as at 31 March 2021 it was 0.05% compared to 0.22% as at 30 September 2015.

The ISC continued to dedicate substantial time and commitment to the subject of Responsible Investment (RI). Following a full stakeholder consultation during summer 2020 the revised Investment Strategy Statement was subsequently published.

The Fund is committed to working collaboratively with others. To this end, the Fund continues to be a member of the Local Authority Pension Fund Forum, a voluntary shareholder engagement group for local government pension funds and continues its work with the ACCESS Pool and its local authorities as part of its commitment in this regard.

The ISC have reviewed its arrangements with both its Institutional Investment Consultant and Independent Investment Adviser and look forward to continuing its partnership with Hymans Robertson and Mark Stevens over the coming year.

Administration

The Team overseeing the administration of scheme benefits and systems development have continued to provide support and guidance to members throughout the pandemic alongside preparing for the impact of several large-scale legislative changes. The PSB recognise the significant impact this will have on staff resources over the medium term and are supportive of the Fund appropriately resourcing to ensure that it is able to continue to fulfil its statutory duties.

The Fund continues to progress its digital aspiration with the continued roll out of its web-based online portal tool with the implementation of a new look Employer Online, enabling employers to review and update staff member details. Initial take up has been encouraging with a third of employers currently utilising the system with more joining every month. Despite the challenges this year has brought this has not stopped the Fund being able to deliver the full range of services to over 172,000 Fund members and paying its 44,000 pensioners.

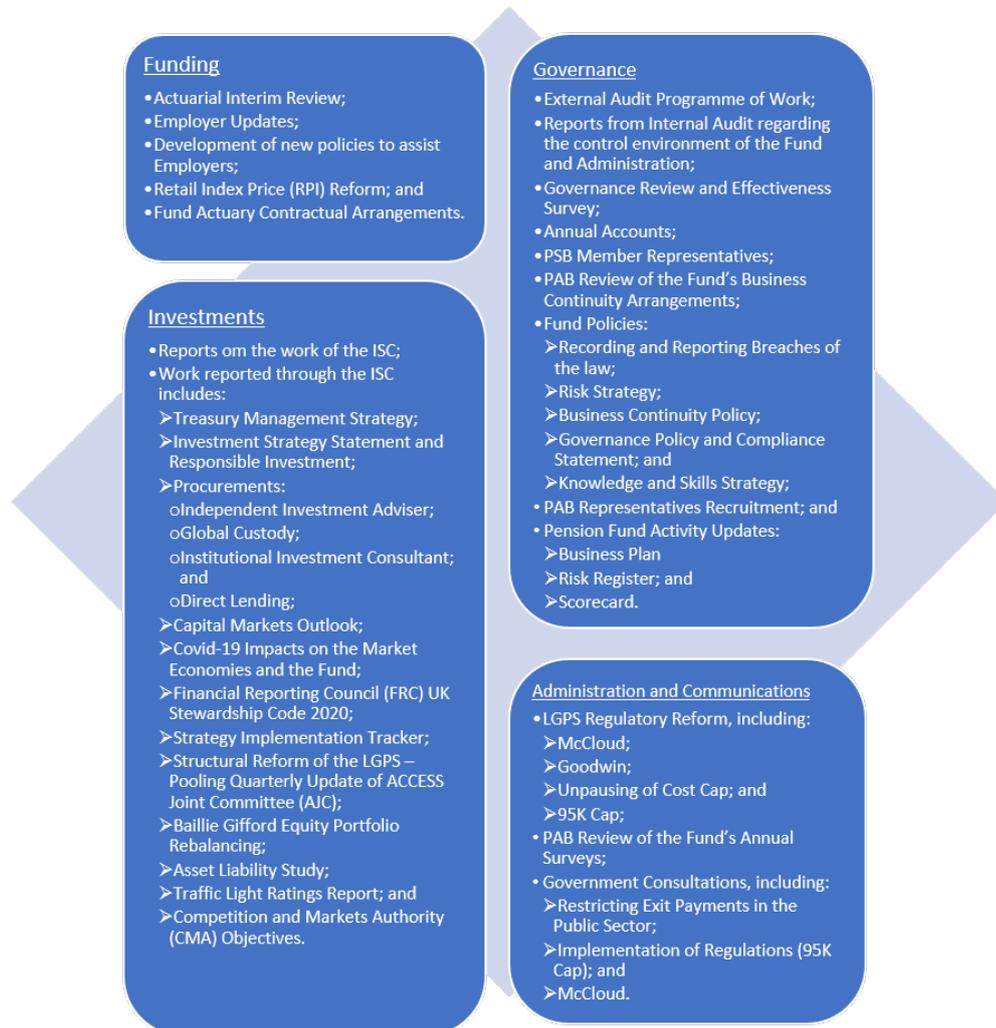
Communications

Digital communications continue to be progressed. A review of all the Fund's communications and use of media has been undertaken to ensure it continues to be fit for purpose and is able to adapt to our future stakeholder's needs. With this the development of webinar training and the introduction of virtual pension surgeries has enabled the customer facing areas of the Pensions Team to continue to deliver the right service to the right people at the right time.

In addition, the PSB delegated a review of the Fund's Annual Surveys to the PAB which saw the formation of a Task and Finish Group. The PAB reported the work of the Group to the PSB at their

March 2021 meeting concluding that the Group’s consensus was that the Fund should move to a more targeted approach with surveys being shorter and sent using various methods. This recommendation was subsequently accepted by the PSB.

Other areas considered were:



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. In addition, the PAB are required by the Public Service Pensions Act 2013 to have an appropriate level of knowledge and understanding in order to carry out their role.

Details of Members’ attendance at the Fund’s Board(s) meetings and training events (internal and external) are monitored throughout the year.

Member training is delivered in a multitude of ways that Fund Officers adapt to suit each Member’s preference. In addition, all Boards/Committee Members were invited to attend a Training Day during November 2020 and a specific Responsible Investment Workshop was held with all ISC Members during February 2021.

A Training Needs Analysis is in the process of being carried out with each Member of the Boards/Committee.

Cllr Susan Barker
Chairman of the PSB and of the ISC
Vice Chairman of ACCESS Joint Committee
Essex County Council

Essex Pension Fund Strategy Board	PSB 06
Date: 07 July 2021	

Update on Pension Fund Activity : Quarterly Update Report

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:

- progress against 2021/22 Business Plan;
- Scorecard as at 31 March 2021; 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 progress to date against the Fund's 2021/22 Business Plan, Scorecard and Risk Management.

4. Key Developments to note

Business Plan

4.1 The Business Plan update can be found in Section A 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	12	4	5	0	3	0
Funding	6	1	2	0	2	1
Investments	13	1	6	0	6	0
Admin	7	1	4	0	2	0
Comms	7	1	5	0	1	0
Total	45	8	22	0	14	1

4.2 A good start has been made to the 2021/22 Business Plan with 8 activities already completed.

Scorecard

4.3 The Scorecard Exception report can be found at Section B to this report.

Risk Management

4.4 The Risk Management report has been provided at Section C to this report.

4.5 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.

4.6 One risk score has changed since the last meeting in regard to the knowledge and skills of Board/Committee Members due to the outcome of the local elections and 25 May 2021 Full Council meeting.

4.7 No new risks have been identified during this period however a review will take place pending the announcements by Government and Essex County Council in July.

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 to:

- 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 Section C within the Risk Management section of the report.

7. Communication Implications

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

8. Finance and Resources Implications

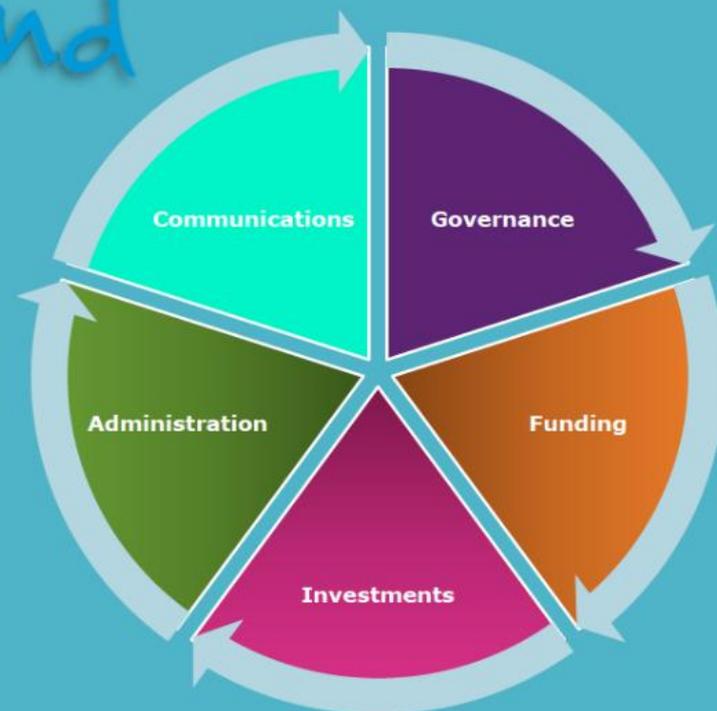
8.1 To deliver the activities outlined in the Business Plan for 2021/22 a Budget of £5.65m has been approved which includes an operational internal budget of £3.83m and a budget allocation for third party provider support/advice of £1.82m. This will be periodically kept under review.

9. Background Papers

- 9.1 Update on Pension Fund Activity, PSB 03a, 17 March 2021.
- 9.2 Update on Pension Fund Activity, PSB 04, 16 December 2020.
- 9.3 Update on Pension Fund Activity, PSB 06, 23 September 2020.

Essex Pension Fund

Update on Pension Fund Activity



Agenda Item 06

Contents:

Section A: Business Plan Progress Update

Section B: Scorecard Update

Section C: Risk Management

Essex Pension Fund

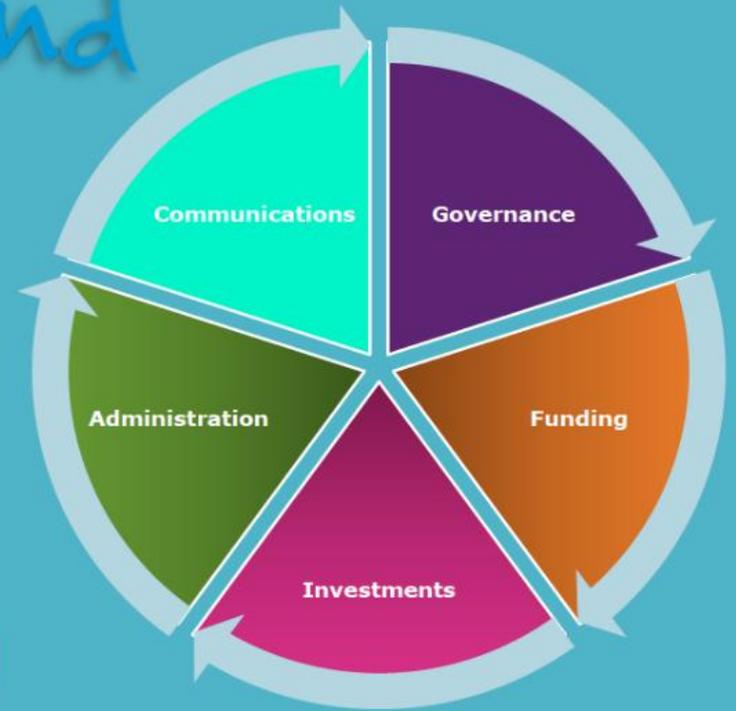
Section A

2021/22

Business Plan

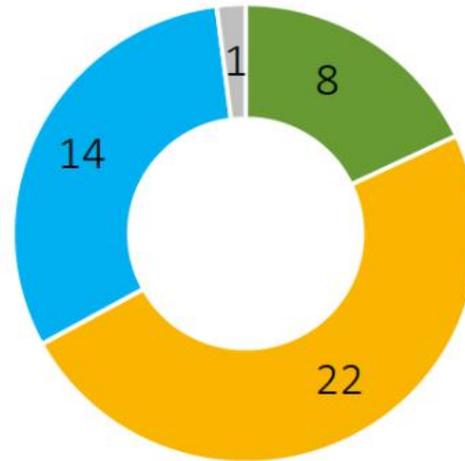
Progress Update

01 April 2021 – 31 May 2021



Strategic BAU & Key Priorities

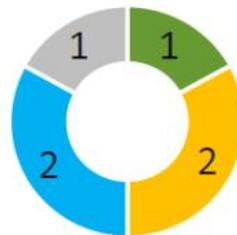
Essex Pension Fund



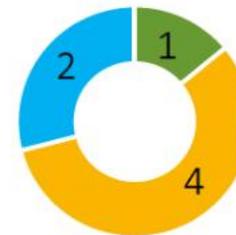
Of 45 Priorities

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

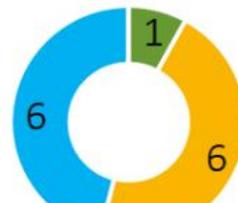
Funding



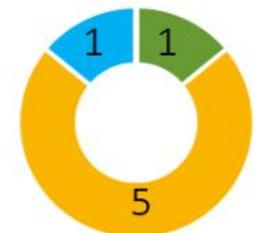
Administration



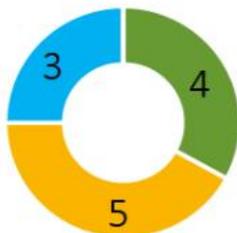
Investments



Communications



Governance

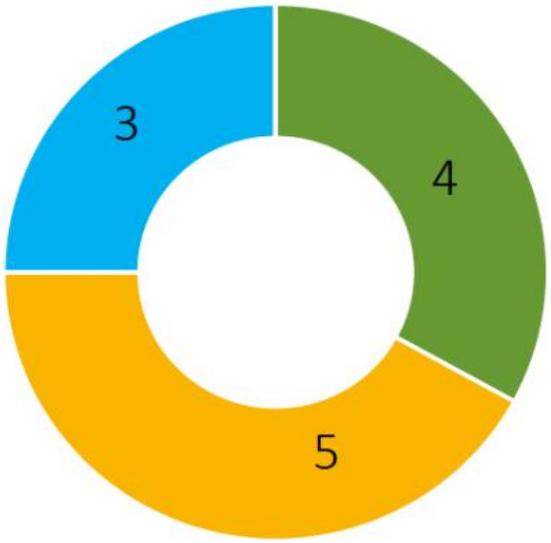


1. Progress - Governance



Strategic BAU & Key Priorities		C
1. Agree 2022/23 Business Plan & Budget		Completed
2. Annual Review of Terms of Reference for PSB/ISC/PAB		Completed
3. Implementation of Members' knowledge and understanding – Knowledge & Skills Strategy		Completed
4. Implementation of Members' knowledge and understanding – Training Plan and Training Needs Analysis		In Progress
5. Implementation of Business Continuity Policy		Completed
6. Ongoing review of Business Continuity Plan (including Cyber Security) and Testing		In Progress
7. Annual Statement of Accounts including compliance with CIPFA requirements		In Progress
8. Development of Stakeholder Strategy		Not due to start
9. Implementation of Governance Review and Effectiveness Survey		In Progress
10. LGPS Reform		In Progress
11. Commencement of AVC Review	Page 52 of 268	Completed
12. Independent Governance & Administration Adviser (IGAA) Contract Review		Not due to start

Strategic BAU & Key Priorities



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

2. Progress - Funding



Strategic BAU & Key Priorities	C
1. Update Funding Strategy Statement (including Flexibilities Policies)	Completed
2. Annual Interim Funding review	Not due to start
3. Employing Authority discretions and delegations review	Not Applicable
4. Employer Risk review	Not due to start
5. McCloud Preparation/Implementation	In Progress
6. Employer Training Webinars	In Progress

Strategic BAU & Key Priorities



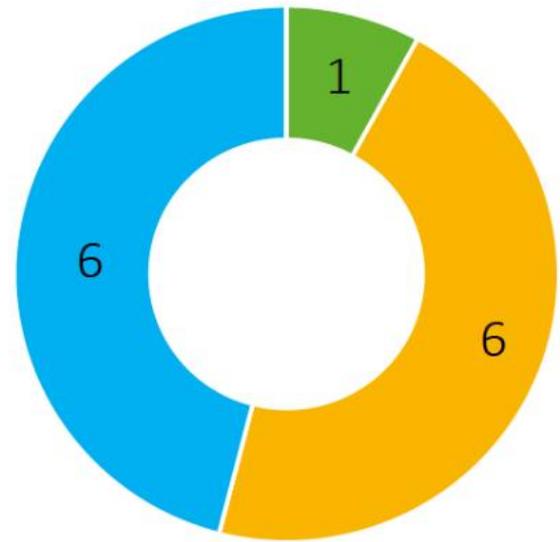
- Completed
- Delayed
- Not Applicable
- In Progress
- Not due to start

3. Progress - Investments

Strategic BAU & Key Priorities	C
1. Develop/Implement Investment Managers Engagement Strategy	In Progress
2. 2022/23 Treasury Management Strategy review	Not due to start
3. Strategic Asset Allocation review	Not due to start
4. ACCESS collaboration	In Progress
5. Individual Manager review (on an exceptional basis)	In Progress
6. Review of CEM Benchmarking / Cost Transparency	Not due to start
7. Development and Implementation to become Signatory of the Financial Reporting Council UK 2020 Stewardship Code	In Progress
8. Commencement of Annual Review of all investment managers' compliance with the Fund's RI and Stewardship Policy	In Progress
9. Development of Climate Change Policy Objectives and Metrics (Task Force for Climate related Financial Disclosures)	Not due to start
10. Implementation of Institutional Investment Consultant procurement	Completed
11. Institutional Investment Consultant – CMA review	Not due to start
12. Implementation of Global Custody procurement	In Progress
13. Exploration of external RI Adviser	Not due to start



Strategic BAU & Key Priorities



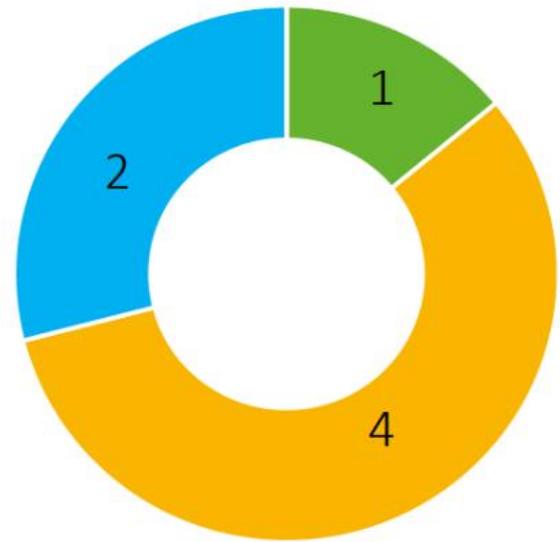
- Completed
- In Progress
- Delayed
- Not due to start
- Not Applicable

4. Progress - Administration



Strategic BAU & Key Priorities	C
1. Review Administration Strategy	Not due to start
2. LGPS Reform – Planning for Administration changes: <ul style="list-style-type: none"> • Unpausing of Cost Cap • £95k Cap • Goodwin 	In Progress
3. Commencement of Pensions Single Payments provider review (dependent on the new ECC Corporate Systems project being implemented)	Not due to start
4. Greater Digitalisation of the Fund including Member Online, Employer Online and Retire Online	In Progress
5. McCloud Preparation/Implementation	In Progress
6. Commencement of Monthly Returns Digital Transformation	Completed
7. The Pensions Regulator (TPR) Data Improvement Plan	In Progress

Strategic BAU & Key Priorities



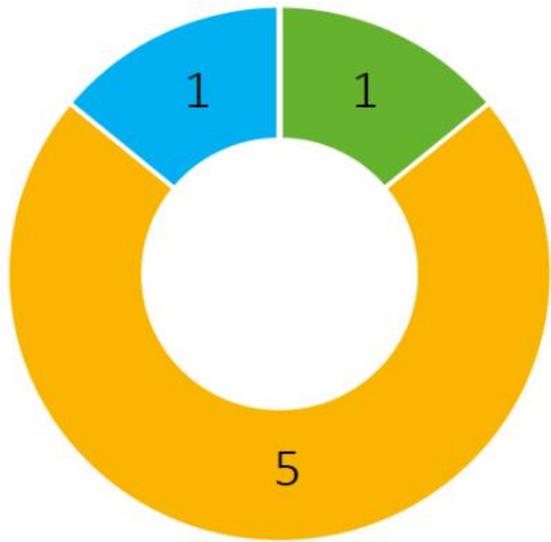
- Completed
- In Progress
- Delayed
- Not due to start
- Not Applicable

5. Progress - Communications



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

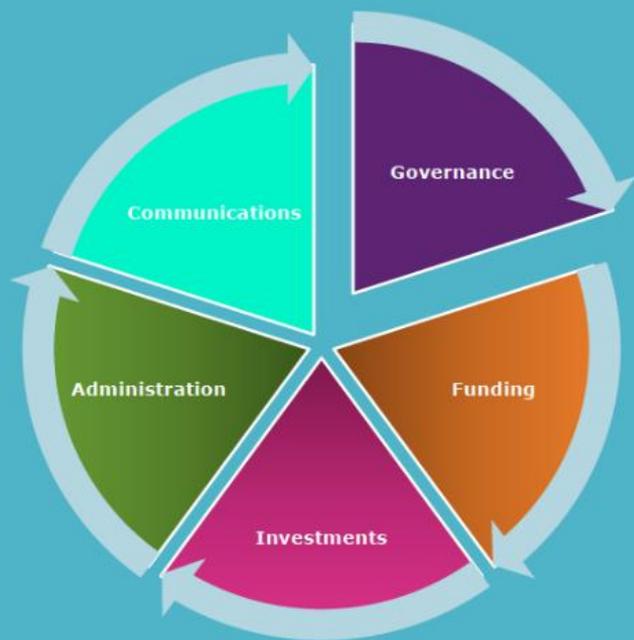
Strategic BAU & Key Priorities



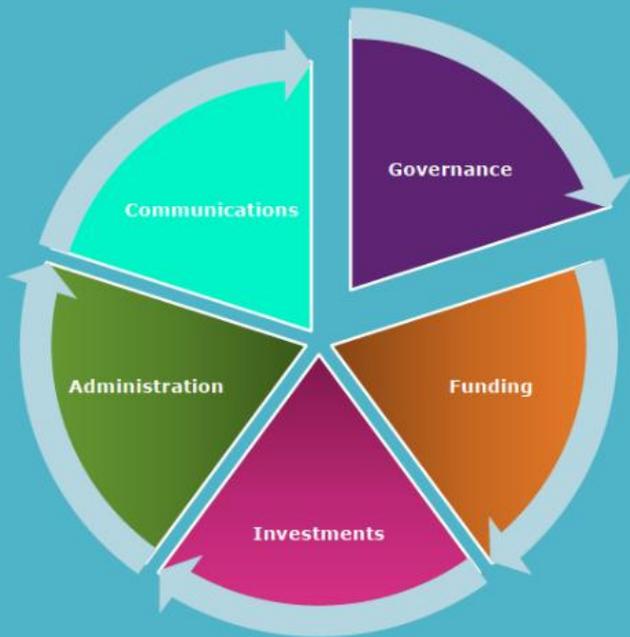
- Completed
- In Progress
- Delayed
- Not due to start
- Not Applicable

Commentary

1. Governance



Strategic BAU & Key Priorities		Commentary
1. Agree 2022/23 Business Plan & Budget		2021/22 Business Plan & Budget was agreed at the 17 March 2021 PSB meeting. The 2022/23 Business Plan & Budget process will commence in Q4 2021/22.
2. Annual Review of Terms of Reference for PSB/ISC/PAB		Complete. ISC Terms of Reference presented to the Committee at their 16 June 2021 meeting. PSB and PAB Terms of Reference to be presented at their 07 July 2021 meetings.
3. Implementation of Members' knowledge and understanding – Knowledge & Skills Strategy		Complete.
4. Implementation of Members' knowledge and understanding – Training Plan and Training Needs Analysis		Ongoing. Updated provided to PSB at Agenda Item 10.
5. Implementation of Business Continuity Policy		Complete.



Strategic BAU & Key Priorities		Commentary
6. Ongoing review of Business Continuity Plan (including Cyber Security) and Testing		Ongoing. One test has been carried out during Q1 of 2021/22 by Fund Officers and changes have been made to the plan where necessary.
7. Annual Statement of Accounts including compliance with CIPFA requirements		In progress. Update provided to PSB at Agenda Item 08.
8. Development of Stakeholder Strategy		Due to commence in Q2 2021/22.
9. Implementation of Governance Review and Effectiveness Survey		In progress. Update provided to PSB at Agenda Item 13.
10. LGPS Reform		Ongoing.
11. Commencement of AVC Review		Complete. This commenced during Q1 2021/22.
12. Independent Governance & Administration Adviser (IGAA) Contract Review		Due to commence in Q3 2021/22.

Commentary

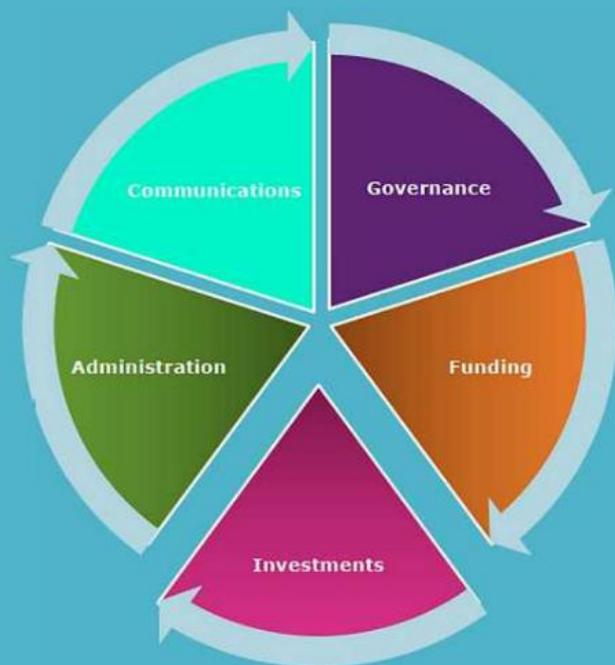
2. Funding



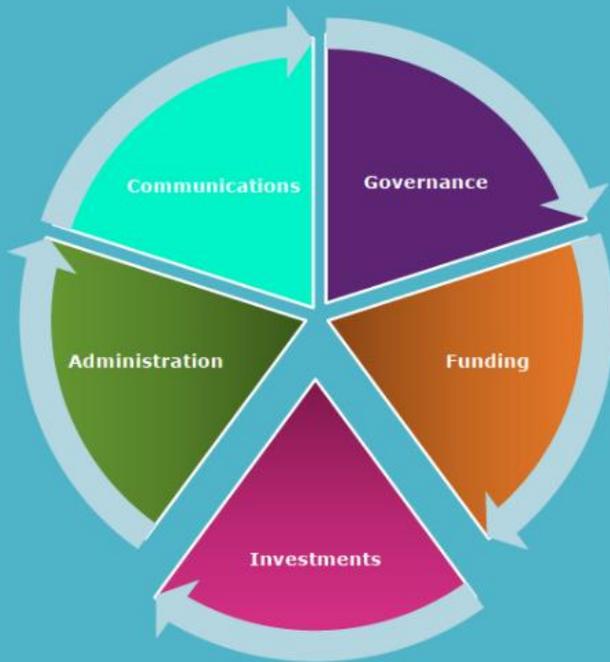
Strategic BAU & Key Priorities		Commentary
1. Update Funding Strategy Statement (including Flexibilities Policies)		Complete. Update provided to PSB at Agenda Item 12a.
2. Annual Interim Funding review		Due to commence Q2 2021/22.
3. Employing Authority discretions and delegations review		Periodically reviewed as and when required.
4. Employer Risk review		Due to commence Q2 2021/22 in conjunction with the Annual Interim Funding review.
5. McCloud Preparation/Implementation		Ongoing.
6. Employer Training Webinars		Ongoing. Currently in development stage.

Commentary

3. Investments



Strategic BAU & Key Priorities		Commentary
1. Develop/Implement Investment Managers Engagement Strategy		The RI Project Plan was agreed at 16 June 2021 ISC meeting which set out a timetable for achieving key deliverables.
2. 2022/23 Treasury Management Strategy review		Due in Q4 2021/22.
3. 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.
4. ACCESS collaboration		Ongoing.
5. Individual Manager review (on an exceptional basis)		Routinely reported to ISC at each meeting.
6. Review of CEM Benchmarking / Cost Transparency		Due in Q4 2021/22.
7. Development and Implementation to become Signatory of the Financial Reporting Council UK 2020 Stewardship Code		The RI Project Plan was agreed at 16 June 2021 ISC meeting which set out a timetable for achieving key deliverables.



Strategic BAU & Key Priorities		Commentary
8. Commencement of Annual Review of all investment managers' compliance with the Fund's RI and Stewardship Policy		The RI Project Plan was agreed at 16 June 2021 ISC meeting which set out a timetable for achieving key deliverables.
9. Development of Climate Change Policy Objectives and Metrics (Task Force for Climate related Financial Disclosures)		The RI Project Plan was agreed at 16 June 2021 ISC meeting which set out a timetable for achieving key deliverables.
10. Implementation of Institutional Investment Consultant procurement		Complete. This was implemented during Q1 2021/22 with the new contract effective from 01 April 2021.
11. Institutional Investment Consultant – CMA review		Due Q3 of 2021/22.
12. Implementation of Global Custody procurement		In progress. Update provided to ISC at their 16 June 2021 meeting. Preferred bidder identified with the contract commencement date of 01 September.
13. Exploration of external RI Adviser		Due Q3 2021/22.

Commentary

4. Administration



Strategic BAU & Key Priorities		<u>Commentary</u>
1. Review Administration Strategy		Due Q3 2021/22.
2. LGPS Reform – Planning for Administration changes: <ul style="list-style-type: none"> • Unpausing of Cost Cap • 95k Cap • Goodwin 		Ongoing. Unpausing of Cost Cap – Administration implications are possible but not yet clear. 95k was revoked last year however a new consultation during 2021/22 is expected. Goodwin – waiting for MHCLG to issue guidance.
3. Commencement of Pensions Single Payments provider review		Pending the BACS Cloud Procurement lead by ECC.
4. Greater Digitalisation of the Fund including Member Online, Employer Online and Retire Online		Ongoing. Continuous development and implementation throughout the year.
5. McCloud Preparation/Implementation		Ongoing. Continuous development throughout the year.
6. Commencement of Monthly Returns Digital Transformation		Complete. This commenced during Q1 2021/22.
<p style="text-align: center;">Page 62 of 268</p> 7. The Pensions Regulator (TPR) Data Improvement Plan		Ongoing. Continuous development and implementation throughout the year.

Commentary

5. Communications



Strategic BAU & Key Priorities	Commentary
1. Development of Stakeholder Strategy	Due to commence Q2 2021/22.
2. LGPS Reform: <ul style="list-style-type: none"> • Unpausing of Cost Cap • £95k Cap • Goodwin 	Ongoing. Communications on these issues will be developed once further guidance and communications have been issued from MHCLG etc.
3. Greater Digitalisation of the Fund including the exploration of Electronic Communications	Ongoing. Continuous development and implementation throughout the year.
4. McCloud Implications	Ongoing. Continuous development throughout the year.
5. Implementation of Social Media Channel	Ongoing.
6. Commencement of the Website review	Complete. This commenced during Q1 2021/22.
7. Annual Benefit Statements review and development Page 63 of 268	Ongoing. The Deferred Member Annual Benefit Statement review is complete. The Annual Benefit Statement for Active Members is currently being finalised.

Essex Pension Fund

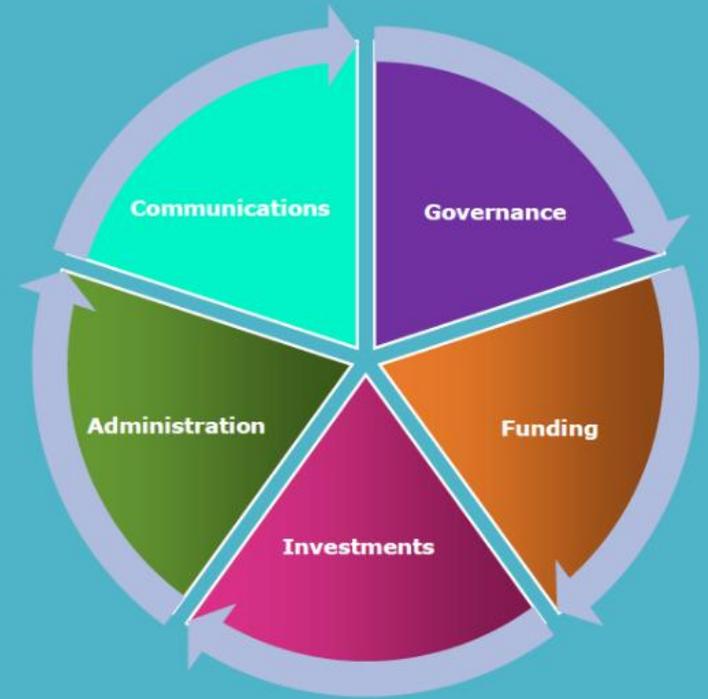
Section B

2020/21

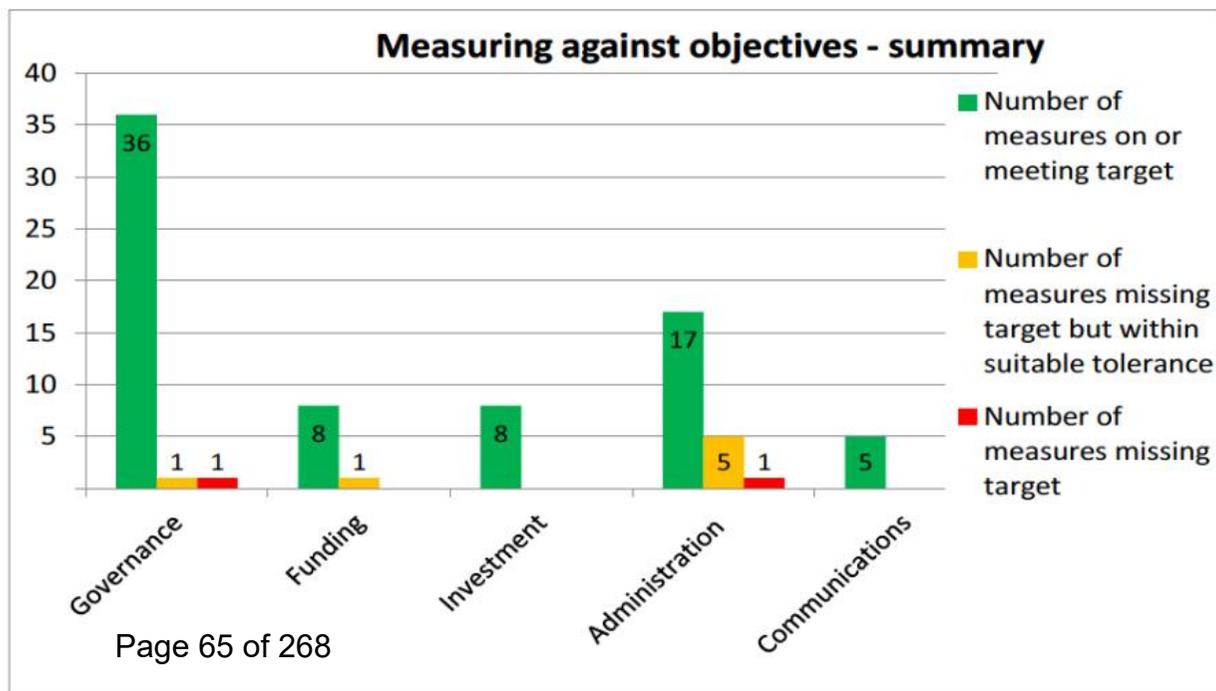
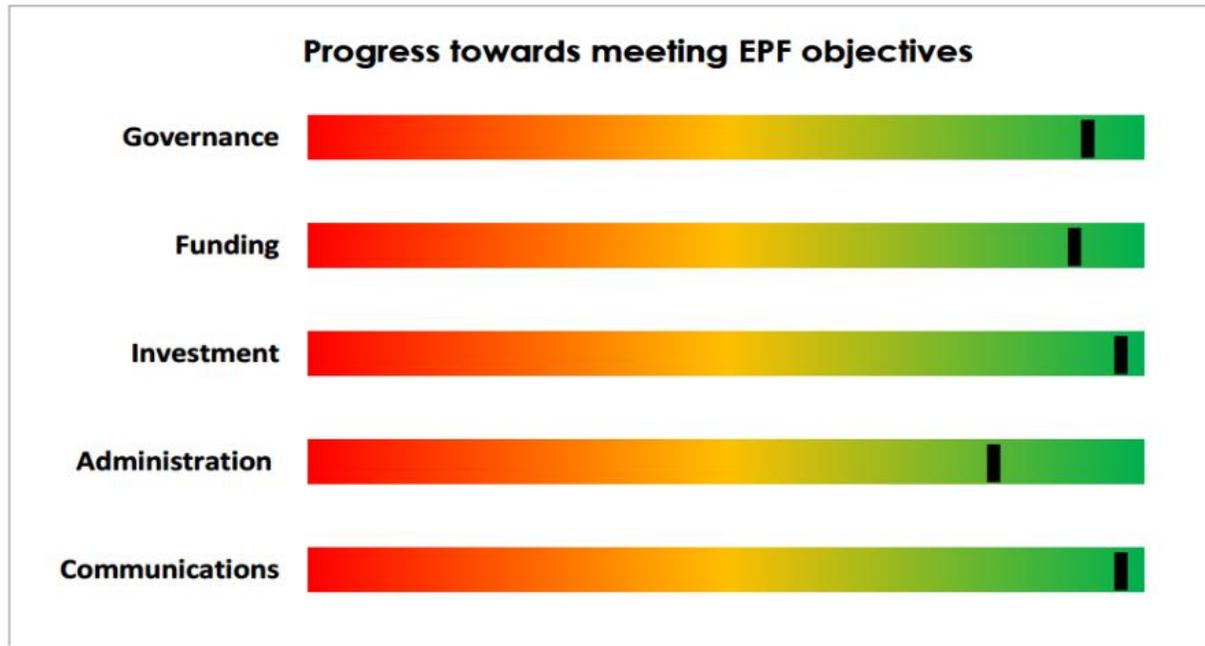
Scorecard

Update

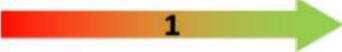
01 March 2021 - 31 March 2021



Current Status



Movements since previous Scorecard

Governance	Funding	Investment	Administration	Communications
	No movements since the last quarter	No movements since the last quarter	No movements since the last quarter	Not applicable until 01 April 2021

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

Exceptions - Governance



Measure	Target	Score as at 28 February 2021	Score as at 31 March 2021	Detail	Trend
1.3.10. % attendance at meetings by PAB	80%	67%	100%	1 PAB meeting took place in this scorecard period on 17 March 2021. 67% was reported at the 17 March 2021 PSB. For year ended 2020/21 81% was achieved against this scorecard measure.	
1.5.6. PAB has provision for representatives of employers and scheme members. Appointees are currently in place	Yes	No	No	On 17 February 2021, Fund Officers received a resignation from one PAB Scheme Member representative. An update has been provided as part of this Agenda Pack at item 9b.	
1.5.7. Terms of Reference for PSB/ISC and PAB in place and reviewed	Yes		Yes	All PSB, ISC and PAB Terms of Reference were reviewed in conjunction with the Governance Policy and Compliance Statement and approved by the PSB at their 17 March 2021 meeting. In addition, the TOR for the PSB has been provided at Agenda Item 4 of this pack for noting.	N/A

Essex Pension Fund

Section C

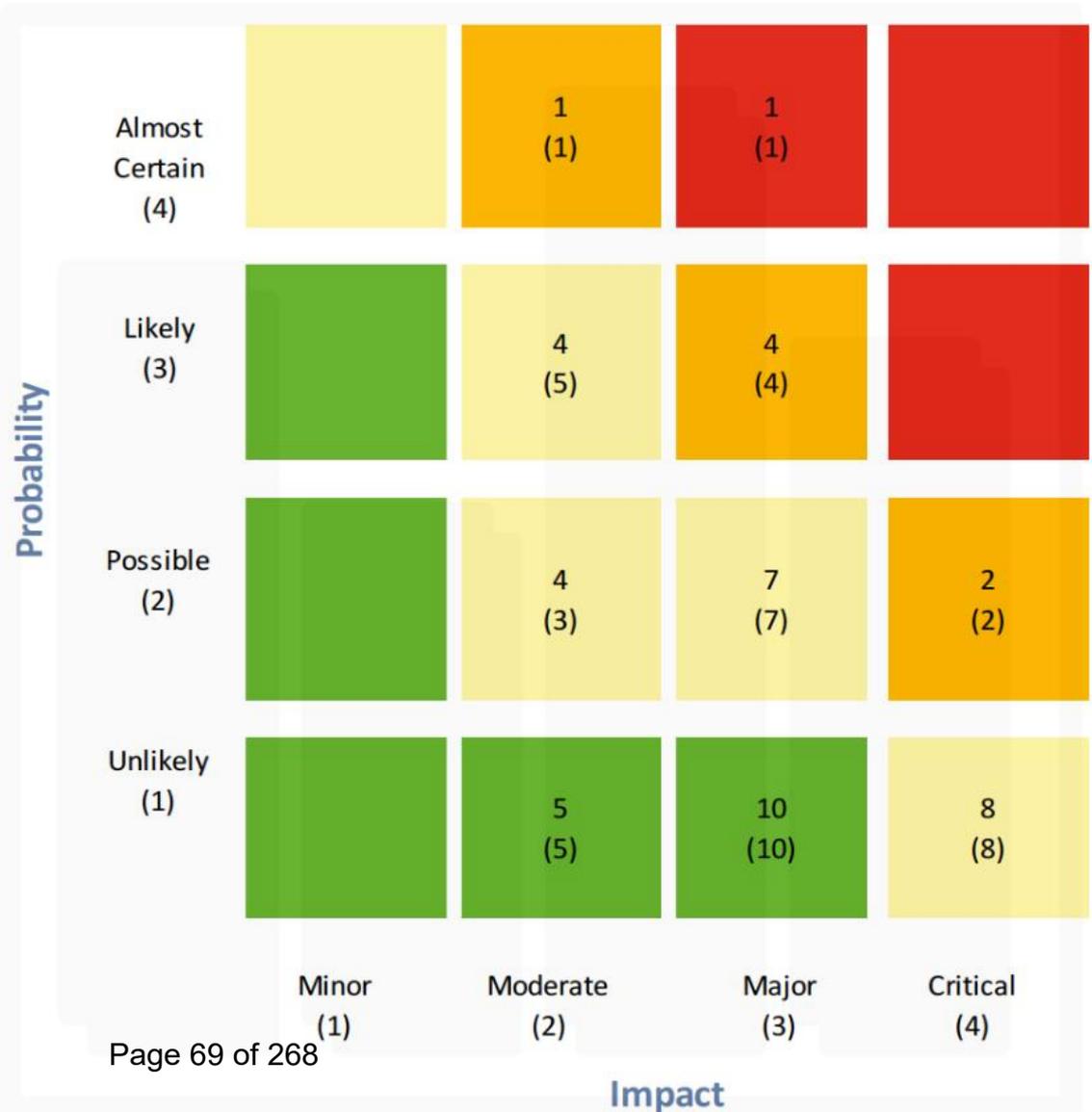
2021/22 Risk Management Update

31 May 2021



Current Status

Essex Pension Fund



Assessments

BAU

Risk	Reported at 17 March PSB	As at 31 May 2021
G3. Lack of expertise, insufficient knowledge and maintenance of PSB/ISC/PAB	6 (Yellow) Reviewed due to the pending local elections due to take place in May and the resignation of one PAB Member	4 (Yellow) Reviewed following the outcome of the local elections and 25 May 2021 Full Council Meeting resulting in minimum change
G9. Failure to undertake business as usual service due to events outside of Essex Pension Fund (EPF) control resulting in loss of service provision	8 (Amber) Reviewed due to the lockdown restrictions and reinstatement of two-weekly Business Continuity Meetings	No change
A1. 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.	9 (Amber) Reviewed due to the increase in the Covid-19 death rate	No change
A3. Failure to pay people at right time in right amount	6 (Yellow) Pending BACS Cloud Procurement update	No change



1. Exceptions - Governance

Risk Details	17 Mar Rating	Current Rating	Controls / Mitigations	Target Score
<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
<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; 	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



1. Exceptions - Governance

Risk Details	17 Mar Rating	Current Rating	Controls / Mitigations	Target Score
<p>G14 continued.</p> <ul style="list-style-type: none"> - 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. 	12	12	<ol style="list-style-type: none"> 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) 6. A McCloud project team was set up autumn 2019 to ensure requirements are being actioned and communicated with Employers. The Fund will continue to communicate with Employers and updates on the latest developments will be provided throughout the year. 	4



4. Exceptions - Administration

Risk Details	17 Mar 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	17 Mar 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	17 Mar Rating	Current Rating	Controls / Mitigations	Target Score
A3 Continued.	6	6	<ul style="list-style-type: none">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.7. ECC's Corporate System 'TCS' (Financial Ledger system) is in the process of being replaced by another system.	3

Essex Pension Fund Strategy Board	PSB 07a
Date: 07 July 2021	

Internal Audit Annual Report 2020/21

Report by Paula Clowes - Head of Assurance

Enquiries to Sarah Harris – Strategic Audit Manager

1. Purpose of the Report

- 1.1 The Essex Pension Fund Board's Terms of Reference include the monitoring of administration of the Essex Pension Fund. It is therefore appropriate for the Board to receive reports from Internal Audit regarding the control environment of the Pension Fund and Administration.
- 1.2 This report provides a summary of Internal Audit's 2020/21 activity in relation to the Pension Fund and proposals for 2021/22.

2. Recommendations

- 2.1 Pension Board Members are requested to note:
 - the outcomes of the 2020/21 internal audit reports;
 - the outcome of the 2020/21 National Fraud Initiative; and
 - the planned audits of the Pension Fund for 2021/22.

3. Background

3.1 ECC is the Administering Authority for the Pension Fund and as such the Pensions Administration and Pension Funding and Investments represent major systems in terms of financial control and reporting of the Council's activities.

4. 2020/21 Internal Audit Reviews

4.1 We undertook two reviews in accordance with the agreed Internal Audit and Counter Fraud Plan:

- Essex Pension Fund - Administration (Appendix A) – Good Assurance; and
- Essex Pension Fund - Funding and Investments (Appendix B) – Good Assurance.

4.2 Both reviews received a '**Good Assurance**' opinion which means that at the time of our review there was a sound system of internal control. *It should be noted that this is the highest level of assurance.*

4.3 These opinions were unchanged from the 2017/18, 2018/19 and 2019/20 opinions which were also assessed as 'Good Assurance'. For the third consecutive year, no recommendations were identified.

5. National Fraud Initiative (NFI)

5.1 The NFI is the matching of electronically held data between public and private sector bodies to prevent and detect fraud and error. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

5.2 Responsibility for NFI lies with the Cabinet Office. Data continues to be submitted on a monthly basis. The NFI data matching exercise of specifically pensions-related data recently identified overpayments of £30,237.32 of which at this stage £14,225.65 has so far been recovered. In addition, there are several cases still under review.

6. 2021/22 Internal Audit Coverage

6.1 On 22 March 2021, the ECC Audit, Governance and Standards Committee approved the Internal Audit and Counter Fraud Plan for 2021/22. The Plan contains the following activity relating to Pensions:

- FT2 and FT3 - Essex Pension Fund – administration and funding & investments; and
- National Fraud Initiative.

6.2 A meeting between the Fund and Internal Audit is due to take place to discuss scope and appropriate timings for the two Audit Reviews above.

6.3 The total charge to the Pensions Fund for this activity will be £22,500.

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 at 6.3 the charge to the Fund in 2021/22 will be £22,500 (£22,500: 2020/21).

11. Background Papers

- 11.1 Internal Audit and Counter Fraud Plan for 2020/21, Agenda item 11 AGS/07/21, 22 March 2021, ECC Audit, Governance and Standards Committee
- 11.2 Essex Pension Fund – Administration Final Internal Audit Report 2020/21 (Appendix A).
- 11.3 Essex Pension Fund – Funding and Investments Final Internal Audit Report 2020/21 (Appendix B).

Essex Pension Fund – Administration Final Internal Audit Report

Audit Plan Ref: FT5b 20/21

Audit Opinion:
Good Assurance

Date Issued: 25 May 2021

Function: Finance and Technology

Audit Sponsor: Jody Evans, Director, Essex Pension Fund

Distribution List: **Nicole Wood**, Executive Director for Finance and Technology; **Jody Evans**; **Sam Andrews**, Investment Manager; **Sara Maxey**, Employer Manager; **Amanda Crawford**, Compliance Manager; **Kelly Armstrong and Daniel Chessell**, Team Managers; **Chris Pickford**, Pensions Systems Manager; **Holly Gipson**, Pensioner and Payroll Manager; **Cllr. Barker**, Chair of the Essex Pension Fund Strategy Board and the Investment Steering Committee; **Barry Pryke**, External Audit



1. Executive Summary

Assurance Opinion	No	Limited	Satisfactory	Good
				✓

Number of Issues	Critical	Major	Moderate	Low
	0	0	0	0

Audit Objective	Key Messages	Direction of Travel
<p>The audit's objective was to evaluate the arrangements in place to manage to reasonable levels, the potentially significant risk events and consequences relating to administering the Pension Fund and making pension payments.</p> <p>Scope of the Review and Limitations</p> <p>The impact of change in working practices due to Covid-19 was considered throughout. The review covered 2020/21 only and did not assess the management and controls around the Essex Pension Fund (EPF) bank reconciliation. This area is covered within the reconciliations section of the Key Financial Systems audit (FT11).</p>	<p>The review assessed compliance with policies over key processes including adding new scheme members, transfers in/out, deferments, admitting new retirees onto the Payroll system, registration of deaths, payment of death grants, lump sum payments, amendments to members' information, payments, annual benefit statements, checking and authorisation controls. Sample testing and walkthroughs were performed, and documentary evidence was reviewed to support calculations, authorisation and separation of duties.</p> <p>Management override of controls and the risk of fraud or error was also considered, and no issues were identified. All tasks are carried out on the Universal Pensions Management (UPM) system. The effect of working from home due to Covid-19 was considered whilst assessing the control environment and testing of controls to ascertain if this had any negative impact on administration activities, however no issues were identified.</p> <p>An appraisal of the quarterly EPF Scorecard identified that the status of the measure for calculating and notifying deferred benefits within the Fund's agreed timescale of 30 working days was 'red', with values of 78% at Q1 and 79% at Q2 and Q3 against the target of 95%, which has decreased from 90% in 2018/19 due to the increase of retrospective/historic notifications. The Fund was below the CIPFA Average of 82%. However, assurance was provided that a large employer (who caused the discrepancy by being behind in providing leaving details) is now up to date and future statistics would show return to normal levels.</p>	<p>The Assurance Opinion remains at "Good", meaning that there continues to be sound systems of internal control in place. No actions have been raised in this report.</p> 

2. Explanation of Assurance and Risk Priority Levels

Assurance level	Assessment Rationale
Good	There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
Satisfactory	Whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk.
Limited	There are significant weaknesses in key areas of the system of control, which put the system/process objectives at risk. Improvement in the design and/or operational effectiveness of the control environment is necessary to gain assurance that risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious weaknesses and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Risk Priority Level		Definition	
Corporate	Critical	 Red	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, for example, reputational damage, significant financial loss (through fraud, error or poor value for money), intervention by external agencies and / or lack of compliance with statutory regulations. Remedial action is required immediately
Service	Major	 Amber	Audit findings indicate a serious weakness or breakdown in the control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently
	Moderate	 Yellow	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Prompt specific action should be taken
	Low	 Green	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. Remedial action is suggested

3. Further Information

Management Responsibility: It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit (IA) work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems. IA endeavour to plan work so they have a reasonable expectation of detecting significant control weaknesses and, if detected, IA and Counter Fraud will carry out additional work directed towards identification of consequent fraud or other irregularities. However, IA procedures alone do not guarantee that fraud will be detected.

Following the Final Report: It is the owner’s responsibility to ensure the agreed actions are implemented within agreed timescales and to update Pentana on a timely basis.

IA are regularly required to provide updates on the status of recommendations to the Audit Governance and Standards Committee, to the Corporate Governance Steering Board and to Functional Leadership Teams. We also receive ad-hoc requests for updates e.g. from the relevant Cabinet Member.

IA use the updates provided by Action Owners on Pentana for this purpose, so it is essential that progress is recorded regularly and accurately and when an action becomes overdue that a revised date to indicate when the action will be implemented is provided.

Audit Sponsor Responsibility:

- Approve the draft terms of reference to confirm their understanding and agreement of the risks, scope and nature of the review.
- Inform appropriate staff associated with the process under review about the nature of the review and what is required of them. Facilitate timely access to staff, records and systems.
- Approve and/or complete the Action Plan in the Draft Report and return to the Internal Audit Team within 15 working days to enable the Final Report to be issued promptly.
- Have oversight to ensure all agreed actions are implemented within the agreed timescales as recorded in the Action Plan in the Final Report.

Head of Assurance	Paula Clowes
Audit Manager	Sarah Harris / Stuart Coogan
Auditor	Murad Khan
Fieldwork Completed	April 2021
Draft Report Issued	18 May 2021
Management Comments Requested by	27 May 2021
Management Comments Received	25 May 2021
Final Report	25 May 2021

Essex Pension Fund – Funding and Investment Final Internal Audit Report

Audit Plan Ref: CC5 2021

Audit Opinion:
Good Assurance

Date Issued: 22 April 2021

Function: Finance and Technology

Audit Sponsor: Jody Evans, Director, Essex Pension Fund

Distribution List: **Nicole Wood**, Executive Director for Finance and Technology; **Jody Evans**; **Sam Andrews**, Investment Manager; **Sara Maxey**, Employer Manager; **Amanda Crawford**, Compliance Manager; **Kelly Armstrong and Daniel Chessell**, Team Managers; **Chris Pickford**, Pensions Systems Manager; **Cllr. Barker**, Cabinet Member for Customer, Communities, Culture and Corporate and Chair of the Pension Strategy Board; **Barry Pryke**, External Audit

1. Executive Summary

Assurance Opinion	No	Limited	Satisfactory	Good
				✓

Number of Issues	Critical	Major	Moderate	Low

Audit Objective	Key Messages	Direction of Travel
<p>This audit reviewed whether there are adequately designed controls in place and operating consistently, to enable prescribed processes to be followed in relation to Essex Pension Fund’s funding, investment and governance, thus helping to ensure effective decision making, security of funds’ assets and minimisation of error/fraud.</p> <p>Scope of the Review and Limitations</p> <p>The impact of change in working practices due to Covid-19 was considered throughout. The review only covered investments and funding activity in the previous 12 months and did not assess any of the arrangements or activity of the ACCESS pool or the ACCESS Support Unit (ASU). The ASU has been subject to a separate review in 2020 and also received Good Assurance.</p>	<p>Fund Officers have adapted to new ways of working in light of the Covid-19 impact, with the Pension Team carrying out the majority of their roles from home. The effect of this change was considered whilst assessing the control environment and testing of controls to ascertain if this had any negative impact on deliverables against the Business Plan and Scorecard measures. No issues were identified.</p> <p>The Fund supported Employers by not enforcing the Charging Policy on late submission of annual returns and still achieved a 99% (95% in 2018/19) submission rate. The Fund’s Risk Register continued to be monitored and updated on a regular basis and considered the impact of the Covid-19 pandemic. Both the Pension Advisory Board and the Essex Pension Fund Strategy Board received an update on the current Business Plan, Risk Register and Scorecard at each meeting. Evidence was available to support that investments were made in approved classes by FundMmanagers and the income from investments was monitored, received and recorded on a timely basis. All transactions sampled (relating to the movement of funds) were appropriately authorised.</p> <p>A review of the Fund Manager Reconciliation Monitoring Spreadsheet, which lists all fund accounts and the due dates for various control activities, identified that interim monthly target dates had not always been met. However, no action has been raised on the basis that it could be evidenced that focus had remained on ensuring final deadlines for loading the reconciliation journals on to the General Ledger were met. An appraisal of the Board/Committee Members’ training scorecard also identified some minor gaps in training credits. However, evidence was provided to demonstrate that this risk was being mitigated and hence it was not deemed necessary to raise an action for follow-up.</p>	<p>The Assurance Opinion remains at “Good”, meaning that there continues to be sound systems of internal control in place. No actions have been raised in this report.</p> 

2. Explanation of Assurance and Risk Priority Levels

Assurance level	Assessment Rationale
Good	There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
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Service	Major	 Amber	Audit findings indicate a serious weakness or breakdown in the control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently
	Moderate	 Yellow	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Prompt specific action should be taken
	Low	 Green	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. Remedial action is suggested

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IA are regularly required to provide updates on the status of recommendations to the Audit Governance and Standards Committee, to the Corporate Governance Steering Board and to Functional Leadership Teams. We also receive ad-hoc requests for updates e.g. from the relevant Cabinet Member.

IA use the updates provided by Action Owners on Pentana for this purpose, so it is essential that progress is recorded regularly and accurately and when an action becomes overdue that a revised date to indicate when the action will be implemented is provided.

Audit Sponsor Responsibility:

- Approve the draft terms of reference to confirm their understanding and agreement of the risks, scope and nature of the review.
- Inform appropriate staff associated with the process under review about the nature of the review and what is required of them. Facilitate timely access to staff, records and systems.
- Approve and/or complete the Action Plan in the Draft Report and return to the Internal Audit Team within 15 working days to enable the Final Report to be issued promptly.
- Have oversight to ensure all agreed actions are implemented within the agreed timescales as recorded in the Action Plan in the Final Report.

Head of Assurance	Paula Clowes
Audit Manager	Sarah Harris
Auditor	Murad Khan
Fieldwork Completed	April 2021
Draft Report Issued	21 April 2021
Management Comments Requested by	12 May 2021
Management Comments Received	21 April 2021
Final Report	22 April 2021

Essex Pension Fund Strategy Board	PSB 07b
Date: 07 July 2021	

External Audit 2020/21: Audit Planning Report Year Ending 31 March 2021

Report by the Director for Essex Pension Fund

Enquiries to Jody Evans 03330 138489

1. Purpose of the Report

- 1.1 To present BDO LLP's Audit Planning Report in relation to the 2020/21 external audit of the Essex Pension Fund.

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.

4. External Audit Planning Report

- 4.1 The Audit Planning Report explains how BDO LLP intend to carry out their responsibilities as auditor of the Essex Pension Fund and is provided at Appendix A of this report.
- 4.2 David Eagles on behalf of BDO LLP has submitted the attached Report which describes the approach that will be adopted for the external audit of the 2020/21 Essex Pension Fund Accounts.
- 4.3 The Plan summarises BDO LLP's initial assessment of the key risks driving the development of an effective audit for the Essex Pension Fund and outlines their planned audit strategy in response to those risks along with providing the timeline for completing the audit and reporting back its findings.
- 4.4 This Audit Planning Report was reported to the Essex County Council's Audit, Governance and Standards Committee on 22 March 2021 for approval.

5. Link to Essex Pension Fund Objectives

- 5.1 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.

6. Risk Implications

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

7. Communication Implications

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

8. Finance and Resources Implications

8.1 As highlighted in the attached Audit Planning Report, the charge to the Fund in 2020/21 will be £39,500 (2019/20: £40,250), of which £6,500 (2019/20: £12,250) will be recharged back to those employers in respect of assurance required for accounting purposes.

9. Background Papers

9.1 2020/2021 External Audit Plans for Essex County Council and Essex Pension Fund AGS/03/21.

9.2 2020/21 Audit Planning Report for Essex Pension Fund (Appendix A).

9.3 The Local Government Pension Scheme (Administration) Regulations 2008.

9.4 The National Audit Office's Code of Audit Practice.



Report to the Audit, Governance and Standards Committee

ESSEX PENSION FUND

Audit Planning Report: year ending 31 March 2021

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We have pleasure in presenting our Audit Planning Report to the Audit, Governance and Standards Committee of Essex County Council (the 'Council') in respect of the Essex Pension Fund. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2021 in respect of our audit of the financial statements; comprising materiality, key audit risks and the planned approach to these; together with timetable and the BDO team.

The planned audit strategy has been discussed with Management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

This report contains matters which should properly be considered by the Council, as administering authority, as a whole. We expect that the Audit, Governance and Standards Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We look forward to discussing this plan with you at the Audit, Governance and Standards Committee meeting on 22 March 2021 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

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

10 March 2021



David Eagles, Engagement Partner

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Barry Pryke, Senior Manager

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e: barry.pryke@bdo.co.uk



Deborah Antoine, Assistant Manager

SCOPE AND MATERIALITY

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This summary provides an overview of the key audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the planned audit strategy for the Pension Fund for the year ending 31 March 2021.

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

Audit scope

The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes auditing the financial statements and, where appropriate, exercising the auditor's wider reporting powers and duties.

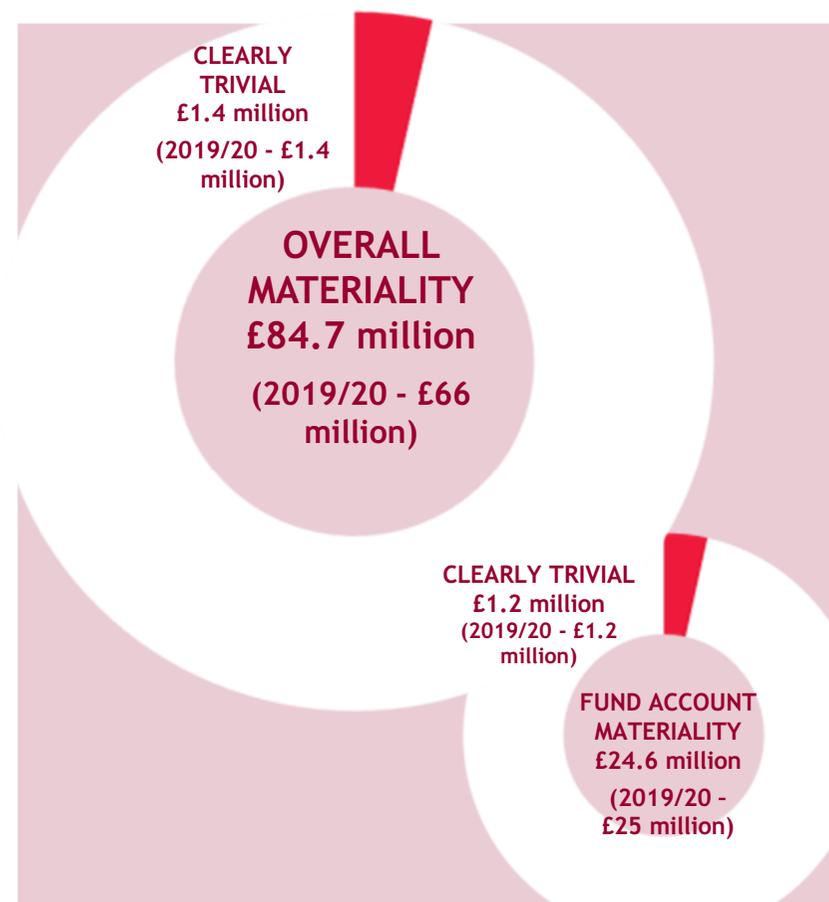
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

Materiality

Planning materiality for the Pension Fund financial statements will again be set at 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the Fund Account at 7.5% of gross expenditure.

At this stage, these figures are based on current estimated net assets (£8.475bn) and Fund expenditure (£328m). This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit, Governance and Standards Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



AUDIT STRATEGY

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Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have undertaken preliminary planning and risk assessment procedures to derive the risk profile reported in this Audit Planning Report. Further, more detailed discussions on any changes to systems and controls in the year will be held in order to update our understanding of the Pension Fund's activities and to refine our risk assessment relating to the numbers and disclosures in the financial statements. We will continue to update this assessment throughout the audit and report any changes to the Audit, Governance and Standards Committee.

The table on the next page summarises our planned approach to audit risks identified.

There has been no significant change to audit risks identified or their classification as compared to the prior year. All material areas will be subject to a substantive approach.

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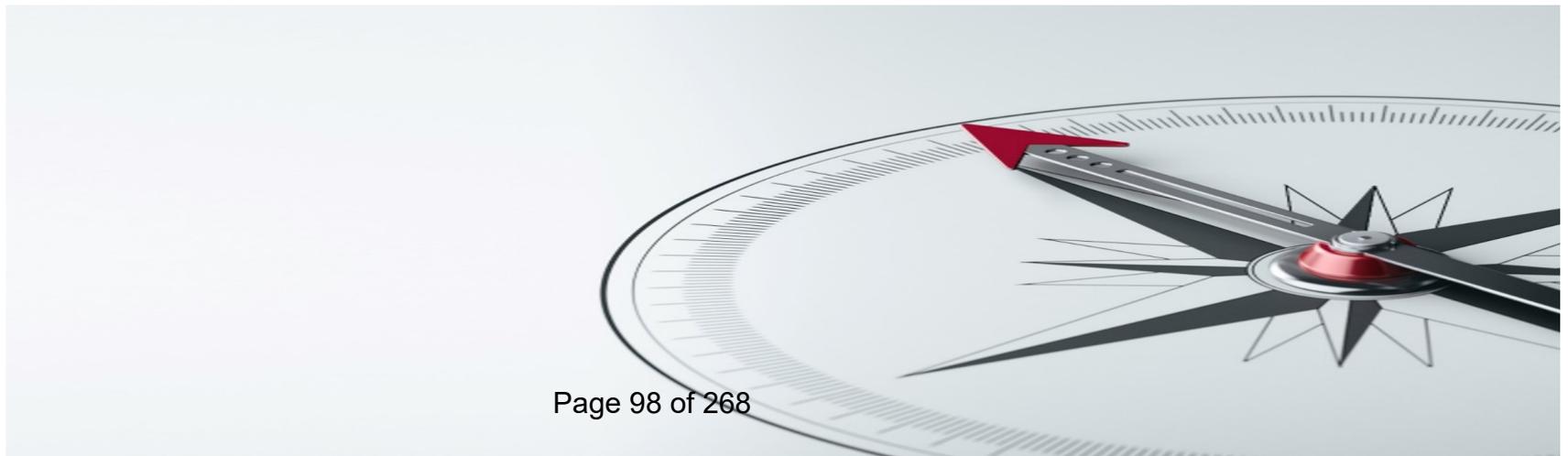
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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Valuation of investments (unquoted and direct property investments)	Significant	No	Substantive	High
Pension liability valuation	Significant	No	Substantive	High
Valuation of investments (pooled investments)	Normal	No	Substantive	Medium
Contributions receivable	Normal	No	Substantive	Medium



INDEPENDENCE AND FEES

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Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent

Fees

	2020/21	2019/20
Code audit fee	¹ £28,000	£28,000
Additional fee for IAS19 assurance requests from scheduled bodies	² £6,500	£12,250
Additional audit fee: Covid-19 remote working	³ £5,000	-
Total audit fees	£39,500	£40,250

Fee variances

¹The Code fee remains the PSAA Scale plus the £3,925 added from 2019/20 reflecting the increased expectations relating to the work necessary to audit the judgemental components of the pension fund.

²Assurance fees

The 2019/20 audit included cyclical costs relating to the audit of the 2019 triennial actuarial data cleansing exercise. These should not be necessary again until the 2022/23 audit.

³Covid-related costs

This represents an estimate of the additional resource time and costs necessary when audits are undertaken remotely. The 15% is at the lowest end of the 15-20% range experienced by BDO and the other audit firms. If we are able to undertake some key work on site, the time reflected here should reduce and the fee level decrease accordingly. **Page 99 of 268**

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Council. Where this requires a variation to the scale fee set by PSAA we will seek approval from Public Sector Audit Appointments Limited (PSAA). If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit, Governance and Standards Committee.



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Key components of our audit objectives and strategy for the Pension Fund are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

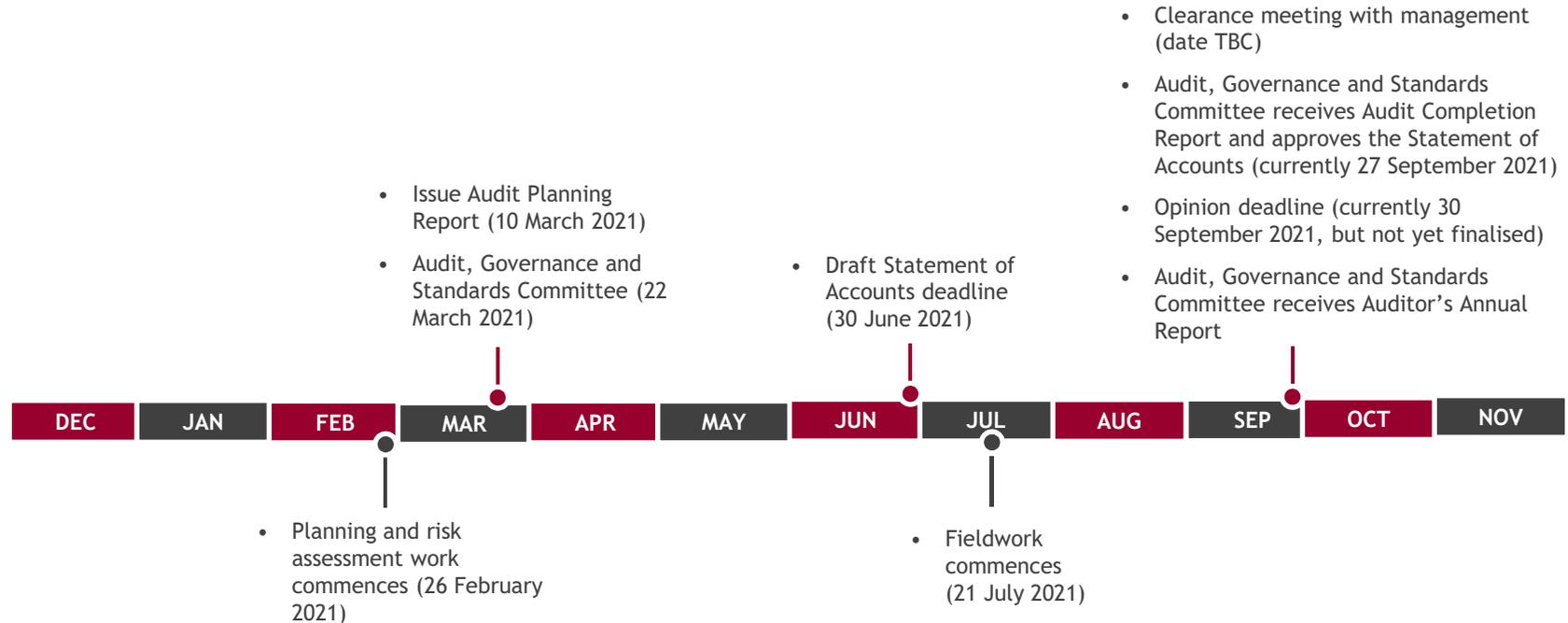
We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Pension Fund financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to 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.
Annual Report	We will review the Pension Fund Annual Report and report on the consistency of the Pension Fund financial statements within the Annual Report with the Pension Fund financial statements in the Statement of Accounts.
Audit Completion Report to the Audit, Governance and Standards Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit, Governance and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

AUDIT TIMELINE

An overview of the key dates

At the time of drafting this Audit Planning Report, the deadlines for preparing and publishing local authority accounts are subject to consultation, as part of the Government's response to Sir Tony Redmond's review. The consultation proposes pushing back the final accounts publication date to 30 September 2021 and requiring draft accounts to be published on or before 1 August 2021, together with a new requirement for local bodies to provide an explanation on their website if they miss the revised draft publication date.



The timeline set out above would be extremely challenging to achieve. This is because of a number of issues, not least of which are the delays and reduced scope of any interim work that can be achieved to pull audit testing out of the final phase, the additional time working remotely takes, a later final audit start date and notable additional work proposed linked to the introduction of the new NAO Code of Audit Practice. Notwithstanding these issues, we consider it is necessary to aim for the currently proposed statutory publication deadline. If this is pushed back, our preference would be to revisit this timeline to agree a less pressured programme that has reduced risk of missing the target dates.

BDO TEAM

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David Eagles
Engagement Lead

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given. In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings. I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



Barry Pryke
Senior Manager

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e: barry.pryke@bdo.co.uk

I will lead on the audit of the Pension Fund. I work closely with David to develop and execute the audit strategy. I will be a key point of contact on a day to day basis and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to Management and the Audit, Governance and Standards Committee are highlighted on a timely basis.



Deborah Antoine,
Assistant Manager

I will be responsible for the day to day supervision of the audit team, and will be responsible for the delivery of the key audit work.

OVERVIEW

Audit risks

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements or impact on our use of resources opinion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Key: **Significant** / **Normal**

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Valuation of investments (unquoted and direct property investments)			There is a risk that unquoted and direct property investments are not appropriately valued in the financial statements due to significant level of assumption and estimation involved in the valuation of these assets.
3. Pension liability valuation			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.
4. Valuation of investments (pooled investments)			There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.
5. Contributions receivable			There is a risk that employers may not be calculating contributions correctly and paying over the full amount dues (on normal and deficit rates).

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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
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach
Risk highlighted by Council

Risk detail

- Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Planned audit approach

Our audit procedures will include the following:

- Review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will undertake necessary procedures to validate the data extraction undertaken and use our IT team to assist with transferring the journal extraction into BDO Advantage for audit use;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review the nature and causes of of any unadjusted audit differences for indications of bias or deliberate misstatement.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

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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
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- 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.

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund;
- Review the valuation completed by the fund manager and any significant assumptions made in the valuation;
- For property valuations, we will agree input data used by the valuer such as agreeing rental information to the underlying rental agreements, and will review the rental yields against the comparable data and indices for reasonableness;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund’s year end, confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensure investments have been correctly valued in accordance with the relevant accounting policies.

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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	—
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	■
Substantive testing approach	■
Risk highlighted by Council	■

Risk detail

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 2021 is based on a roll-forward of data from the 2019 triennial valuation, updated where necessary.

There is a risk the valuation disclosed in the notes to the Pension Fund accounts is not based on appropriate membership data (where there are any significant changes) or uses inappropriate assumptions to value the liability.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Test a sample of transfers and cash flow data sent to the actuary for existence and accuracy;
- Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions;
- Check whether any significant changes in membership data have been communicated to the actuary; and
- Agreeing the disclosure to the information provided by the actuary.

VALUATION OF INVESTMENTS (POOLED INVESTMENTS)

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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	■
Fraud risk	
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■

Risk detail

- The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuation 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.

Planned audit approach

Our audit procedures will include the following:

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

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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
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach

Risk detail

- 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.

Planned audit approach

Our audit procedures will include the following:

- Test 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;
- Review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carry 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.

GOING CONCERN

Management are required to make an assessment of the Pension Fund's ability to continue as a going concern.

Management's responsibilities

It is Management's responsibility to make an assessment of the Pension Fund's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

Audit responsibilities

Our responsibilities in respect of going concern are:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of Management's use of the going concern basis of accounting in the preparation of the financial statements
- (b) To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Pension Fund's financial performance including forecasting and budgeting processes and the risk assessment process. We will evaluate:

- a) The method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other
- b) The plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances
- c) The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

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Fraud

Whilst Management 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 approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We request confirmation from the Audit, Governance and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2020/21 under the circumstances.

Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We will review the reports issued by the Council's internal audit function to determine whether there are any weaknesses and/or risks that we should reflect in our risk assessment, although we do not plan place reliance on their work in respect of their assessment of control processes

Laws and regulations

We will consider compliance with laws and regulations. We will make enquiries of management and review correspondence with the relevant authorities.

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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. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management.

Financial statement disclosures

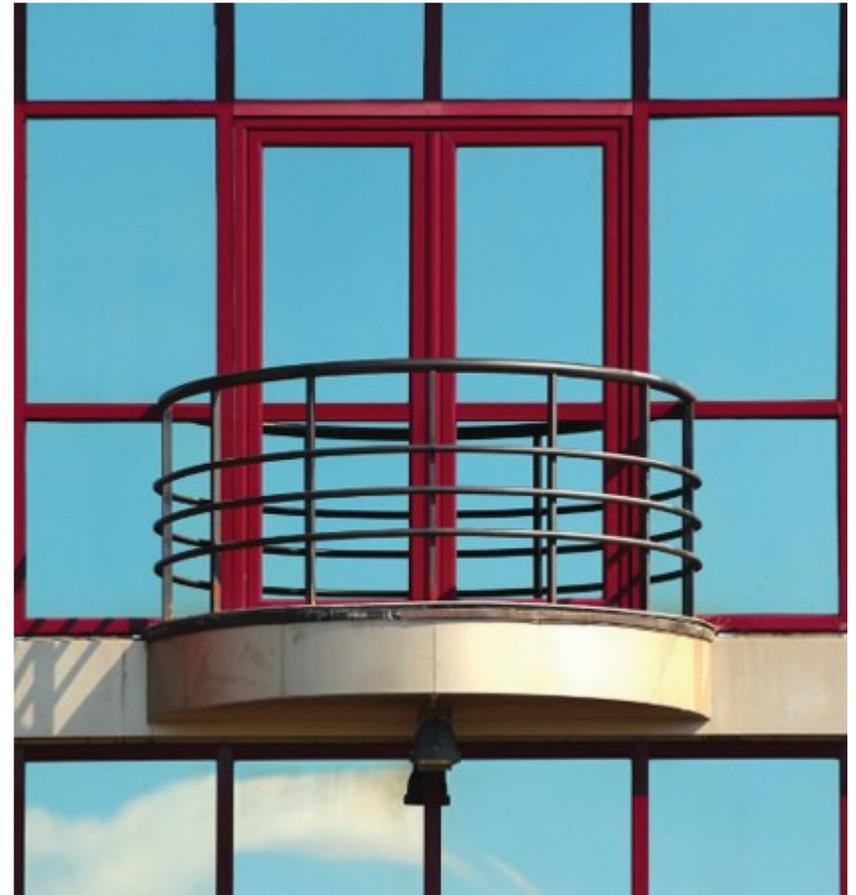
We will report to you on the sufficiency and content of your financial statement disclosures.

Contingencies

We request primary input from the Council's legal team and confirmation of the completeness and accuracy of disclosed elements from the Audit, Governance and Standards Committee on any recent claims.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.



IRREGULARITIES (INCLUDING FRAUD)

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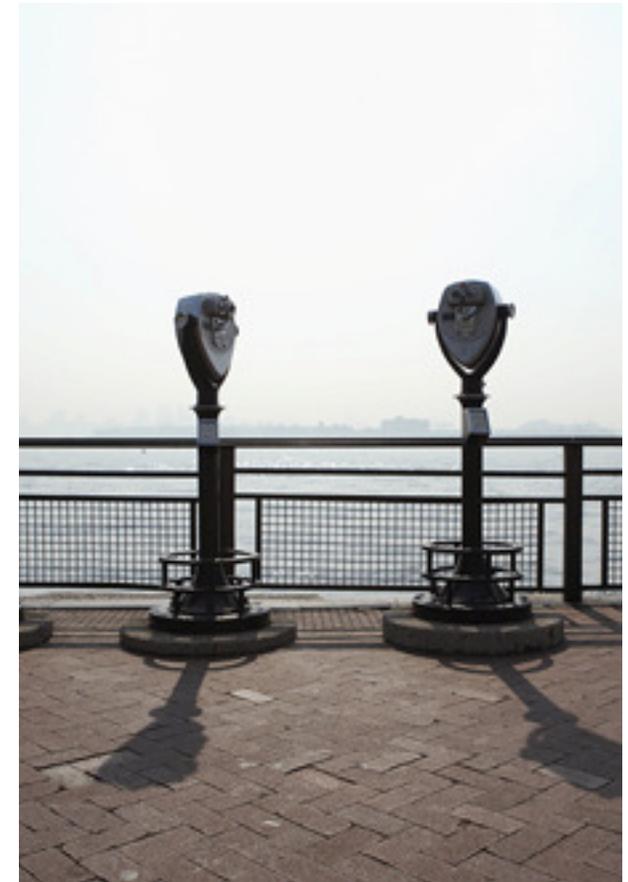
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as whole a free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and that irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Council's financial statements and may include, where appropriate:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- Enquiries of management, those charged with governance and the Council's legal advisers
- Agreement of the financial statement disclosures to underlying supporting documentation
- Review of minutes of relevant Council and Pension Fund meetings throughout the year and of correspondence with regulatory authorities
- Written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.



ACCOUNTING ESTIMATES

Revision to ISA (UK) 540 means that we may need to update our approach the audit of accounting estimates - including confirmation and documentation of our understanding of the Council's estimation process.

We will need to obtain an understanding of how you control your estimation process including not only the design and implementation of the process, but also the policies and procedures you put in place to satisfy yourself that each step in the process is properly applied, and that the resulting accounting estimates are reasonable.

For significant accounting estimates, particularly those that are complex or where there is a high degree of estimation uncertainty we will also make enquiries about how you:

- Make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- Review the outcome(s) of previous accounting estimates and respond to the results of that review
- Identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures including how they are affected by complexity and your judgment
- Account for regulatory factors relevant to the Pension Fund's accounting estimates;, including, when applicable, regulatory frameworks related to prudential supervision
- Identify the need for, and apply, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert
- Identify and address risks related to accounting estimates through your risk assessment process

- Identify relevant methods (including models), assumptions and data and the need for changes in them and from those identified, and select those to apply
- Address the degree of estimation uncertainty in selecting your final point estimates
- Describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates
- Ensure there is oversight and governance in place over management's financial reporting process relevant to accounting estimates.

Under ISA (UK) 540 (revised) our audit approach will involve a more granular risk assessment relating to each significant estimate and separate consideration of the methods (or models) applied in calculating the estimate, the nature, source and reliability of data used and the significance, consistency and appropriateness of assumptions made.

We will also request written representations from you regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21.

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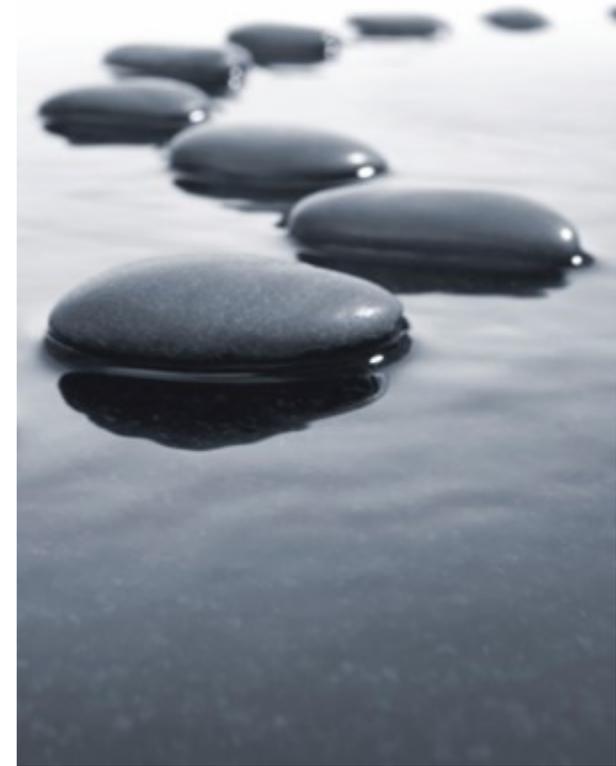
IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting, to include:

- Oracle (general ledger, accounts receivable, accounts payable and payroll); and
- Capita 360 Pay (income receipting)



FRC ETHICAL STANDARD (DECEMBER 2019)

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- FRC Ethical Standard (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 as applicable to our audit of the Council.

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.
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.

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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 auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads 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 ending 31 March 2021.

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 and are independent of the Council and Pension Fund.

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

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

Non-audit services

Details of services, other than audit, provided by us to the Pension Fund during the period and up to the date of this report are set out in the fees table on page 7.

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

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Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's and Pension Fund's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2020/21, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting - financial 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 the members of the Council.

We read and consider the ‘other information’ contained in the Annual Report such as the additional narrative reports. 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 Council and 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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Those charged with governance

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 will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Audit Planning Report

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

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These tables indicates the latest rotation periods normally permitted under the independence rules of the FRC’s Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.



Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
David Eagles Engagement lead	3	5 years
Barry Pryke Senior Manager	1	10 years

Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	3	7 years

MATERIALITY: DEFINITION AND APPLICATION

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Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. disclosure of senior officers' remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Pension Fund, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

Definition of materiality under IFRS

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit, Governance and Standards Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

We would like to draw to your attention the following summary of key changes to standards, regulations and other financing reporting developments, their effective dates and an indication, based on preliminary discussions with management and our sector understanding, of their possible effect on the annual report.

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments	Expected effect				Effective for periods beginning on or after 1 January	
	None	Low	Medium	High	2020	2021
Auditing standard - audit of accounting estimates						
Increased emphasis on understanding management’s processes, systems and controls estimation uncertainty and financial statement disclosures			●		●	
Auditing standard - going concern						
Increased emphasis on evaluation of management’s assessment of the entity’s ability to continue as a going concern			●		●	
Auditing standard - audit reports						
New audit report format with updated conclusion on going concern and reference to irregularities, including fraud			●		●	

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AQR RESULTS 2019/20

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Overview

The FRC released their Audit Quality Review results for the 7 largest accountancy firms in July 2020 for the review period 2019/20. A copy of all of the reports can be found on the [FRC Website](#).

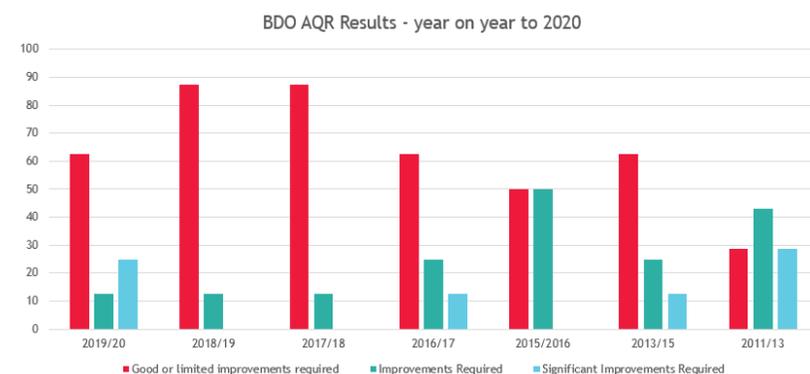
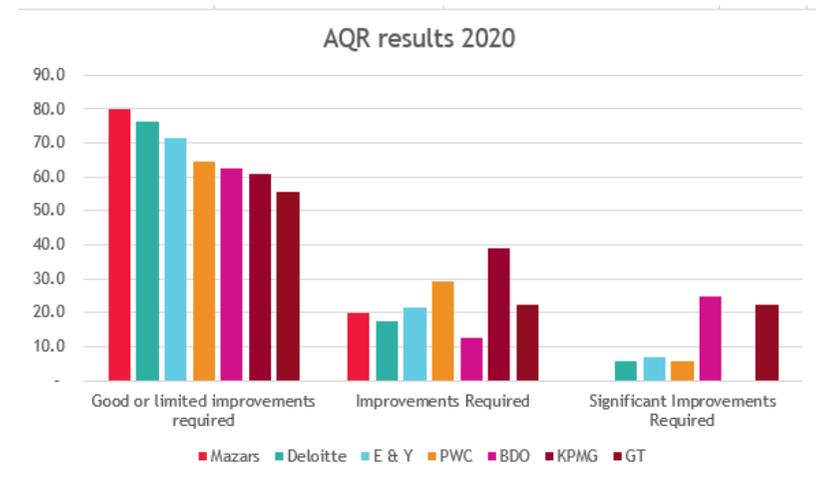
Firm's Results

The graphs demonstrates our performance in relation to the other 6 largest firms. Having topped the table for audit quality for the last two consecutive years, we are disappointed to see a decline in our results. These scores remind us we must remain committed to continuous improvements and, having carefully considered the root causes of the AQR findings, we are in the process of implementing detailed action plans where required. We have made a number of enhancements to our Audit Quality Plan to address these issues to drive our key focus of a continuous improvement in audit quality including highlighting how we will make changes to our root cause analysis process which plays a key role.

We would encourage you to read our report which includes:

- Details of the root cause analysis we have been undertaking to address issues raised
- The actions we have/are undertaking to address the issues raised by the AQR
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

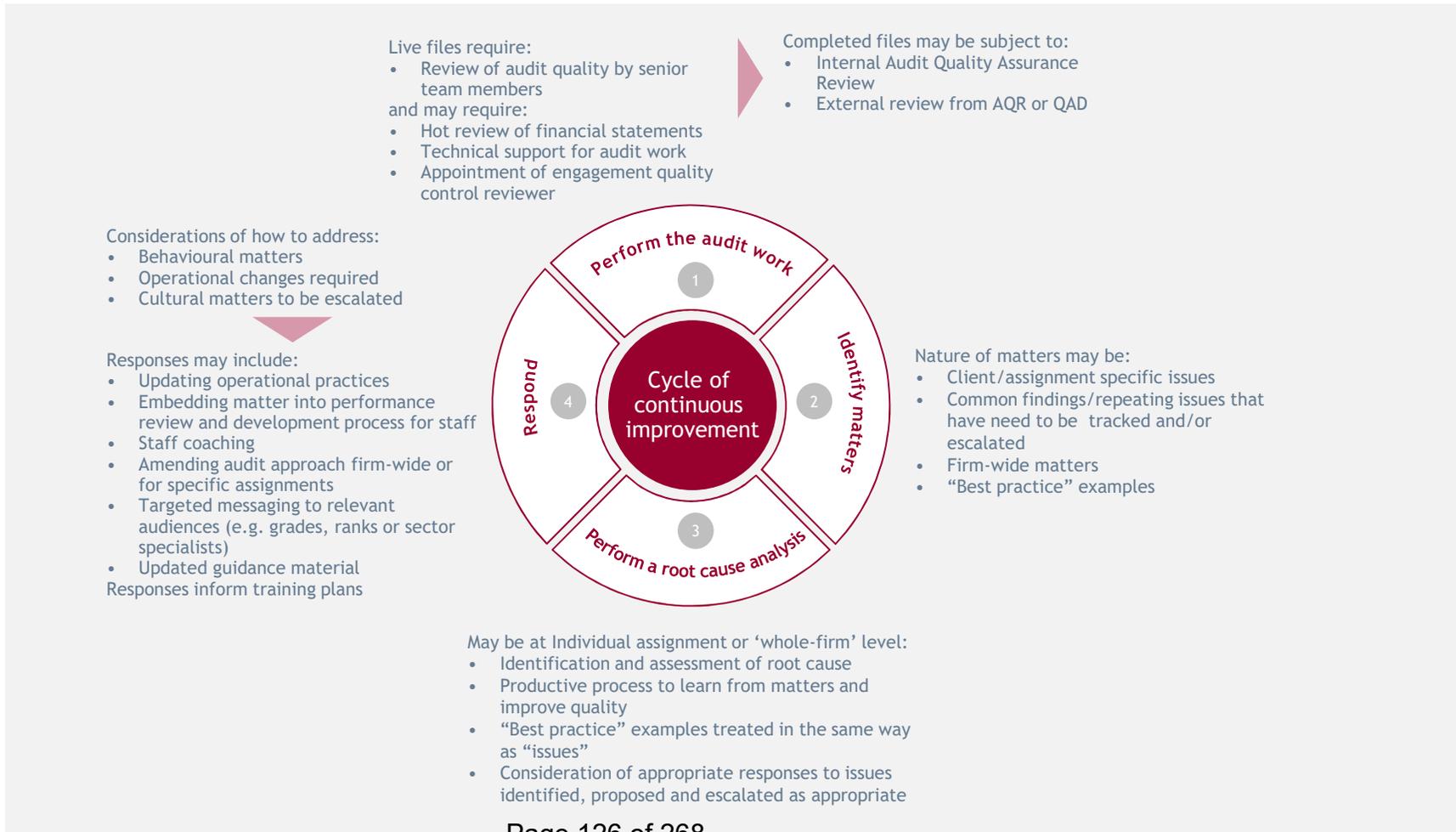
More details will be included in our Transparency Report which will be available on our www.bdo.co.uk



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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 08
Date: 07 July 2021	

Essex Pension Fund Draft Accounts 2020/21

Report by the Director for Essex Pension Fund

Enquiries to Jody Evans 03330 138489

1. Purpose of the Report

- 1.1 To provide Members with a summary of the process for the publication of the Pension Fund's Financial Statements for 2020/21.

2. Recommendation

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

3. Background

- 3.1 The Pension Fund's Financial Statements are currently required to be included within the Annual Accounts of Essex County Council (ECC).
- 3.2 Each year the County Council's Audit, Governance and Standards Committee (the Audit Committee) is required to consider and approve the Accounts after the external audit has been completed.

4. Publication Timetable

- 4.1 The County Council and Pension Fund are statutory required to present its annual draft accounts for external audit by 31 May and publish its final audited and approved accounts by 31 July each year.
- 4.2 In recognition, however, of the continued pressures on local authorities responding to the Covid-19 pandemic, the Government resolved in March 2021 to once again amend the Accounts and Audit Regulations 2015 so that the accounts timetable for the 2020/21 and 2021/22 financial year be extended, deferring the date by which the draft accounts for 2020/21 must be provided to 31 July (previously 31 August) and the deadline for publication for final, audited accounts to 30 September (previously 30 November).
- 4.3 Taking the above into consideration, ECC's intention is to present its annual draft Accounts for external audit by 30 June and publish its final audited and approved Accounts by 30 September.
- 4.4 The Fund is also required to publish a separate Annual Report and Accounts by 1 December. This will be submitted to the Chairman of the Board nearer the time for approval. A copy of the approved Annual Report will then be uploaded to the Essex Pension Fund website.

5. Draft Accounts 2020/21

- 5.1 The Pension Fund successfully closed the accounts in accordance with the Funds year-end closure timetable.

- 5.2 The draft County Council Statement of Accounts for 2020/21 (incorporating draft Pension Fund financial statements) were submitted to the Audit Committee on 28 June 2021. The full Financial Statements are provided at Appendix A. In addition a supplementary paper has been provided presenting an overview of the Pension Fund's financial information.
- 5.3 In accordance with the statutory requirements, the Executive Director for Finance and Technology will then certify the draft (unaudited) County Council Statement of Accounts for 2020/21 (incorporating the draft Pension Fund financial statements) on 30 June and present the Accounts to the external auditor on this date.
- 5.4 The Fund is subject to a separate external audit. Colleagues from BDO are due to commence the Pension Fund external audit on 21 July 2021.
- 5.5 It is anticipated that BDO will report the results of the County Council's and Pension Fund audit work to the Audit Committee on 27 September, at which stage the Audit Committee will be required to consider the external auditor's findings before being asked to approve the Statement of Accounts and the final Annual Governance Statement for publication.
- 5.6 The final Pension Fund Financial Statements will be brought to the PSB 22 September meeting for information.

6. Link to Essex Pension Fund Objectives

- 6.1 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.

7. Risk Implications

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

8. Communication Implications

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

9. Finance and Resources Implications

9.1 As highlighted in the Audit Planning Report, the charge to the Fund in 2020/21 will be £39,500 (2018/19: £40,250), of which £6,500 (2019/20: £12,250) will be recharged back to those employers in respect of assurance required for IAS19 purposes. This will be met within the existing 2020/21 Budget.

10. Background Papers

10.1 The Local Government Pension Scheme (Administration) Regulations 2008.

10.2 The Accounts and Audit Regulations 2015.

Statement of Accounts - Pension Fund Accounts

Introduction

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

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Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31st March 2021

2019/20 £000	Note		2020/21 £000
		Dealing with members and others directly involved in the Fund	
		Income	
(60,772)	9	Contributions receivable	(64,677)
(191,720)	9	Member contributions	(249,049)
(12,253)	9	Employers' contributions	(21,226)
(2,318)		Transfers in from other Pension Funds	(2,533)
		Other income	
(267,063)		Total income	(337,485)
		Expenditure	
		Benefits payable	
211,869	9	Pensions	219,711
41,130	9	Commutation of pensions & lump sum retirement benefits	30,649
7,178	9	Lump sum death benefits	6,948
24,233	9	Payments to and on account of Leavers	11,120
284,410		Total expenditure	268,428
17,347		Net (additions) / withdrawals from dealings with members	(69,057)
55,317	11	Management expenses	58,191
72,664		Net (additions) / withdrawals including Fund Management expenses	(10,866)
		Returns on investments	
(109,811)	10	Investment income	(96,539)
433,307	12	Profit and losses on disposal of investments and changes in the value of investments	(2,008,342)
3,503		Taxes on income	4,236
326,999		Net returns on investments	(2,100,645)
399,663		Net (increase)/decrease in the assets available for benefits during the year	(2,111,511)
(7,027,288)		Opening net assets as at 1 April	(6,627,625)
(6,627,625)		Closing net assets as at 31 March	(8,739,136)

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Net Assets Statement as at 31st March 2021

31 March 2020 £000	Note		31 March 2021 £000
	12	Investments at market value	
		Investment assets	
		Pooled Investments	
400,724		Fixed interest securities	425,110
1,468,496		Equities - Unit Life assurance policies	2,322,874
1,462,857		Equities - ACCESS pooled global equity funds	2,044,184
285,066		Index linked securities	222,663
165,452		Property unit trusts	179,292
425,244		Other managed funds	722,751
599,583		Equities - Market Quoted equities	751,629
429,285		Property	436,570
340,352		Private equity	409,514
392,964		Infrastructure	607,190
234,178		Timber	244,419
135,587		Private debt	152,808
31		Derivative contracts	156
250,164		Cash/deposits	206,044
9,393		Other investment balances	10,090
6,599,376			8,735,294
		Investment liabilities	
(31)		Derivative contracts	(156)
(1,400)		Other investment balances	(60,598)
(1,431)			(60,754)
6,597,945		Total net investments	8,674,540
	14	Long term debtors	
539		Contributions due from employers	526
		Current assets and liabilities	
		Current Assets	
16,749		Cash	49,467
21,808		Contributions due from employers and other current assets	23,467
6,637,041			8,748,000
		Current liabilities	
(9,416)		Unpaid benefits and other current liabilities	(8,864)
6,627,625		Net assets of the scheme available to fund benefits at the end of the reporting period	8,739,136

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 3.

Statement of Accounts - Pension Fund Accounts

Notes to the Pension Fund Accounts

1. Background

1.1 General description of the Fund

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

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

Established by the Local Government Superannuation Regulation 1974 the scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme (LGPS) Regulations 2013 (as amended);
- LGPS (Transitional Provisions, Savings and Amendment) Regulation 2014 (as amended); and
- LGPS (Management and Investment of Funds) Regulations 2016.

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

The Council has delegated its pension functions to the Essex Pension Fund Strategy Board (PSB) and Investment Steering Committee (ISC). Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director, Finance and Technology along with the Director for Essex Pension Fund.

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

Statement of Accounts - Pension Fund Accounts

Regional Asset Pools

In response to the Government's guidance and criteria on pooling investments issued in 2015, the Essex Pension Fund are working collaboratively with ten other like-minded LGPS Funds under the name of ACCESS (A Collaboration of Central, Eastern and Southern Shires).

In 2018 a joint procurement was undertaken by ACCESS for a passive provider with UBS Asset Management appointed as the preferred provider. In addition, in March 2018 Link Solutions Limited (Link) was appointed to act as operator of the ACCESS's Authorised Contractual Scheme (ACS). As at 31 March 2021 Link had launched 22 sub funds.

At the end of 2017/18 Essex Pension Fund had transitioned **£1.945bn** from Legal and General to ACCESS's new provider, UBS Asset Management. During 2018/19 a further **£1.532bn** had been invested into sub funds managed by Link Solutions Limited. No new assets were transitioned in 2019/20 or 2020/21.

It is anticipated that during 2021/22 further investment will be made into the ACS managed by Link.

1.2 Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Essex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are around **700** active employer organisations within Essex Pension Fund including the County Council itself.

Membership details are set out below:

31 March 2020		31 March 2021
57,498	Contributors	54,568
69,857	Deferred pensioners	68,914
44,682	Pensioners	46,210
172,037		169,692

Statement of Accounts - Pension Fund Accounts

1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from **5.5%** to **12.5%** of pensionable pay for the financial year ending 31 March 2021. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31 March 2019**. Details can be found on the website www.essexpensionfund.co.uk.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with inflation.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Essex Pension Fund website www.essexpensionfund.co.uk.

2. Basis of preparation

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

The financial statements summarise the Fund's transactions for the financial year ended 31 March 2021 and its position as at 31 March 2021. They report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. However, a statement calculating the Fund's actuarial present value of promised retirement benefits (IAS 26) as at 31 March 2021 using IAS 19 methodology can be found in note 3.3. The actuarial position of the scheme as at 31 March 2019 can also be found in note 3.1.

The accounts are prepared on a going concern basis.

Statement of Accounts - Pension Fund Accounts

3. Actuarial valuation

The contributions payable for 2020/21 and 2019/20 were determined by the 2019 and 2016 Actuarial Valuations respectively.

3.1 Actuarial Valuation 2019

In line with the Local Government Pension Regulations 2013 the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting the employer contribution rates for the forthcoming triennial period.

An Actuarial Valuation of the Essex Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

Actuarial Approach

Market conditions and the underlying investment performance of the Fund's assets will have a direct impact on the funding position.

The Actuary's approach adopted at the 2019 Actuarial Valuation included the following features:

- financial assumptions such as inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six-month period from 1 January 2019 to 30 June 2019. The discount rate is based on the expected investment return from the Fund's assets.
- the market value of assets at 31 March 2019 is then adjusted to also be smoothed over the same six-month period so that a consistent comparison can be made with the liabilities.
- the smoothed assets also include a 5% volatility reserve deduction which may be used in the instance for future adverse experience to help achieve stability.

The Valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full Valuation Report that is available from www.essexpensionfund.co.uk, but the main financial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

Assumptions	Proposed financial assumptions	
	2016	2019
Rate of return	5.10%	4.50%
Rate of discount	5.10%	4.50%
Short term pay increase	CPI to 31 March 2020	N/A
Long term pay increase	3.9%	3.6%
Rate of increase to pensions in payment	2.4%	2.6%

Statement of Accounts - Pension Fund Accounts

Assumptions	Proposed financial assumptions	
	2016	2019
Pension increases on Guaranteed Minimum Pension	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reached SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	

The assumed life expectancy from age 65 is as follows:

31 March 2016 Years		31 March 2019 Years
	Retiring today	
22.3	Males	21.7
24.8	Females	23.7
	Retiring in 20 years	
24.5	Males	23.1
27.2	Females	25.1

The assets were assessed at market value.

On the basis of the assumptions adopted, the Valuation revealed that the value of the Fund's assets of **£6,711m** represented **97%** of the Funding Target liabilities of **£6,917m** at the valuation date. This was based on a smoothing adjustment of 100.5% applied to the market value of the assets less the 5% volatility reserve.

The valuation also showed that an average primary contribution rate of **20.0%** of Pensionable Pay per annum was required from employers (16.3% as at 31 March 2016). The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

The next triennial actuarial valuation of the Fund is currently due as at 31 March 2022. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2023.

Funding Strategy

The Funding Strategy adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing

Statement of Accounts - Pension Fund Accounts

contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The funding objectives of the Fund are:

- to prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement;
- to recognise in drawing up its Funding Strategy, the desirability of employer contribution rates that are as stable as possible;
- to manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives;
- to maintain liquidity in order to ensure benefits can be met as and when they fall due over the lifetime of the Fund;
- to adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations to minimise unrecoverable debt on termination of employer participation;
- to have consistency between the investment strategy and funding strategy; and to maximise returns within reasonable risk parameters.

3.2 IAS 19 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 102. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer contribution. Employer contributions are determined via the Actuarial Valuation (as described in Note 3 above).

3.3 IAS 26 – Total Fund: Actuarial present value of promised retirement benefits

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

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has used a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2019.

Although the post mortality tables adopted are consistent with those for the most recent valuation, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model (CMI_2020) which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI.

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The duration of the Fund's liabilities is the weighted average time to pay each future expected cashflow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2021 is **20 years** which in turn means a discount rate of **2.00%** per annum (2.35% as at 31 March 2020). Liabilities are valued using a discount rate based on corporate bond yields.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point).

McCloud/Sargeant ruling

An allowance was made for the potential impact of the McCloud & Sargeant judgement in the results provided to the Fund at the last accounting date as stated above and therefore is already included in the starting position. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

In order to assess the value of the benefit obligations, the actuary has updated the actuarial assumptions (see below) from those used for funding purposes.

31 March 2020 £000		31 March 2021 £000
(9,258,581)	Present value of the defined benefit obligation	(11,989,111)
6,613,778	Fair value of the Fund assets (bid value) *	8,739,136
(2,644,803)	Net liability	(3,249,975)

* Based on IAS 26 report (unaudited)

Please note, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation (note 3.1).

The key financial assumptions used are:

31 March 2020 %		31 March 2021 %
1.90	Pension increases	2.80
2.90	Salary increases	3.80
2.35	Discount rate	2.00

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The key demographic assumptions used (life expectations from age 65) are as follows:

31 March 2020 <i>Years</i>	Life expectancy from age 65	31 March 2021 <i>Years</i>
	Retiring today	
21.8	Males	21.6
23.7	Females	23.6
	Retiring in 20 years	
23.2	Males	22.9
25.2	Females	25.1

4. Accounting policies

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

Normal contributions (also referred to as Primary Contributions), both from the members and from the employer, are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which arise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

Employer deficit funding contributions (also referred to as Secondary Contributions) are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund Actuary or on receipt if earlier than the due date.

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

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4.1.2 *Transfers to and from other schemes*

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 9 which commences on page 155).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 9 which commences on page 155).

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

4.1.3 *Investment Income*

- **Dividend income**

Dividend income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Assets Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered.

- **Interest income**

Interest income is recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

- **Income from other investments**

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

- **Distribution from pooled funds**

Distributions from pooled funds are recognised at the date of issue. Any amounts not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

- **Property related income**

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease.

Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

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- **Change in market value of investments**

The change in market value of investments during the year is recognised as income and comprises all realised and unrealised profits and losses during the year.

4.2 Fund Account – Expense items

4.2.1 *Benefits payable*

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

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

4.2.2 *Taxation*

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

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

4.2.3 *Management expenses*

The Fund discloses its pension fund management expenses where possible, in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses 2016'.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the administration part of the function are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated

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management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management expenses

All investment management expenses are accounted for an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. For the investment managers who manage the main asset classes of the Fund these are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. With the investment managers who manage the alternative assets the fees are generally calculated on a commitment basis.

Some of the Fund's investments are via pooled vehicles. In the majority of cases the investment manager deducts its management fees directly i.e. the Fund are not invoiced for these costs. The gross up of management fees are offset through the change in market value of these investments.

Where an investment manager's fee invoice has not been received by the Balance Sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2020/21, **£2.036m** of fees is based on such estimates (2019/20: £1.735m). A creditor has been raised and the actual invoice amount is shown within current liabilities.

The costs of the Pension Fund investment function are charged direct to the Fund along with any direct running costs. Transaction costs and custody fees are included within investment management expenses.

The cost of obtaining investment advice from external consultants is included in governance and oversight.

4.3 Net Assets Statement

4.3.1 Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis (with the exception of cash and debtors, which have been dealt with on an amortised cost basis), as at the financial year end date of 31 March. The financial asset is recognised in the Net Asset Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in fair value of the asset are recognised in the Fund Account.

The values of investments shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 12). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted where possible, the classification

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guidelines recommended in Practical Guidance on Investment Disclosures (PRAG / Investment Association, 2016). Each type of investment in consultation with the Fund's Investment Managers have been assessed and a single level has been applied, based on their overall characteristics.

4.3.2 Valuation of investments

The value of investments as shown in the Net Assets Statement is determined as outlined in the following paragraphs.

- **Market Quoted Investments**

In the majority of cases, market quoted equity investments for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- **Unquoted Investments**

The fair value of investments for which market quotations are not readily available are determined as follows:

Unquoted private equity

For unquoted equity, and private equity limited partnership, investments are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. In 2020/21, many of these are valued as at 31 December 2020, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31 March 2021 has been made. The 31 December 2020 valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31 March 2021.

In addition to the above treatment, the Fund, using market value estimate information supplied by the Fund's private equity manager a further adjustment has been made to reflect the last quarter's market change.

Other unquoted investments

Investments in unquoted property, private debt, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund managers and are based on industry guidelines and standards set by the constituent documents of the pool or the management agreement. These investments are on the whole based on 31 March 2021 valuations.

- **Unit trusts and managed funds**

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

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

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- **Fixed interest investments**

Fixed interest investments in the Fund's investment portfolio are recorded at net market value, based on their current yield (i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within Note 12).

- **Direct Property Investments**

Direct property investments have been valued on a fair value basis as at 31 March 2021, by Frank Knight, Chartered Surveyors in accordance with the Royal Institute of Chartered Surveyors' (RICS) valuation standards 2017 which incorporates the International Valuation Standards and the RICS UK National Supplement effective from January 2019. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms, where available, and appropriate valuation techniques (the Investment Method), such as the use of estimated future yields and rental values.

Due to the unprecedented set of circumstances arising from the COVID-19 pandemic, the Valuers stated that the valuations as at 31 March 2020 were reported on the basis of 'material valuation uncertainty' per VPGA 10 of the RICS Valuation – Global Standards. For the valuations as at 31 March 2021, the valuers have reverted back to normal valuation techniques and the 'material valuation uncertainty' has been removed.

4.3.3 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities. The Fund does not hold derivatives for speculative purposes.

4.3.4 Dividends, Interest and Foreign Currencies

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

4.3.5 Cash and Cash Equivalents

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

4.3.6 Additional Voluntary Contribution

The Essex Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension

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Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 13.

The AVC providers to the Fund are The Equitable Life Assurance Society, Prudential and Standard Life.

The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

The Fund relies on individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers.

5. Critical judgements in applying accounting policies

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

- **Pension fund liability**

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement. This is shown in Note 3.3.

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

The Fund Accounts contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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The items in the net assets statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<p>Actuarial present value of promised retirement benefits</p> <p><i>Note:</i> <i>Results are taken from the 2021 Actuary IAS 26 Report</i></p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £243m.</p> <p>A 0.1% increase in the Pensions and deferred revaluations would result in an increase in the pension liability of £221m.</p> <p>A 0.1% increase in the long-term rate of salary increase would increase the value of liabilities by approximately £20m.</p> <p>Increasing the life expectancy assumptions by +1 year would increase the liability by approximately £562m.</p>

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Item	Uncertainties	Effect if actual results differ from assumptions
Property	<p>Direct property</p> <p>Property valuation is performed by independent external valuers, in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards. Valuation techniques are used to determine the carrying amount of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels, changes in market process, changes in volume of sales and purchases or the discount rate could affect the fair value of property.</p> <p>The outbreak of COVID-19 continues to affect real estate markets globally. Nevertheless, as at the valuation date (31 March 2021) property markets have converted back to normal functioning again. Accordingly, the property valuation is not reported as being subject to 'material value uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation - Global Standards.</p>	<p>The effect of variations in the factors supporting the valuation could result in an increase or decrease in the value of directly held property by +/- 10% an increase or decrease of £40.585m, on current value of £405.850m (Notes 17.1 and 17.4)</p>
	<p>Pooled property funds and global property</p> <p>Valuation techniques are used to determine the carrying amount of pooled property funds and global property. Where possible management uses the best available data.</p> <p>Uncertainties including changes in rental growth, covenant strength for existing tenancies, discount rate could affect the fair value of the property</p>	<p>The effect of variations in the factors supporting the valuation could result in an increase or decrease in the value of:</p> <ul style="list-style-type: none"> • pooled property funds by +/- 10% an increase or decrease of £17.929m, on current value of £179.292m. (Notes 17.1 and 17.4) • global held property by +/- 14,2% an increase or decrease of £4.326m, on current value of £30.720m. (Notes 17.1 and 17.4)

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Item	Uncertainties	Effect if actual results differ from assumptions
	<p>investments.</p> <p>The outbreak of COVID-19 continues to affect real estate markets globally. Nevertheless, as at the valuation date (31 March 2021) property markets have converted back to normal functioning again. Accordingly, the property valuation is not reported as being subject to 'material value uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation - Global Standards.</p>	
Private equity / Infrastructure / Timber / Private debt	<p>There is a degree of estimation involved in the valuation of these assets. Uncertainties including changes in market activity, credit risks, expected cash flows, discount rates used can impact valuations.</p>	<p>The total private equity, infrastructure, timber and private debt investments in the financial statements are £1,414m. There is a risk that this investment may be under or overstated in the accounts, totalling an increase / decrease of £117.108m (Notes 17.1 and 17.4).</p>

7. Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

8. Accounting standards issued but not yet adopted

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard 16 Leases (IFRS16) which, when adopted, will require the Fund to recognise most of the assets it has secured the use of through a lease arrangement on its Net Asset Statement as 'right of use' assets, together with the corresponding lease liabilities. This differs from the current practice of only recognising the assets and liabilities associated with the finance leases entered into by the Fund on its Net Asset Statement. It has been anticipated that IFRS16 would be adopted in 2021/22, but implementation has now been deferred to the 2022/23

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financial year.

9. Membership activities

9.1 Pension benefits payable

2019/20				2020/21		
Pensions £000	Commutation of pensions and lump sums £000	Lump sum death benefits £000		Pensions £000	Commutation of pensions and lump sums £000	Lump sum death benefits £000
74,960	10,720	1,898	Administering Authority	76,956	8,312	2,188
115,408	25,594	4,618	Scheduled Bodies	120,444	18,856	4,486
12,945	2,582	220	Community Admission Bodies	13,256	1,870	188
7,735	2,073	412	Transferee Admission Bodies	8,213	1,496	86
821	161	30	Resolution Bodies	842	115	-
211,869	41,130	7,178		219,711	30,649	6,948

9.2 Contributions receivable

9.2.1 By category

Contributions receivable from employers are set out below:

2019/20 £000		2020/21 £000
60,772	Employee's normal contributions	64,677
	Employers' normal contributions	
154,216	Normal contributions	194,738
33,141	Employers' deficit recovery contributions	52,094
4,363	Employers' augmentation	2,217
191,720		249,049
252,492		313,726

The terminology used in the Actuarial Report for both employer contribution categories have been changed to:

- Employer normal contributions – primary contributions;
- Deficit contribution – secondary contributions;
- Employer augmentation relates to payments for the cost of early retirements.

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9.2.2 By type

2019/20			2020/21	
Member £000	Employer £000		Member £000	Employer £000
15,919	49,882	Administering Authority	17,337	59,575
41,331	128,494	Scheduled Bodies	43,897	176,748
1,888	8,030	Community Admission Bodies	1,785	7,544
1,302	4,175	Transferee Admission Bodies	1,313	3,905
332	1,139	Resolution Bodies	345	1,277
60,772	191,720		64,677	249,049

9.3 Transfers in from other pension funds

2019/20 £000		2020/21 £000
12,253	Individual transfers	(21,226)
12,253	Total	(21,226)

During 2020/21 (and 2019/20) no group transfers from other schemes were received.

9.4 Payments to and on account of leavers

2019/20 £000		2020/21 £000
900	Refunds of contributions	1,294
20	State scheme premiums	-
	Transfers out	
23,313	Individual transfers	9,826
24,233	Total	11,120

In 2020/21 and 2019/20, no bulk transfers were made.

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10. Investment Income

10.1 By Type

2019/20 £000		2020/21 £000
26,991	Dividends from equities	15,239
20,962	Dividends from equity pooled funds	22,912
2,182	Private Equity income	3,223
16,362	Infrastructure / timberland income	24,075
15,790	Managed fund income	7,673
7,611	Income from pooled property investments	3,350
12,394	Net rent from properties	14,477
3,132	Interest from cash deposits	852
903	Other	796
106,327	Total investment income showing net property rent	92,597
	Add back:	
3,484	Property operating expenses	3,942
109,811	Total investment income showing gross property rent	96,539

In line with best practice guidelines, the note that accompanies investment income requires the Fund to show rent from property net of other property income and operating property expenses. However, rent from property which is included under 'investment income' in the Fund Account is shown on a gross basis.

10.2 Investment property net rental

2019/20 £000		2020/21 £000
15,738	Rental Income from investment property	18,184
140	Other Property income	235
(3,484)	Direct operating expenses arising from investment property	(3,942)
12,394	Total	14,477

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10.3 Contractual rental receivable

The table below shows the contractual amount of rental income due to the Fund as at 31 March:

2019/20 £000		2020/21 £000
16,406	Within one year	12,239
53,461	Between one and five years	40,967
53,774	Beyond five years	42,865
123,641	Total	96,071

The above disclosure has been reduced by a loss allowance of **12.7%** per annum (2019/20: 3.2%) reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This is based on Fund information for the year to 31 March 2021.

10.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2019	302,980	80,270	383,250
Additions	73,841	1,092	74,933
Disposals	(39,809)	-	(39,809)
Net gain/loss on fair value	(13,182)	(7,267)	(20,449)
Fair value at 31 March 2020	323,830	74,095	397,925
Additions	2,710	27,698	30,408
Disposals	(23,845)	(6,170)	(30,015)
Net gain/loss on fair value	19,655	(12,123)	7,532
Fair value at 31 March 2021	322,350	83,500	405,850

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11. Management expenses

11.1 By type

2019/20 £000		2020/21 £000
3,299	Administration costs	3,680
50,522	Investment management expenses	53,207
1,496	Oversight and governance	1,304
55,317	Total	58,191

ACCESS ongoing costs were £78,000 for 2020/21 (2019/20: £74,000). These costs are shown under oversight and governance costs line of the above note.

11.2 Investment management expenses

2019/20	Management fees £000	Performance related fees £000	Transaction costs £000	Total £000
Pooled Investments				
Fixed Interest Securities	2,800	-	171	2,971
Equities - Unit Life assurance policies	568	-	-	568
Equities - ACCESS pooled global equity funds	7,038	-	-	7,038
Index linked securities	-	-	-	-
Property unit trusts	1,279	-	-	1,279
Other managed funds	1,647	-	200	1,847
Equities - market quoted equities	4,581	-	365	4,946
Property	3,342	-	-	3,342
Global property	347	-	-	347
Private equity	6,022	7,135	(447)	12,710
Infrastructure	6,777	3,293	-	10,070
Timber	1,334	185	-	1,519
Private Debt	1,571	1,311	-	2,882
Other investment management costs	224	-	-	224
	37,530	11,924	289	49,743
Custody fees				779
Total				50,522

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2020/21	Management fees £000	Performance related fees £000	Transaction costs £000	Total £000
Pooled Investments				
Fixed Interest Securities	2,799	-	203	3,002
Equities - Unit Life assurance policies	606	-	-	606
Equities - ACCESS pooled global equity funds	8,160	-	248	8,408
Index linked securities	22	-	-	22
Property unit trusts	440	-	-	440
Other managed funds	1,983	-	183	2,166
Equities - market quoted equities	3,979	-	344	4,323
Property	3,786	-	-	3,786
Global property	2,072	(166)	-	1,906
Private equity	5,404	2,397	-	7,801
Infrastructure	6,487	9,251	-	15,738
Timber	1,371	271	-	1,642
Private Debt	1,598	1,205	-	2,803
Other investment management costs	221	-	-	221
	38,928	12,958	978	52,864
Custody fees				343
Total				53,207

Custody fees are made up of fees paid to the Fund's Global Custodian, Northern Trust and other out of pocket custody expenses. These were **£301,000** and **£42,000** in 2020/21 respectively (£303,000 and £476,000 in 2019/20).

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12. Investments

12.1 Value of investments held by managers

The value of investments held by each fund manager on 31 March was as follows:

31 March 2020			31 March 2021	
£m	%		£m	%
		Investments managed inside the ACCESS Pool		
591	9.0	Link Asset Solutions - Long term Global Growth Fund	765	8.8
447	6.8	Link Asset Solutions - Global Dividend Fund	663	7.6
425	6.4	Link Asset Solutions - Global Equity Fund	616	7.1
1,753	26.6	UBS Asset Management	2,486	28.7
3,216	48.8		4,530	52.2
		Investments managed outside of the ACCESS Pool		
136	2.0	Alcentra Ltd	153	1.8
637	9.6	Aviva Investors	647	7.5
259	3.9	Stewart Investors (formerly First State)	346	4.0
401	6.1	Goldman Sachs Asset Management International	425	4.9
382	5.8	Hamilton Lane	442	5.1
92	1.4	IFM Investors	177	2.0
70	1.1	JPMorgan Asset Management	208	2.4
368	5.6	Marathon Asset Management Ltd	428	4.9
425	6.4	M&G Investments Alpha Opportunities	723	8.3
231	3.5	Partners Group Management II S.à r.l (Infrastructure)	224	2.6
31	0.5	Partners Group Management II S.à r.l (Global Property)	31	0.4
243	3.7	Stafford Timberland Limited	244	2.8
107	1.6	Other *	97	1.1
3,382	51.2		4,145	47.8
6,598	100.0		8,675	100.0

*The large balance held under Other as at 31 March 2021 was mainly due to **£60m** cash being held on a temporary basis, to finance an investment being settled by the Fund on 1 April 2021. The large balance held as at 31 March 2020 was mainly due to **£81m** cash being held on a temporary basis, to finance an investment being made on 1 April 2020.

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12.2 Investments by asset type

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

2019/20	Value at 1 April 2019	2019/20 Movement					Value at 31 March 2020
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Pooled investments							
Fixed interest securities	404,594	-	-	(693)	(3,177)	-	400,724
Equities - Unit life assurance policies	1,653,855	75,001	-	-	(260,360)	-	1,468,496
Equities - ACCESS pooled global equity funds	1,532,112	25,253	-	(7,037)	(87,471)	-	1,462,857
Index linked securities	391,041	-	-	(100,000)	(5,975)	-	285,066
Property unit trusts	226,626	3,781	-	(53,898)	(11,057)	-	165,452
Other managed funds	365,608	84,937	-	(2,508)	(22,793)	-	425,244
	4,573,836	188,972	-	(164,136)	(390,833)	-	4,207,839
Equities - Market quoted equities	878,337	163,911	-	(325,733)	(116,932)	-	599,583
Property	383,250	105,658	-	(39,989)	(19,634)	-	429,285
Private equity	321,530	51,753	-	(87,505)	54,574	-	340,352
Infrastructure	356,015	26,358	-	(19,967)	30,558	-	392,964
Timber	212,357	16,242	-	(3,780)	9,359	-	234,178
Private Debt	118,654	41,268	-	(20,254)	(4,081)	-	135,587
Cash							
Cash deposits held at the custodian/other							
Sterling	83,669	-	-	-	-	101,996	185,665
Foreign currency	62,292	-	-	(3,424)	3,424	2,207	64,499
	145,961	-	-	(3,424)	3,424	104,203	250,164
	6,989,940	594,162	-	(664,788)	(433,565)	104,203	6,589,952
Derivative pending foreign currency contracts	418	481	-	(1,156)	257	-	-
	6,990,358	594,643	-	(665,944)	(433,308)	104,203	6,589,952
Other investment balances							
Assets							
Amounts receivable for sales of investments	60						1,664
Investment income due	7,892						7,269
Amounts receivable in respect of the GLF sales	43						460
Liabilities							
Amounts payable for purchase of investments	(56)						(1,207)
Investment withholding tax payable	(153)						(193)
Amounts payable in respect of the GLF purchases	-						-
	6,998,144						6,597,945

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2020/21	Value at 1 April 2020	2020/21 Movement					Value at 31 March 2021
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Pooled investments							
Fixed interest securities	400,724	-	-	(794)	25,180	-	425,110
Equities - Unit life assurance policies	1,468,496	104,700	32,300	-	717,378	-	2,322,874
Equities - ACCESS pooled global equity funds	1,462,857	55,863	-	(338,358)	863,822	-	2,044,184
Index linked securities	285,066	32,300	(32,300)	(75,000)	12,597	-	222,663
Property unit trusts	165,452	17,353	-	(4,413)	900	-	179,292
Other managed funds	425,244	219,816	-	(1,983)	79,674	-	722,751
	4,207,839	430,032	-	(420,548)	1,699,551	-	5,916,874
Equities - Market quoted equities	599,583	160,035	-	(223,075)	215,086	-	751,629
Property	429,285	30,408	-	(31,921)	8,798	-	436,570
Private equity	340,352	55,360	-	(61,299)	75,101	-	409,514
Infrastructure	392,964	274,636	-	(77,931)	17,521	-	607,190
Timber	234,178	34,128	-	(10,970)	(12,917)	-	244,419
Private Debt	135,587	22,887	-	(15,695)	10,029	-	152,808
Cash							
Cash deposits held at the custodian/other							
Sterling	185,665	-	-	-	-	(40,131)	145,534
Foreign currency	64,499	-	-	4,827	(4,827)	(3,989)	60,510
	250,164	-	-	4,827	(4,827)	(44,120)	206,044
	6,589,952	1,007,486	-	(836,612)	2,008,342	(44,120)	8,725,048
Derivative pending foreign currency contracts	-	13	-	(13)	-	-	-
	6,589,952	1,007,499	-	(836,625)	2,008,342	(44,120)	8,725,048
Other investment balances							
Assets							
Amounts receivable for sales of investments	1,664						847
Investment income due	7,269						9,243
Amounts receivable in respect of the GLF sales	460						-
Liabilities							
Amounts payable for purchase of investments	(1,207)						(60,107)
Investment withholding tax payable	(193)						(214)
Amounts payable in respect of the GLF purchases	-						(277)
	6,597,945						8,674,540

The change in market value includes all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments since 1 April.

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12.3 Pooled investments representing 5% or more of net assets

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

31 March 2020			31 March 2021	
£000	%		£000	%
481,814	7.3%	UBS Asset Management Life All World Equity Tracker	835,605	9.6%
590,709	9.0%	Link Fund Solutions LTGG Fund	764,863	8.8%
425,244	6.4%	M&G Alpha Opportunity Fund	722,751	8.3%
447,157	6.8%	Link Fund Solutions Global Dividend Fund	663,391	7.6%
424,991	6.4%	Link Fund Solutions Global Equity Fund	615,930	7.1%
333,557	5.0%	UBS Asset Management Life USA Equity Tracker Hedged	488,740	5.6%
400,724	6.1%	Goldman Sachs Strategic Absolute Fund	425,110	4.9%

13. Additional Voluntary Contributions (AVC) Investments

A summary of the information provided by Equitable Life, Prudential and Standard Life to the Fund is shown in the table below.

13.1 Reconciliation of movements in AVC investments

2019/20 £000		2020/21 £000
8,416	Value of AVC fund at beginning of year	8,783
1,569	Employees contributions	1,546
(191)	Investment income and change in market value	(504)
(1,011)	Benefits paid and transfers out	(1,186)
8,783		8,639

13.2 Analysis of AVC investments by Provider

2019/20 £000		2020/21 £000
64	Utmost (formerly Equitable Life)	64
4,651	Prudential *	4,651
4,068	Standard Life	3,924
8,783		8,639

* The Prudential were not able to confirm their Fund's balance as at 31 March 2021 at the time of the accounts being drafted. Therefore the 2019/20 balance is being used until more up to date information is available.

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14. Current assets and liabilities

14.1 Analysis of current assets

31 March 2020 £000		31 March 2021 £000
	Cash Balances	
1,737	Cash at bank	1,469
15,012	Cash on short term deposits within 3 months	47,998
16,749		49,467
	Debtors and payments in advance	
4,811	Contributions due – employees	5,250
15,524	Contributions due – employers	17,540
1,473	Sundry debtors	677
21,808		23,467
38,557	Total	72,934

14.2 Analysis of long-term debtors

31 March 2020 £000		31 March 2021 £000
228	Other employer contributions due	199
311	Reimbursement of lifetime allowances	327
539	Total	526

Introduced in 2016, the lifetime allowance limits the amount of pension that can be paid by an individual pensioner without incurring an extra tax charge. Responsibility falls to the pensioner. However, the Fund offers the facility to pay all or part of the tax upfront, on the individual's behalf, and gets reimbursed by additional pension deductions over time. A long-term debtor of **£327,000** has been raised in 2020/21 in this regard (2019/20: £311,000).

14.3 Analysis of current liabilities

31 March 2020 £000		31 March 2021 £000
	Unpaid benefits and other current liabilities	
(1,460)	Contributions due – employers	(648)
(1,883)	Investment manager fees payable	(2,763)
(5,139)	Benefits payable	(5,047)
(934)	Other	(406)
(9,416)	Total	(8,864)

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14.4 Contingent liabilities and contractual commitments

As at 31 March 2021, the Fund had a commitment to contribute a further **£1.089bn** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber and private debt (31 March 2020: £1.192bn). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

15. Related party transactions

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

15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred gross costs of **£3.437m** in 2020/21 of which £7,000 was outstanding at **31 March 2021** (2019/20: £3.298m, of which £545,000 was outstanding at 31 March 2020) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£59.575m** to the Fund in 2020/21 (2019/20: **£49.882m**). No significant amounts were owing to and due to be paid from the Fund in the year.

The Fund has in place a separate bank account arrangement with the County Council. Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Investment Steering Committee 24 March 2021. This service is provided to the Fund at a cost of **£28,000** (2019/20: £28,000).

During the year to 31 March 2021, the Pension Fund had an average investment balance of **£47.121m** (2019/20: £21.097m) earning **£57,000** interest (2019/20: £110,000).

15.2 Governance

Under IAS 24 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year, each member of the Essex Pension Board and Investment Steering Committee are required to declare their interests at each meeting. None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

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15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2015, the entitlement for Councillors to join the Pension Fund was removed. After the local County elections of May 2017 all active Councillors' memberships changed to deferred. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2020/21, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
<ul style="list-style-type: none"> ▪ S. Child 	<ul style="list-style-type: none"> ▪ Cllr S. Barker
Representative of scheme employers	<ul style="list-style-type: none"> ▪ Cllr M. Maddocks
<ul style="list-style-type: none"> ▪ C. Riley 	

From 1 April 2015 pension funds were required to establish a local Pensions Board under section 5 of the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations 2013. Members of this Board, (Essex Pension Fund Advisory Board) who, during 2020/21, were also members of the LGPS are listed below:

Representative of scheme employers	Representative of scheme members
<ul style="list-style-type: none"> ▪ J. Durrant 	<ul style="list-style-type: none"> ▪ A. Coburn
<ul style="list-style-type: none"> ▪ Cllr S. Walsh 	<ul style="list-style-type: none"> ▪ D. Hurst
	<ul style="list-style-type: none"> ▪ S. Roberts
	<ul style="list-style-type: none"> ▪ J. Sheehy

The employees of Essex County Council who held key positions in the financial management of the Essex Pension Fund during 2020/21 and were also members of the Fund were the Executive Director, Finance and Technology, the Interim Director for Essex Pension Fund and three personnel covering 20% each of the Head of Essex Pension Fund role.

During 2020/21 approximately 2% of the Executive Director, Finance and Technology time was spent on the Pension Fund, with the other officers spending 100% of their time in this way.

The short-term benefits (pay) associated with the time spent by these staff working on the Fund and the current service cost i.e. the increase in the value of the Fund's future pension liabilities arising out of the employees on-going membership of the Fund are shown below:

2019/20 £000		2020/21 £000
145	Short term benefits	137
153	Current service costs	106
298		243

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16. Agency Services

The Essex Pension Fund pays discretionary awards to former employees of both current and former employers' of the Fund. The amounts paid are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies. The sums are disclosed below:

2019/20 £000		2020/21 £000
1,443	Administering Authority	1,389
5,166	Scheduled Bodies	5,026
89	Community Admission Bodies	86
2	Resolution Bodies	2
20	Former employers	19
6,720	Total	6,522

17. Fair value – Basis of valuation

17.1 Fair value hierarchy

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

- **Level 1** – Assets and liabilities at Level 1 are those whose fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise of equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Assets and liabilities at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Assets and liabilities classified as Level 3 are those where at least one input that could have significant effect on the instruments valuation is not based on observable market data. Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

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

The table below sets the valuation basis used. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information:

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
Stewart Investors/ Marathon Asset Management Ltd	Market Quoted Equities	Level 1	Published Bid Market Price.	N/A	N/A
Link Asset Solutions	Pooled global equities funds	Level 1	Net Asset Value / Bid Market Price.	Net Asset Values.	N/A
Goldman Sachs Asset Management International	Fixed interest securities	Level 1	Fixed interest securities are valued at a market value based on current yields.	Net Asset Values.	N/A
UBS Asset Management	Equities/Indexed Linked Life Assurance Policies	Level 2	Valuation technique with quoted prices of a similar asset.	Price of recent transactions for identical instrument.	Significant change in economic circumstances or time lapse since the transaction took place.
M&G Investments Alpha Opportunities	Other managed funds	Level 2	The prices are published reflecting the NAV at each dealing point but are not exchange traded.	Price of recent transactions for identical instrument.	Significant change in economic circumstances or time lapse since the transaction took place.
All	Forward Foreign Exchange Derivatives	Level 2	Market exchange rates at the year end.	Price of recent transactions for identical instrument.	Risk of an exchange rate changing between the transaction date and the subsequent settlement date volatility of the exchange rates during the hedge period.

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
Aviva Investors	Direct property	Level 3	Direct Property independently valued by Knight Frank LLP in accordance with the current editions of Royal Institute of Chartered Surveyors' (RICS) Valuation - Global Standards, which incorporate the International Valuations Standards, and the RICS UK National Supplement. Valuation derived from using comparable recent market transactions on arm's length terms, where available, and other appropriate techniques such as the use of rental yields and rental values.	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth, covenant strength for existing tenancies, Discount rate, Land / building valuation surveys.	The following sensitivities have been identified. Asset values can range between (+/-10%), significant changes in yield movement (+/-5%) and estimated rental value movement (+/-5%) have been identified as key sensitivities. The outbreak of COVID-19 continues to affect real estate markets globally. Nevertheless, as at the valuation date property markets have converted back to normal functioning again. Accordingly, the valuation is not reported as being subject to 'material value uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation - Global Standards.
Partners Group Management II Sea r.l	Global property	Level 3	Assets are based on valuations received from the Managers which are determined in accordance with the last know NAV and adjusted for subsequent capital calls and distributions and other relevant information provided.	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth, covenant strength for existing tenancies, Discount rate, Land/building valuation surveys.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market process and volume of sales and purchases. Assets values can range between (+14.2% / -14.2%).
Aviva Investors	Property unit trusts	Level 3	Assets are based on valuations received from the Managers which are determined in accordance with the last know NAV and adjustment for subsequent capital calls and distributions and other relevant information provided by the real estate fund.	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth, covenant strength for existing tenancies, Discount rate, Land/building valuation surveys.	The following sensitivities have been identified. Asset values can range between (+/-10%), significant changes in yield movement (+/-5%) and estimated rental value movement (+/-5%) have been identified as key sensitivities. The outbreak of COVID-19 continues to affect real

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
					estate markets globally. Nevertheless, as at the valuation date property markets have converted back to normal functioning again. Accordingly, the valuation is not reported as being subject to 'material value uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation - Global Standards.
Hamilton Lane	Private Equity	Level 3	Investments in private equity funds are valued based on the Fund's share of the net assets, using the latest financial statements published by the respective fund managers in accordance with the appropriate industry guidelines. Limited partnerships are valued at Fair value based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. The net assets value of the funds are determined using the valuation techniques such as discounted cash flows, earning multiples etc, and these use the inputs detailed in the next two columns.	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, adjustments to current prices for similar assets, valuation techniques.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to gross domestic product, inflation, interest rates, and discount rates. Asset values can range between (+15%/-15%).
Partners Group Management II S.à r.l	Infrastructure	Level 3	Investments in the funds are valued based on the Fund's share of the net assets. Audited valuations are carried out annually on the investments. The net assets value of the funds are determined using the valuation techniques such as discounted	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, tax rates, Earnings Before Interest, Taxes, Depreciation and	Valuations can be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, fair value adjustments, discount factors used, EBITDA and recent

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
			cash flows, earning multiples etc, and these use the inputs detailed in the next two columns.	Amortization (EBITDA) and adjustments to current prices for similar assets, valuation techniques.	transaction prices. Asset values can range between (+5.3% /-5.3%).
JP Morgan Asset Management	Infrastructure	Level 3	Investments are valued based on the Fund's share of the net assets Audited valuations are carried out annually on the investments. The net assets value of the funds are determined using the valuation techniques such as discounted cash flows, earning multiples etc, and these use the inputs detailed in the next two columns.	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, tax rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and adjustments to current prices for similar assets, valuation techniques.	Valuations can be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows and fair value adjustments, changes in interest rates, inflation, discount rate, price weaknesses As a result assets values can range between (+7.0% /-5.7%).
IFM Investors	Infrastructure	Level 3	The investments are valued based on the Fund's share of the net assets. Audited valuations are carried out annually on the investments The net assets value of the funds are determined using the valuation techniques such as discounted cash flows, earning multiples etc, and these use the inputs detailed in the next two columns.	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, tax rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and adjustments to current prices for similar assets, valuation techniques.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's reporting date. Key sensitivities identified are changes in gross domestic product, base rates, inflation and discount rates. Asset values can range between (+6/-6%).
Stafford Timberlands Limited	Timber	Level 3	Valuation technique is based on accepted valuation techniques and standards that include discounted cashflow and multiple earnings	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, discount rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), adjustments to current prices for	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's reporting date by changes to expected cash flows earning multiple and discount rates used in the discounted cash

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
				similar assets, valuation techniques.	flow analysis. Asset values can range between (+5%/-5%).
Alcentra Limited	Private Debt	Level 3	Net Asset Value Market approach using comparable trade multiples. They include comparison to recent arm's length transactions, reference to other instruments that are sustainably the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation.	These techniques may include a number of assumptions relating to variables such as management cash flow projections, credit risk, interest rates, EBITDA, direct lending loans values, discount rates, marketability.	Material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, EBITDA multiple, and discount rates used (e.g. discounts offered for lack of marketability). Asset values can change between (+4.6%/-4.6%).

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

Values as at 31 March 2020				Values as at 31 March 2021		
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
2,472,558	2,178,836	1,152,133		Financial assets		
			Fair value through profit and loss	3,231,013	3,268,444	1,471,572
2,472,558	2,178,836	1,152,133		3,231,013	3,268,444	1,471,572
			Non financial assets			
		545,685	Fair value through profit and loss	-	-	558,221
			Financial liabilities			
(1,400)	(31)	-	Fair value through profit and loss	(60,598)	(156)	-
(1,400)	(31)	-		(60,598)	(156)	-
2,471,158	2,178,805	1,697,818	Total net assets per level	3,170,415	3,268,288	2,029,793
		6,347,781	Total Net Assets			8,468,496

17.2 Transfers between hierarchy levels

No reclassifications were made as at 31 March 2020 or as at 31 March 2021.

17.3 Reconciliation of fair value measurements within Level 3

2020/21	Value at 1 April 2020 £000	2020/21 Movement						Value at 31 March 2021 £000
		Transfer to Level 3 £000	Purchases £000	Net Transfers £000	Sale Proceeds £000	Unrealised profit/ loss £000	Realised profit/ loss £000	
Properties								
UK properties (freehold)	323,830	-	2,710	-	(23,845)	15,092	4,563	322,350
UK properties (leasehold)	74,095	-	27,698	-	(6,170)	(10,642)	(1,481)	83,500
Global Property	31,360	-	-	-	(1,906)	1,266	-	30,720
Property unit trusts	165,452	-	17,353	-	(4,413)	7,205	(6,305)	179,292
Private equity								
UK unquoted	4	-	-	-	-	(4)	-	-
Overseas unquoted	340,348	-	55,360	-	(61,299)	39,893	35,212	409,514
Infrastructure								
UK unquoted	1	-	-	-	-	-	-	1
Overseas unquoted	392,963	-	274,636	-	(77,931)	(5,013)	22,534	607,189
Timber (Overseas unquoted)	234,178	-	34,128	-	(10,970)	(13,071)	154	244,419
Private Debt								
UK unquoted	25,692	-	-	-	(127)	6,891	-	32,456
Overseas unquoted	109,895	-	22,887	-	(15,568)	3,377	(239)	120,352
	1,697,818	-	434,772	-	(202,229)	44,994	54,438	2,029,793

17.4 Sensitivity of assets valued at Level 3

In consultation with its institutional consultants, Hymans Robertson and the Fund's investment managers, an analysis of historical data and expected return movements during the accounting periods

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in question was undertaken. The fund has determined that the valuation methods described in Note 17.1 are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held as at 31 March 2021.

Value at 1 April 2020 £000	Assessed valuation range (+/-)	Value on increase £000	Value on decrease £000		Value at 1 April 2021 £000	Assessed valuation range (+/-)	Value on increase £000	Value on decrease £000
397,925	20.0%	477,510	318,340	Freehold and leasehold properties	405,850	10.0%	446,435	365,265
31,360	14.2%	35,813	26,907	Global property	30,720	14.2%	35,082	26,358
165,452	20.0%	198,542	132,362	Property unit trusts	179,292	10.0%	197,221	161,363
340,352	15.0%	391,405	289,299	Private equity	409,514	15.0%	470,941	348,087
392,964	4.1%	409,076	376,852	Infrastructure	607,190	6.0%	643,621	570,759
234,178	5.0%	245,887	222,469	Timber (overseas unquoted)	244,419	5.0%	256,640	232,198
135,587	7.2%	145,349	125,825	Private debt	152,808	4.6%	159,837	145,779
1,697,818		1,903,582	1,492,054		2,029,793		2,209,777	1,849,809

The assessed valuation ranges shown in the above table were provided by the relevant fund managers, with the exception of:

- Global property and Private debt – In the absence of information from the fund managers, valuation range was based on percentages supplied by Hymans Robertson.
- Infrastructure – The valuation range us a weighted average of the information provided by the three individual Infrastructure managers and their base strategic allocations.

Further information on the assessed valuation ranges can be found in Note 17.1.

18. Financial Instruments

Accounting policies describe how different asset classes of financial instrument are measured and how income and expenditure, including fair value gains and losses, are recognised.

18.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement headings.

Statutory debtors and creditors are excluded from the financial instrument note and only contractual debtors and creditors are shown.

The debtor figure of **£23.993m** as at 31 March 2021 (31 March 2020: £22.347m) excludes statutory debtors of **£23.597m** (31 March 2020: £21.958m).

The creditor figure of **£8.864m** as at 31 March 2021 (31 March 2020: £9.416m) excludes statutory creditors of **£5.695m** (31 March 2020: £6.599m).

In addition, assets held by the Fund on a direct basis for example direct property and infrastructure has also been excluded for the below note as they are not financial instruments.

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31 March 2020			Asset type	31 March 2021		
Fair value through profit and loss £000	Assets at Amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at Amortised cost £000	Liabilities at amortised cost £000
			Financial assets			
			Pooled Investments			
400,724	-	-	Fixed interest securities	425,110	-	-
1,468,496	-	-	Equities - Unit life assurance policies	2,322,874	-	-
1,462,857	-	-	Equities - ACCESS pooled global equity funds	2,044,184	-	-
285,066	-	-	Index linked securities	222,663	-	-
165,452	-	-	Property unit trusts	179,292	-	-
425,244	-	-	Other managed funds	722,751	-	-
599,583	-	-	Equities - Market Quoted Equities	751,629	-	-
340,352	-	-	Private equity	409,514	-	-
276,564	-	-	Infrastructure	485,539	-	-
234,178	-	-	Timber	244,419	-	-
135,587	-	-	Private debt	152,808	-	-
31	-	-	Derivative contracts	156	-	-
-	266,913	-	Cash deposits	-	255,511	-
9,393	-	-	Other investment balances	10,090	-	-
-	389	-	Debtors	-	396	-
5,803,527	267,302	-		7,971,029	255,907	-
			Financial liabilities			
(31)	-	-	Derivative contracts	(156)	-	-
(1,400)	-	-	Other investments balances	(60,598)	-	-
-	-	(2,817)	Creditors	-	-	(3,169)
(1,431)	-	(2,817)		(60,754)	-	(3,169)
5,802,096	267,302	(2,817)	Balance at the end of the year	7,910,275	255,907	(3,169)
		6,066,581	Total			8,163,013

18.2 Net gains and losses on financial instruments

Assets held by the Fund on a direct basis for example direct property and direct infrastructure has also been excluded from the below note.

The net gains and losses differ from the Fund Account by gains and losses of assets held directly. The gains and losses of these assets were **£26.209m** as at 31 March 2021 (£96,000 loss as at 31 March 2020)

Asset value as at 31 March 2020 £000		Asset value as at 31 March 2021 £000
	Financial assets	
(436,635)	Fair value through profit and loss	1,986,960
3,424	Amortised cost - unrealised gains	(4,827)
(433,211)	Total	1,982,133

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19. Nature and extent of risks arising

19.1 Risk and risk management

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

Responsibility for the Fund's overall risk management strategy rests with the Essex Pension Fund Strategy Board (PSB). Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

19.2 Market risk

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

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

19.3 Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset

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types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy.

19.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2021/22 and 2020/21. Prior year figures have been restated to reflect the removal of non-financial assets.

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

31 March 2020 Potential Market movement %	Asset type	31 March 2021 Potential Market movement %
0.3%	Cash	0.3%
8.0%	Fixed interest securities	7.5%
27.5%	UK equities	16.7%
28.0%	Overseas equities	17.4%
7.4%	UK index linked bonds	7.5%
14.2%	Pooled property unit trusts	14.2%
28.4%	Private equity	28.5%
11.1%	Infrastructure funds	9.5%
20.1%	Timber	21.0%
7.2%	Private debt	4.6%
11.1%	Other managed funds	9.5%

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

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31st March 2020 Restated £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2021 £000	Percentage change %	Value increase £000	Value decrease £000
266,913	0.3%	267,714	266,112	Cash and equivalents	255,511	0.3%	256,278	254,744
				Investment portfolio assets				
400,724	8.0%	432,782	368,666	UK fixed interest securities	425,110	7.5%	456,993	393,227
41,678	27.5%	53,139	30,217	UK equities	46,565	16.7%	54,341	38,789
557,905	28.0%	714,118	401,692	Overseas equities	705,064	17.4%	827,745	582,383
235,073	27.5%	299,718	170,428	UK equities unit insurance policies	374,439	16.7%	436,970	311,908
751,609	28.0%	962,060	541,158	Overseas equities insurance policies	1,112,830	17.4%	1,306,462	919,198
481,814	28.0%	616,722	346,906	Global equities insurance policies	835,605	17.4%	981,000	690,210
1,462,857	28.0%	1,872,457	1,053,257	ACCESS pooled global equity funds	2,044,184	17.4%	2,399,872	1,688,496
285,066	7.4%	306,161	263,971	UK index linked bonds	222,663	7.5%	239,363	205,963
165,452	14.2%	188,946	141,958	Pooled property unit trusts	179,292	14.2%	204,751	153,833
340,352	28.4%	437,012	243,692	Private equity	409,514	28.5%	526,225	292,803
276,564	11.1%	307,263	245,865	Infrastructure	485,539	9.5%	531,665	439,413
234,178	20.1%	281,248	187,108	Timber	244,419	21.0%	295,747	193,091
135,587	7.2%	145,349	125,825	Private Debt	152,808	4.6%	159,837	145,779
425,244	11.1%	472,446	378,042	Other managed funds	722,751	9.5%	791,412	654,090
-	-	-	-	Net derivative assets			-	-
6,061,016		7,357,135	4,764,897	Total assets available to pay benefits	8,216,294		9,468,661	6,963,927

19.5 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with UBS Asset Management and bond mandates with M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. In addition the Fund has an investment in a private debt mandate.

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

Asset value as at 31 March 2020 £000	Asset type	Asset value as at 31 March 2021 £000
250,164	Cash and cash equivalents	206,044
16,749	Cash balances	49,467
400,724	Fixed interest securities	425,110
285,066	Index-linked securities	222,663
135,587	Private debt	152,808
1,088,290	Total assets	1,056,092

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19.6 Interest rate risk sensitivity analysis

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

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 1% change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 March 2020 £000	Impact of 1% increase £000	Impact of 1% decrease £000	Asset type	Asset value as at 31 March 2021 £000	Impact of 1% increase £000	Impact of 1% decrease £000
250,164	250,164	250,164	Cash and cash equivalents	206,044	206,044	206,044
16,749	16,749	16,749	Cash balances	49,467	49,467	49,467
400,724	396,717	404,731	Fixed interest securities	425,110	420,859	429,361
285,066	285,066	285,066	Index-linked securities	222,663	222,663	222,663
135,587	134,231	136,943	Private debt	152,808	151,280	154,336
1,088,290	1,082,927	1,093,653	Total change in assets available	1,056,092	1,050,313	1,061,871

The above analysis demonstrates that a 1% change in interest rates will only impact the fair value of fixed interest and private debt, interest received would be unaffected.

A 1% movement of interest rates on cash and index linked securities would not impact the fair value and would have a negligible effect on interest received.

19.7 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling its reporting currency. To reduce the volatility associated with fluctuating currency rates (currency risk) the Fund invests in hedged overseas regional index funds via its passive provider UBS Asset Management.

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The following table summarises the Fund's currency exposure as at 31 March 2020 and 31 March 2021:

31 March 2020 £000	Asset type	31 March 2021 £000
557,905	Overseas equities quoted	705,064
751,609	Overseas unit life assurance policies	1,112,830
481,814	Global unit life assurance policies	835,605
1,462,857	ACCESS pooled global equity funds	2,044,184
31,360	Global property	30,720
340,348	Overseas private equity	409,514
392,963	Overseas infrastructure	607,189
234,178	Overseas timber	244,419
109,895	Overseas private debt	120,352
64,499	Foreign currency	60,510
4,427,428	Total overseas assets	6,170,387

19.8 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **9.8%** (2019/20: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **9.8%** (2019/20: 13%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 March 2020 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 March 2021 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+9.8% £000	-9.8% £000
557,905	630,433	485,377	Overseas equities quoted	705,064	774,160	635,968
751,609	849,318	653,900	Overseas unit life assurance policies	1,112,830	1,221,887	1,003,773
481,814	544,450	419,178	Global unit life assurance policies	835,605	917,494	753,716
1,462,857	1,653,028	1,272,686	ACCESS pooled global equity funds	2,044,184	2,244,514	1,843,854
31,360	35,437	27,283	Global property	30,720	33,731	27,709
340,348	384,593	296,103	Overseas private equity	409,514	449,646	369,382
392,963	444,048	341,878	Overseas infrastructure	607,189	666,694	547,684
234,178	264,621	203,735	Overseas timber	244,419	268,372	220,466
109,895	124,181	95,609	Overseas private debt	120,352	132,146	108,558
64,499	72,884	56,114	Foreign currency	60,510	66,440	54,580
4,427,428	5,002,993	3,851,863	Total change in assets available	6,170,387	6,775,084	5,565,690

Statement of Accounts - Pension Fund Accounts

19.9 Credit Risk

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

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

19.10 Commercial

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

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

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

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2021 is provided in Note 14.

19.11 Bonds

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

In addition to the passive manager, UBS Asset Management, the Fund has two active bond managers M&G and GSAM. The former also manage a financing fund which is in wind up.

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2020, the average credit quality of the M&G bond mandate was **BBB** rated (**BBB+** rated as at 31 March 2020). The

Statement of Accounts - Pension Fund Accounts

portfolio had suffered seven defaults since inception, one within the financial year ended 31 March 2021 and one within the financial year end as at 31 March 2020.

The portfolio managed by GSAM as at 31 March 2021 had an average credit quality of **AA** (AAA rated as at 31 March 2020) and has suffered fourteen defaults since inception, two within the financial year ending 31 March 2021 and none within the financial year ending 31 March 2020.

19.12 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A+** (A+ as at 31 March 2020) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the ISC. The ISC have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables.

At 31 March 2021 **£49.467m** (31 March 2020: £16.749m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

Cash managed externally – The majority of the cash held by the Fund's custodian, the Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31 March 2021, the total balance held in the Sterling and US dollar AAA money market funds was **£191.575m** with a smaller balance of **£14.469m** held in the custodian current account (31 March 2020: £224.984m and £25.180m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional Balance Sheet, in this case the custodian.

Statement of Accounts - Pension Fund Accounts

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

31 March 2020			31 March 2021	
Rating	£000		Rating	£000
		Cash managed externally		
		Cash held on deposit (GLF)		
AAA	96,022	BNP Paribas Investment Partners	AAA	76,420
AAA	128,962	Northern Trust	AAA	115,155
		Cash held in Current Account		
AA-	25,180	Northern Trust	AA-	14,469
	250,164	Total cash managed externally		206,044
		Cash managed internally		
		Cash held on fixed term		
AA	-	Essex County Council	AA	16,000
AA	5,006	Peterborough Council	AA	-
		Cash held on deposit		
AAA	10,000	Blackrock	AAA	6,998
AA-	3	HSBC	A+	4,999
A	1	Santander UK	A	4,998
AAA	-	Standard Life (formerly IGNIS)	AAA	9,995
AA-	3	Svenska Handelsbanken	AA-	5,009
		Cash held in Current Account		
A	1,736	Lloyds Bank plc	A+	1,468
	16,749	Total cash managed internally		49,467
	266,913	Total		255,511

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

31 March 2020		31 March 2021	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
		£000	£000	%	£000
	Cash managed externally				
	Deposit with bank and other financial institutions				
224,984	AAA Rated	191,575	120,000	0.0400%	77
25,180	AA Rated	14,469	-	0.0200%	3
250,164	Total cash managed externally	206,044			80
	Cash managed internally				
	Deposit with bank and other financial institutions				
10,000	AAA Rated	16,993	10,000	0.0400%	7
5,012	AA Rated	21,009	7,500	0.0200%	2
1,737	A Rated	11,465	5,000	0.0500%	3
16,749	Total cash managed internally	49,467			12
266,913	Total cash	255,511			92

Statement of Accounts - Pension Fund Accounts

Whilst the Fund has a cash limit of £120m for each financial institution within the Treasury Management strategy, there is a facility to exceed the limit on a temporary basis while redeploying assets.

19.13 Liquidity Risk

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

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund also has an allocation to alternative investments, which are relatively illiquid.

In 2017 the ISC took the decision to de-risk reducing its equity allocation from 60% to 50% as a result the strategic allocation to alternatives will increase from 27% to 37% as and when opportunities arise. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a neutral cash flow and is able to pay benefits from contributions and income received. As the Fund is not in the position of a forced seller, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2021 had immediate access to its pension fund cash holdings held internally and externally of **£255.511m** (31 March 2020: £266.913m). These monies are primarily invested on an overnight basis on the money market.

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Investment Strategy Statement outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts.

19.14 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2021 Northern Trust had **\$11.5 trillion** of assets under custody (31 March 2020: \$10.8 trillion) and had a credit rating of **AA-** (31 March 2020: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

20. Events after the Reporting date

The Statement of Accounts was certified by the Executive Director, Finance and Technology on **30 June 2021**. Events taking place after this date were not reflected in the financial statements or notes.

Statement of Accounts - Pension Fund Accounts

21. Further information

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

Director for Essex Pension Fund
County Hall
Chelmsford
CM1 1QH

Telephone 03330 138501

E-mail fund.manager@essex.gov.uk

Essex Pension Fund Strategy Board	PSB 09a
Date: 07 July 2021	

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 the ISC activity since the last Essex Pension Fund Strategy Board meeting.

2. Recommendations

- 2.1 The Board note the content of the report.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on two occasions, 24 March 2021, and 16 June 2021.

4. Report of the meeting of ISC on 24 March 2021

- 4.1 The Committee were provided with the outcome of the Responsible Investment (RI) workshop held on 12 March 2021. The Committee **agreed** that the RI Policy and Beliefs remain appropriate and that the RI Priorities should be viewed holistically and not in isolation. Further discussions were held in regard to the assessment of each of the Fund's Investment Manager Mandates to determine their alignment with the Fund's Policy. Agreement was given that there was merit, considering the size of the equity 'bucket' that the UBS's passive manager mandate and in particular the market indices utilised be reviewed in the first instance. Members were keen to work with UBS and the ACCESS Pool to seek suitable solution(s).
- 4.2 The Investment Manager presented the Treasury Management (TM) Strategy for 2021/22 and informed that Committee that whilst the content was largely unchanged from the Strategy approved in July 2020, Officers had taken the opportunity to revamp in line with the Fund's new style of presentation and review the appropriateness of the TM Policy and Practices. Members were advised that the Practices had been updated to reflect revised guidance and were now included as appendices to the Strategy. No further revisions were required to the Policy which was subsequently **approved** by the Committee.
- 4.3 The main focus of the meeting's business was in regard to the Direct Leading Procurement where Hymans Robertson delivered a bitesize training session and provided details of the process undertaken, along with an overview of the three shortlisted candidates.
- 4.4 Following presentations and deliberation, Permira was appointed as the Fund's new Direct Lending Manager.

- 4.5 A verbal update was provided in regard to the 08 March 2021 ACCESS Joint Committee (AJC) meeting with confirmation that the full Agenda would be circulated once the Agenda Pack and Summary Note became available.
- 4.6 Details of the Fund's investment manager performance for the quarter ended 31 December 2020 was presented to the Committee along with an update on provisional value of the Fund as at 31 December 2020. Members were pleased to note that the Fund value had reached a new high and had surpassed £8.6bn.
- 4.7 It was confirmed that the Baillie Gifford's overweight position was broadly in-line with its proxy target and as such no immediate rebalancing was needed, but the position would be monitored.
- 4.8 Following an update in relation to the Strategy Implementation Tracker, the Chairman informed the Committee of a discussion held with the Vice Chairman and Officers over the timing of presenting Stage 4, in principle, decisions to this meeting. It was agreed that Stage 4 recommendations be deferred to such time that Stage 2 and 3 investment decisions had time to bed down sufficiently.
- 4.9 Members received an update and the outcome in regard to the procurement of the Institutional Investment Consultant (IIC) Arrangements. It was noted that of the five suppliers invited to participate, two had submitted responses. Both were invited to attend an interview by the ISC Appointment Sub Committee on 10 March 2021. Following full deliberation Hymans Robertson were reappointed to the position for a term of 5 years commencing 01 April 2021.

5. Report of the meeting of ISC on 16 June 2021

- 5.1 The Independent Investment Adviser provided the Committee with a presentation outlining his initial thoughts on some key investment themes for the medium term. This included discussions on the longer-term investment impacts arising from the COVID-19 pandemic, debt levels, interest rates and inflation. In addition, the growth of RI and Environmental, Social and Governance (ESG) factors within institutional investor decision making and asset allocation was discussed.

- 5.2 The main focus of the meeting was around RI, in regard to the proposed RI Project Plan. Hymans Robertson, for the benefit of new ISC Members, provided the Committee with a bitesize training presentation of the work undertaken so far. The Committee **agreed** the Project Plan which outlined the key dates when deliverables would need to be completed and reported in order that the Fund could achieve this year's Business Plan areas of activity: the sign up to the Financial Reporting Council (FRC) UK Stewardship Code 2020; and the development of Task Force on Climate-related Financial Disclosures (TCFD).
- 5.3 Members received training in regard to the Fund's Investment Strategy and its composition. A high-level summary of the Annual Performance Review was provided. Attention was drawn to the dashboard which showed the Fund achieving an absolute annual performance return of c30% as at 31 March 2021. Members were pleased to note the Fund had now reached a new high of £9bn.
- 5.4 The Committee received a summary from Hymans Robertson rating the Fund's Investments Managers and their RI capability. The Committee **agreed** that a further £60m be committed to new private equity opportunities in 2021/22 as part of the annual commitment programme. In addition, a bottom up review be undertaken by Officers and Advisers in regard to the property mandate.
- 5.5 Members were provided with a report summarising the independent review CEM benchmarking had undertaken of the overall fees paid by the Fund, investment returns and net value added compared to its peers across the LGPS and global universe for the year to 31 March 2020. Agreement was given to the Fund participating in CEM's cost benchmarking review as at 31 March 2021.
- 5.6 An update was provided of the process and outcome regarding the procurement of the Provision of Global Custodian Services Arrangements. The Committee **agreed** to accept the findings within the report which identified the preferred bidder and that they be appointed the Fund's new provider subject to the successful conclusion of the standstill period.

6. Link to Essex Pension Fund Objectives

6.1 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.

7. Risk Implications

- 7.1 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.
- 7.2 No new risks have been identified during the quarter.

8. Communication Implications

- 8.1 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.

9. Finance and Resources Implications

- 9.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £113,000 in 2021/22.
- 9.2 The cost to the Fund was:
- £78,426 in 2020/21;
 - £62,866 in 2019/20;
 - £116,000 in 2018/19;
 - £94,000 in 2017/18; and

- £80,000 in 2016/17.

10. Background Papers

10.1 ISC meeting of 24 March 2021– Agenda and draft Minutes.

10.2 ISC meeting of 16 June 2021 – Agenda and draft Minutes

Essex Pension Fund Strategy Board	PSB 09b(i)
Date: 07 July 2021	

Essex Pension Fund 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 the 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 Pensions 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 17 March 2021.

4. Report of the meeting of PAB on 17 March 2021

- 4.1 The PAB received a report from the Interim Director for Essex Pension Fund outlining the work undertaken by the PSB at their 17 March 2021 meeting which had taken place that morning.
- 4.2 Points covered were:
- the Board's red Scorecard Measures caused by the recent resignation of a Scheme Member representative and attendance at PAB meetings;
 - the approval of the new approach to the Fund's Annual Surveys to move to target-based, event driven mode and the PSB's appreciation of the Board's contribution to this Review;
 - the approval of the revised Governance Policy and Compliance Statement highlighting the amendments made to the Policy and the Fund being fully compliant against Ministry of Housing, Communities and Local Government (MHCLG) Statutory Guidance;
 - the approval of the Business Continuity Policy and Business Continuity Plan with the Board praised again by the PSB for their contributions to this Review;
 - the launch that morning of The Pensions Regulator (TPR) Single Modular Code consultation and that the Fund would prepare a response to the consultation by the deadline of the end of May 2021; and

- the process agreed to be undertaken for the recruitment of the vacant Scheme Member representative position and the upcoming UNISON Scheme Member arrangement on the Board.

4.3 PAB Agenda Items discussed included:

- the Governance Review and Effectiveness Survey including an interactive training session which formed the majority of the meeting; and
- the outcome of the Training Needs Analysis completed by Board Members.

5. Link to Essex Pension Fund Objectives

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

6. Risk Implications

- 6.1 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.

7. Background Papers

- 7.1 PAB agenda and notes of 17 March 2021 meeting.
- 7.2 PSB Minutes of 17 March 2021 meeting.

Essex Pension Fund Strategy Board	PSB 09b(ii)
Date: 07 July 2021	

Pension Advisory Board (PAB) Annual 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 overview of PAB activity during 2020/21.

2. Recommendations

2.1 That the Board should note:

- the content of the 2020/21 Annual Report and acknowledge it will be published within the Annual Report & Accounts; and
- the appointment of Councillor Lewis Barber as the new Essex County Council (ECC) Employer Representative on the PAB replacing the vacancy left by Councillor Simon Walsh as a result of the 25 May 2021 Full Council meeting; and
- the appointment of Councillor Jack Duffin as the Southend-on-Sea and Thurrock Unitary Representative on the PAB replacing Councillor Shane Hebb.

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.

4. Essex Pension Fund Advisory Board Annual Report

- 4.1 Appendix A to this report includes the 2020/21 Essex Pension Fund Advisory Board (PAB) Annual Report that was approved by Nicola Mark, Independent Chairman and Andrew Coburn, Vice Chairman, in June 2021.

5. PAB Change of Membership

- 5.1 County Council Elections occur every four years. On 06 May 2021 the Local Elections were held.
- 5.2 At the 25 May 2021 ECC Full Council meeting the newly Elected Membership for ECC for the next four years was confirmed.
- 5.3 At this meeting, ECC's Committee Memberships were also agreed where Cllr Lewis Barber was appointed as ECC's Employer Representative to the PAB replacing Councillor Simon Walsh.
- 5.4 In addition, at the Thurrock Cabinet meeting held on 10 June 2021 Councillor Jack Duffin was appointed as the Southend-on-Sea and Thurrock Unitary Council's Representative to the PAB replacing Councillor Shane Hebb.

6. Recommendations

- 6.1 That the Board note the content of the 2020/21 Annual Report and acknowledge it will be published within the Annual Report & Accounts.

- 6.2 That the Board note the appointments of Councillor Lewis Barber and Councillor Jack Duffin as the new Employer Representatives on the PAB for ECC and Southend-on-Sea and Thurrock Unitary Council's respectively.

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.

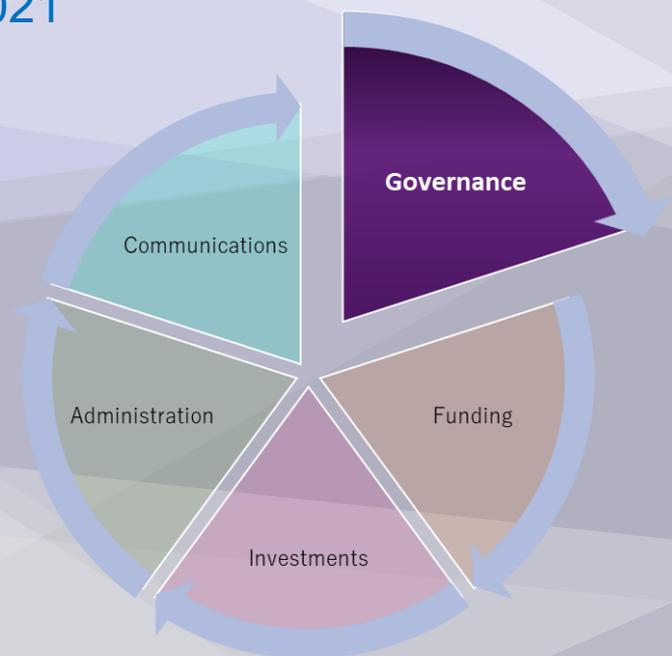
9. Background Papers

- 9.1 None.

Essex Pension Fund

Essex Pension Fund Advisory Board Annual Report

June 2021



Essex Pension Fund Advisory Board

Annual Report 2020/21

Introduction

This is the sixth Annual Report of the Essex Pension Fund Advisory Board, covering the period from 1 April 2020 until 31 March 2021.

Roles and Functions

The Essex Pension Fund Advisory Board (PAB) has been established as the Local Pensions 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 (regulations 106 to 109).

The remit of the PAB includes assisting the Administering Authority as Scheme Manager:

- to secure compliance with the LGPS regulations and any other legislation relating to governance and administration of the LGPS;
- to secure compliance with requirements imposed in relation to the LGPS by The Pensions Regulator (TPR).

The establishment of the PAB was approved by Essex County Council (ECC) in February 2015 with the following membership:

- 4 Employer representatives made up of ECC (1), Borough/City/District (1), Unitary (1), Other Employing Bodies (1);
- 4 Scheme Member representatives of which 1 has been nominated by the trade unions and the rest drawn from the total scheme membership;
- 1 Independent non-voting Chairman.

A web link to the papers detailing the establishment of the PAB can be found within the 04 March 2015 Essex Pension Fund Strategy Board (PSB) Meeting [Documents](#).

The PAB's full Terms of Reference (TOR's) is reviewed periodically as part of the Governance and Compliance Statement and was last reviewed by the PSB at their meeting in March 2021. The TOR's can be found within the [ECC Constitution](#).

The PAB met three times during the period covered by this report: on 23 September 2020; 16 December 2020 and 17 March 2021. Due to the COVID-19 Pandemic and no legislation being in place at the time to allow for meetings to take place virtually the meeting scheduled for 17 June 2020 was cancelled.

In addition to these meetings, PAB Members were invited to attend as Observers at:

- three meetings of the PSB (the Fund's s101 Committee) which took place in the mornings on 23 September 2020; 16 December 2020 and 17 March 2021.
- four meetings of the Investment Steering Committee (ISC) (the Fund's s101 sub-committee) which took place on 21 July 2020, 21 October 2020, 20 January 2021 and 24 March 2021.

Essex Pension Fund Advisory Board

Annual Report 2020/21

Membership

During the period covered by this report the PAB had 9 Members. They represented Employer and Scheme Member Representatives and an Independent Chairman.

The membership of the PAB as at 31 March 2021 was as follows:

Independent Chairman (1)	
Nicola Mark	Independent
Scheme Member Representatives (4)	
Andrew Coburn	Pensioner, Ex County Council, UNISON (Vice Chairman)
Debs Hurst	Active Member, Chelmsford College
Stuart Roberts	Active Member, Shenfield High Academy
James Sheehy (until 22 February 2021)	Active Member, Witham Town Council
Vacant Position (from 23 February 2021)	-
Employer Representatives (4)	
James Durrant	Essex Fire Authority
Councillor Shane Hebb	Thurrock Borough Council
Councillor Simon Walsh	Essex County Council
Councillor Terry Cutmore (until 02 April 2020)	Rochford District Council
Councillor Martin Bracken (from 11 June 2020)	Chelmsford City Council

Attendance

Attendance at PAB meetings during 2020/21 was 81%.

Conflicts of Interest

The Public Service Pensions Act 2013 requires that a member of a pension board does not have a conflict of interest. A conflict is defined as “a financial or other interest which is likely to prejudice a person’s exercise of functions as a member of the pension board”. The Act is clear that actual membership of the LGPS is not in and of itself a conflict of interest, so would not preclude a Scheme Member from serving on the PAB.

Essex Pension Fund Advisory Board

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The Essex Pension Fund (“the Fund”) follows the Fund’s Conflict of Interest Policy in addition to ECC’s Code of Conduct for the management of potential conflicts in order to ensure that they do not become actual conflicts. All Members of the PAB are familiar with these policies.

In addition, declarations of interest are a standing item on all PAB agendas and any interests noted by Members are recorded so that action can be taken to exclude the conflicted individual from proceedings where necessary.

PAB Member Training

The Public Service Pensions Act 2013¹ requires that members of Local Pensions Boards have an appropriate level of knowledge and understanding in order to carry out their role. Any individual appointed to a Local Pensions Board must be conversant with:

- the regulations of the LGPS, including historical regulations and transitional provisions, to the extent that they still affect members; and
- any document recording policy about the administration of the scheme.

Local Pensions Board Members must also have knowledge and understanding of:

- the law relating to pensions; and
- such other matters as may be prescribed in other legislation.

The degree of knowledge and understanding required by Local Pensions Board Members is appropriate for the purposes of enabling the individual to properly exercise the functions of a Member of the Local Pensions Board.

Degree of Knowledge and Understanding

Members of the Local Pensions Board are expected to be conversant with the rules of the LGPS and the policies of the Fund. “Being conversant with” implies a working knowledge of what is relevant to the subject under discussion. A PAB Member should have an understanding of what is relevant to their role and be able to identify and challenge a failure to comply with:

- the LGPS Regulations;
- other legislation relating to the governance and administration of the scheme;
- requirements imposed by TPR; and
- any failure to meet the standards and expectations set out in any relevant [code of practice](#) issued by TPR.

¹ The Public Service Pensions Act 2013 made amendments to the Pensions Act 2004 (see s248A)

Essex Pension Fund Advisory Board

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Areas of Knowledge and Understanding

The areas in which the PAB would be expected to be conversant include, but are not limited to:

- Scheme approved policies (e.g. managing conflicts of interest, reporting breaches of the law or record keeping);
- Risk assessment and management;
- Scheme booklets and other members communications;
- The role of Local Pensions Board Members and the Scheme Manager;
- Policies in relation to the exercise of discretions;
- Communications with Scheme Members and Employers;
- Key policy documents on administration, funding and investment.

Knowledge and Skills Strategy

PSB, ISC and PAB 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 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 will strive to achieve those through the use of a two-year rolling Training Plan together with regular monitoring and reporting.

The approach of the Knowledge and Skills Strategy is summarised below:

- Training credits will be awarded to each PAB Member where training events (approved / recommended by the Fund) has been undertaken either in person or by virtual means;
- PAB Members are expected to complete relevant CIPFA and TPR modules applicable to their role;
- A Training Needs Analysis will be undertaken once every two-years to determine areas for further training and reviewed periodically;
- The approach to training is flexible, in order to recognise the ever-changing landscape of the LGPS;
- Training is delivered in a way that complements the activities set out in the Fund's Three-Year Business Plan.

This year the PAB has covered the following topics, of which appropriate training was provided within formal PAB meetings:

Essex Pension Fund Advisory Board

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Date of meeting	Topics Covered
<p>23 September 2020</p>	PAB Terms of Reference
	PAB Annual Report
	Review of the Investment Strategy Statement (ISS) and the consultation process
	<p>PSB Update covering:</p> <ul style="list-style-type: none"> • Actuarial Valuation; • Essex Pension Fund Three Year Business Plan 2020/21 to 2022/23; • Pension Fund Activity (Business Plan, Budget, Scorecard and Risk Management); • Essex Pension Fund Policies (Conflict of Interest Policy, Governance Policy and Compliance Statement and Communication Policy); • Scheme Advisory Board (SAB) Good Governance Project; • Cessation Payment Plan; • Pooling; • The work of Internal Audit in relation to the Fund; • The work of External Audit in relation to the Fund; and • LGPS Regulatory Reform.
	The Fund's Business Continuity Policy and Business Continuity Planning arrangements.
<p>16 December 2020</p>	<p>PSB Update covering:</p> <ul style="list-style-type: none"> • Government Consultations (McCloud and 95k Cap); • Pension Fund Activity (Business Plan, Budget, Scorecard, and Risk Management); • The work of External Audit in relation to the Fund; • 2020 Actuarial Interim Review; • Employer Ill Health & Death in Service Policy); and • Pooling.
	PAB Review of the Fund's Business Continuity Arrangements
	PAB Review of the Fund's Annual Surveys
	The Pensions Regulator - Code of Practice 14
<p>17 March 2021</p>	<p>PSB Update covering:</p> <ul style="list-style-type: none"> • Pension Fund Activity (Business Plan, Budget, Scorecard and Risk Management); • Essex Pension Fund Policies and Publications (Essex Pension Fund Three - Year Business Plan and 2021/22 Budget, Governance Policy and Compliance Statement and Essex Pension Fund Business Continuity Policy and Plan);

Essex Pension Fund Advisory Board

Annual Report 2020/21

Date of meeting	Topics Covered
17 March 2021	<ul style="list-style-type: none"> • LGPS and Other Pension Reform; and • Pooling.
	Governance Review and Effectiveness Survey
	PAB Training Needs Analysis Feedback Session

In addition, the opportunity has been made available for Members of the PAB to attend training sessions outside of PAB meetings, including training sessions which have taken place within PSB or ISC meetings. A number of PAB Members also attended externally run events including:

- CIPFA LGPS Local Pensions Board Spring Seminar;
- CIPFA LGPS Local Pensions Board Autumn Seminar;
- CIPFA McCloud Implementation Workshop;
- LGPS Update;
- Aon Cyber Risk;
- LGA Fundamentals:
 - ◊ Governance and Oversight of the LGPS;
 - ◊ Investment Framework of the LGPS; and
 - ◊ The Legal Structure of the LGPS.

In addition, Fund Officers hosted a virtual Training Day for all Boards and Committee Members during November 2020 which covered:

- Fund Governance;
- History of the LGPS;
- Digitalisation - Member Online;
- Funding Facts;
- History of the Fund's Investment Portfolio; and
- Administration Facts and Figures.

Details of observing at PSB and ISC meetings and training events (internal and external) are recorded throughout the year.

Essex Pension Fund Advisory Board

Annual Report 2020/21

Outcomes and recommendations

Decisions about the running of the Fund are made by the PSB and ISC which are delegated to carry out that function by ECC in its capacity as the Administering Authority for the Fund.

The role of the PAB is to assist the Administering Authority to ensure compliance and to make recommendations to improve the efficient and effective administration and governance of the pensions function.

This year the PAB has fulfilled its role in the following ways:

Date	Area	Action
All meetings	Decisions of the PSB and the ISC	The PAB's meetings are based on the items considered at meetings of the PSB and the ISC.
23 September 2020	Notes of the Previous Meeting	Resolved: The Board approved the Notes from the previous meeting and noted the updates provided.
	PAB Terms of Reference	Resolved: The Board noted the PAB Terms of Reference for inclusion within the ECC Constitution.
	Appointment of Vice Chairman	Resolved: The Secretariat invited Board Members to make nominations for the appointment of the Vice Chairman. Following a unanimous decision, Andrew Coburn was re-appointed as Vice Chairman.
	PAB Annual Report	Resolved: The Board noted the report.
	Investment Strategy Statement (ISS)	Resolved: The Board noted the content of the report as part of the Fund's stakeholder consultation process.
	PSB Meetings 04 March 2020 and 23 September 2020 - Scheme Advisory Board (SAB) Good	Action: Officers to reassess the Fund against the SAB Good Governance Phase II recommendations and bring back to a future Board meeting.

Essex Pension Fund Advisory Board

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Date	Area	Action
23 September 2020	PSB Meetings 04 March 2020 and 23 September 2020 - Update on Pension Fund Activity	<p>Action:</p> <p>That a Task and Finish Group be set up to review the Fund's Annual Surveys, in particular the Employer Survey and communication around it and that a report be brought back to the 16 December 2020 meeting.</p> <p>Resolved:</p> <p>The Board noted the report, presentations and updates that were reviewed by the PSB.</p>
	Business Continuity Update	<p>Resolved:</p> <p>The Board noted the report and update.</p>
	Papers provided to the PAB	<p>Resolved:</p> <p>The Board noted the update in relation to papers provided to the PAB since their last meeting.</p>
	Schedule of Future Meetings and Events	<p>Resolved:</p> <p>The Board noted the update.</p>
16 December 2020	Notes of the previous meeting	<p>Resolved:</p> <p>The Board approved the Notes from the previous meeting and noted the updates provided.</p>
	PSB Meeting 16 December 2020	<p>Resolved:</p> <p>The Board noted the papers reviewed by the PSB.</p>
	PAB Review of the Fund's Business Continuity Arrangements	<p>Action:</p> <p>Business Continuity Plan (BCP) to incorporate the discussions including the penetration test conductor and the inclusion of a Communication Strategy.</p> <p>Resolved:</p> <p>After review of the Fund's Business Continuity Policy and Plan, the Board noted its development and next steps.</p>

Essex Pension Fund Advisory Board

Annual Report 2020/21

Date	Area	Action
16 December 2020	PAB review of the Fund's Annual Surveys	Resolved: The Board agreed to put forward to the PSB at their 17 March 2021 meeting its views that the Fund move away from the annual issue of Employer and Scheme Member surveys and implement a target based, event driven model asking fewer questions and utilising various methods (digital, paper, postcards etc).
	The Pensions Regulator Code of Practice	Resolved: The Board noted the report and update.
	Papers provided to the PAB	Resolved: The Board noted the update in relation to papers provided to the PAB since their last meeting.
	Schedule of Future Meetings and Events	Resolved: The Board noted the update.
17 March 2021	Notes of the previous meeting	Resolved: The Board approved the Notes from the previous meeting and noted the updates provided.
	PSB Update	Action: On receipt of a resignation, it was agreed that Fund Officers on behalf of the Board would write to James Sheehy thanking him for his contribution and service to the Board. Resolved: The Board noted the papers reviewed by the PSB.
	Papers provided to the PAB	Action: It was agreed that Fund Officers would reach out to the seminar organisers to try and obtain a copy of the checklist used to measure Board Member performance and if successful would forward on to the Board. Resolved: The Board noted the content of the report in relation to papers provided to the PAB since their last meeting.

Essex Pension Fund Advisory Board

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Date	Area	Action
17 March 2021	Governance Review and Effectiveness Survey	Resolved: Following an Interactive Training Session from the IGAA the Board noted the positive findings from the survey and that these findings, along with the outcome of the PSB Members own assessment of their effectiveness, would be analysed and reported to the Board at a future meeting.
	PAB - Training Needs Analysis Feedback Session	Resolved: The Board noted the update and next steps.
	Schedule of Future Meetings and Events	Resolved: The Board noted the content of the report.

Review of the Fund's Business Continuity Arrangements:

At the September 2019 PSB meeting, the PAB were asked to assist Fund Officers in the review the Fund's Business Continuity Arrangements.

Following the ECC decision during 2019 to change to a new Business Continuity system, the Fund commenced the development of its own Business Continuity Policy. In addition the development of the Fund's standalone Business Continuity Plan which included Business Impact Assessments, Disaster Recovery Plans and a Testing Schedule.

The work continued throughout 2020 with regular updates being reported to the PAB. The PAB provided closing recommendations for the Policy and Plan at their December 2020 meeting and the final versions were presented to the PSB at their March 2021 meeting which were subsequently approved.

Review of the Fund's Annual Surveys:

At the September 2020 PSB meeting, the PSB agreed to delegate the review of the approach to the Fund's Annual Surveys to the PAB. As a result it was suggested that a Task and Finish Group be created to include Fund Officers, the Independent Governance and Administration Adviser, the Other Employing Bodies Representative on the PSB and two PAB Members.

The PAB agreed the Membership of the Task and Finish Group at their September 2020 meeting. The Group then proceeded to meet on three occasions to carry out the review on: 01 October 2020, 03 November 2020 and 26 November 2020.

The Group reached consensus that the Fund should move to a more targeted approach with surveys being shorter and sent using various methods. This recommendation was accepted by the PSB at the March 2021 meeting.

Essex Pension Fund Advisory Board

Annual Report 2020/21

Full agendas and notes for all PAB meetings can be found on the ECC website under the Committees section of Your Council, or by following the link below:

[Essex Pension Fund Advisory Board](#)

Future Dates of Meetings

The PAB agreed to the following provisional meeting dates for 2021/22:

- 07 July 2021;
- 22 September 2021;
- 15 December 2021; and
- 23 March 2022.

Nicola Mark, Independent Chairman

Andrew Coburn, Vice Chairman

Essex Pension Fund Advisory Board
June 2021

Essex Pension Fund Strategy Board	PSB 09b(iii)
Date: 07 July 2021	

Essex Pension Fund Advisory Board (PAB) Recruitment

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 in regard to the current Scheme Member vacancy on the Essex Pension Fund Advisory Board (PAB) and to outline a revised proposed recruitment process for the Board's consideration.
- 1.2 In addition, to notify the Board of the outcome of the Scheme Member representative (UNISON) PAB Member recruitment process.

2. Recommendations

- 2.1 That the Board **agrees**:
 - for Fund Officers to re-commence the recruitment process for a Scheme Member representative; and
 - the proposed timetable for the recruitment.
- 2.2 That the Board note:
 - the continuation of Andrew Coburn as UNISON's Scheme Member representative on the PAB for a term of up to six years;
 - the Membership of the Appointment's Panel in line with the PAB's Terms of Reference; and
 - the content of the report.

3. Background

- 3.1 The 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.
- 3.2 In line with the PAB's Terms of Reference, it shall consist of nine members and be comprised of:
- i. Four employer representatives made up of one from each of the following groups of employers in the Essex Pension Fund:
 - Essex County Council (an elected member);
 - the District, City and Borough Councils of Essex (an elected member);
 - Southend-on-Sea and Thurrock Unitary Authorities (an elected member);
 - all other employers;
 - ii. four scheme member representatives of which:
 - one will be nominated by the trade unions; and
 - the rest will be drawn from the total Essex Pension Fund active, deferred and pensioner membership;
 - iii. one independent Chairman.

4. Revised Proposed Process for the Scheme Member Representative

- 4.1 The Board were notified of a resignation from a Scheme Member representative at their 17 March 2021 meeting which has resulted in a vacancy. The Board subsequently approved the recruitment process to fill the vacancy.
- 4.2 Unfortunately, despite the Fund advertising the vacancy through its Employers and extending the deadline, only one expression of interest was received.

- 4.3 As a result, it was therefore decided to postpone the recruitment process until after the 2021 elections.
- 4.4 The Appointment's Panel is required to be set up in line with the PAB's Terms of Reference for this recruitment and should include:
- the Chairman of the PSB;
 - the Scheme Member representative from the PSB; and
 - the Director for Essex Pension Fund.

Advice from the Independent Governance & Administration Adviser (IGAA) may be sought if required.

- 4.5 The Scheme Member representative will be appointed through a clear and transparent process via advertisement through various communication media.

5. Revised Timetable

- 5.1 The revised proposed timetable for the Scheme Member representative recruitment has been detailed below:

Date	Action	Owner
07 July 2021	PSB agree the Panel, timetable and process	PSB
08 July – 31 August 2021	Advertising of vacancy via: <ul style="list-style-type: none"> • Employer communications; • Essex Pension Fund Website news item; and • Essex County Council Intranet news item. 	Fund Officers
17 September 2021	Closing of advertisement and evaluation	Fund Officers
October 2021 (date to be agreed)	Interview by the Appointments Panel	Chairman and Fund Officers

Date	Action	Owner
October to November 2021	Confirmation of appointment of Scheme Member representative	Fund Officers
November 2021	Carry out induction training	Fund Officers
15 December 2021	1 st PAB Meeting	New Scheme Member Rep

5.2 Fund Officers are also exploring the use of a YouTube advertisement video and the possibility of including a flyer within the production of the Active Members Annual Benefit Statements.

5.3 Once the Board has agreed to proceed with the revised proposed process, the Compliance Manager will commence the necessary recruitment arrangements.

6. Outcome of the Scheme Member (UNISON) Representative

6.1 The Board were notified at their 17 March 2021 meeting that the existing four-year term for the Scheme Member representative provided by UNISON expires end of August 2021.

6.2 It was proposed that Fund Officers start the discussions with UNISON to establish if the current incumbent would be reappointed for a further term of up to six years or if they would intend to nominate another individual for the position on the PAB.

6.3 With approval from the Board, Fund Officers contacted the UNISON Regional Contact on 22 March 2021 to seek their preference.

6.4 UNISON contacted the Fund on 09 April 2021 stating that following consultation, the branches in Essex overwhelming felt that Andrew Coburn was doing a great job and nominated for him to continue for a further term of up to six years.

7. Link to objectives

7.1 Act with integrity and be accountable to our stakeholders.

7.2 Ensure the Pension Fund is managed, and its services delivered by people who have the appropriate knowledge and expertise.

8. Risk Implications

8.1 Without full membership of the PAB, the Fund are in breach of the Public Service Pensions Act 2013 and therefore are at risk of not fulfilling their duties as advisers to the PSB.

8.2 Links to Risk Register include:

- Failure of governance arrangements to match up to statutory requirements and recommended best practice leads to financial loss and reputational damage; and
- 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.

9. Communication Implications

9.1 The advert for the Scheme Member representative will be advertised via Employer communications, along with news items on the Essex Pension Fund website and the Essex County Council Intranet. Other communication avenues are being explored.

9.2 Other than ongoing reporting to the Board, there are no further communication implications.

10. Finance and Resource Implications

10.1 The process will be carried out in the main by Fund Officers but there may be a requirement for advice from the Fund's IGAA. This advice will be met within the proposed 2021/22 Budget.

11. Background Papers

- 11.1 Essex County Council Constitution and the Essex Pension Fund Advisory Board Terms of Reference therein.
- 11.2 PAB Vacancy, PSB 07.C, 17 March 2021.

Essex Pension Fund Strategy Board	PSB 10
Date: 07 July 2021	

Update on Members Training

Report by the Director for Essex Pension Fund

Enquiries to Jody Evans on 0333 0138 489

1. Purpose of the Report

- 1.1 To provide the Board with an update in regard to their Training including an example of the draft proposed Training Plan for the next two-years based on the outcome of a Board/Committee Members' Individual Training Needs Analysis (TNA).

2. Recommendations

- 2.1 That the Board note the update and next steps following receipt of the outstanding TNA's.

3. Background

- 3.1 The Board approved the new Knowledge and Skills Strategy at their 16 December 2020 meeting.
- 3.2 The Strategy was developed to 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 and are able to discharge their role effectively.
- 3.3 The revised 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.

4. Approach

- 4.1 The approach to the delivery of training as detailed within the Strategy would be carried out through a variety of methods including:
 - One-to-One Briefings with Officer/Adviser(s);
 - Members' Briefing Notes;
 - Bitesize training / Hot Topics;
 - In-house Training Events / Workshops;
 - External Conferences & Training Seminars; and
 - E-Learning / Webinars.
- 4.2 With the predominant focus to achieve the rolling two year Training Plan by working through the upcoming CIPFA Knowledge and Skills Framework modules (when available) and the key areas identified within the forthcoming TPRs Code of Practice, it has been identified that Members have requested a mixture of training approaches (face to face / interactive webinars / self learning on a training platform).
- 4.3 With this in mind, Fund Officers recommend Members may wish to utilise the Aon webinars listed as part of the Schedule of Future Meetings and Events

paper and/or the Hymans Robertson LGPS Online Learning Academy. The Compliance Team will be in touch with Members after the meeting to seek their preference.

- 4.4 To assist Members with their decision, an overview of the delivery methods are provided below:

Aon	Hymans Robertson
Webinar	E-learning
To be carried out at specific time on specific date	To be carried out at own pace (self learning)
Interactive webinar	Self completion

5. Update on Training Plan

- 5.1 As agreed as part of the Knowledge and Skills Strategy, Training Needs Analysis TNA meetings are in the process of being carried out with all Members, with the exception of the new Members whose TNA's will be arranged following their first six month's commencement on the Board.
- 5.2 A two-year Training Plan will be developed and a high level summary of the Plan has been provided at Appendix A of this report.

6. Next Steps

- 6.1 Currently the Fund are only in receipt of six completed TNAs, and are currently organising one to one meetings to discuss further. In order for the remaining meetings to be organised, please can Members (with the exception of the newly appointed Members), complete and return their TNA questionnaires to the Compliance Manager as soon as possible.
- 6.2 Fund Officers propose that an update on progress against the Training Plan is periodically provided to the Board.
- 6.3 In addition, Fund Officers will continue to develop the Training Plan incorporating the level of training required for each subject matter and will

present the detailed Plan to the Board at a future meeting for approval. In addition, each Member will receive their Individual Training Plan once all data has been provided to Officers.

7. Link to Essex Pension Fund Objectives

7.1 The receipt of the relevant training 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.

8. Risk Implications

8.1 Failure for Members to undertake relevant training 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.

9. Communication Implications

9.1 The Board will be updated on progress against the Training Plan periodically.

9.2 Other than ongoing reporting to the Board, there are no communication implications.

10. Finance and Resource Implications

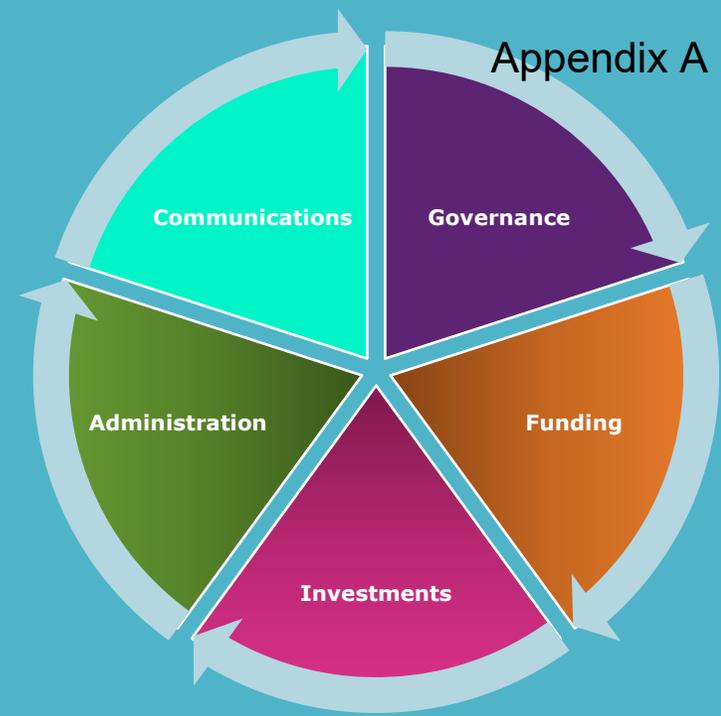
- 10.1 All cost implications are fully assessed by Fund Officers prior to any training package being undertaken.

11. Background Papers

- 11.1 Essex Pension Fund Policies, PSB 06, 16 December 2020.

Two-year Board / Committee Individual Member Training Plan

July 2021



DRAFT

Training Credits

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 training session in 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	Page 224 of 268 <u>18 credits</u>	<u>12 credits</u>	

TNA Assessments	Training type required
Fully Conversant	None
I am reasonably familiar but additional training would be helpful	Refresher training via Training video, webinar, e-learning, Bitesize Training at Board Meeting
I have some, but limited knowledge	Large group training session (Board Meeting or Training Day)
I have no knowledge	Small Group/Large Group training sessions (Board Meeting or Training Day) or one to one training specifically for the subject matter

This Member felt they were **fully conversant** in **twenty one of the twenty eight areas** assessed

Fully Conversant Areas

- ❖ The Fund's Governance Structure including the roles of: Essex County Council as Administering Authority; the S151 Officer; the Monitoring Officer; and the Senior Officers in the Fund
- ❖ The roles of the PSB, ISC and PAB including Scheme Employer and Scheme Member representatives
- ❖ Codes of Practice: TPR and Chartered Institute of Public Finance and Accountancy (CIPFA)
- ❖ Statutory requirements for the compliance with Account and Audit Regulations including the roles of Internal and External Audit
- ❖ The Fund's Policies, Strategies and Publications: Business Plan; Governance Policy and Compliance Statement; Risk Strategy
- ❖ How potential Conflicts of Interest are identified and managed (Conflict of Interest Policy)
- ❖ An understanding of how breaches of the law are reported (Policy for Recording and Reporting Breaches of the law)
- ❖ An understanding of how the Fund procures, monitors and manages its 3rd party suppliers
- ❖ The Actuarial Valuation process, including developing the Funding Strategy in conjunction with the Fund Actuary including the role of the Actuary (Funding Strategy Statement)
- ❖ The different types of Employer including Employer risk e.g. Employer covenant and the requirements for Employer specific Funding Objectives
- ❖ The risk and return characteristics of the main asset classes (equities, bonds, property etc) the role of these asset classes in the Funding Strategy
- ❖ Awareness of the Fund's Investment Strategy (Investment Strategy Statement)
- ❖ Key aspects of Investment Strategy and Investment Manager performance monitoring
- ❖ The Fund's approach to Responsible Investment as contained within the Investment Strategy Statement
- ❖ The Fund's membership of and role in the Local Authority Pension Fund Forum (LAPFF)
- ❖ Cost transparency initiative and the review of Investment Manager Fees through CEM Benchmarking
- ❖ Investment Pooling Collaboration and the Fund's role within the ACCESS Pool (Joint Committee papers)
- ❖ The Fund's Pensions Administration Strategy and the benefit structure
- ❖ The Fund's ambition for Greater Digitalisation and Digital Transformation and delivery methods and what this involves (Business Plan and Scorecard)
- ❖ The maintenance of accurate Member data (Business Plan and Scorecard)
- ❖ The Fund's Communications Policy and how it communicates with Key Stakeholders

The wider pensions and LGPS Landscape including LGPS Regulations, Ministry of Housing, Communities and Local Government (MHCLG), Scheme Advisory Board (SAB), Pensions Ombudsman, The Pensions Regulator (TPR) and Regulatory Reform

Regulations including Statutory Guidance, CIPFA Investment Pooling Principles and Markets in Financial Instruments Directive (MiFID II)

Areas identified for additional Training Needs

Regulatory impacts on the Fund in regard to wider pensions and LGPS Landscape (Regulatory Reform quarterly update)

Asset Management including the safeguarding of Fund's assets, the role of the Global Custodian and Treasury Management

The difference between LGPS Fund discretions and Employers' discretionary policies

Employing Authority Discretions and Delegations

Communications of IAS19/FRS102 requirements to Employers

The wider pensions and LGPS Landscape including LGPS Regulations, Ministerial Licensing, Communities and Government (ELG), Scheme Advice and (SAB), Pensions Regulator (TPR) and Regulatory Reform

Refresher/Bitesize Training

Regulations including Statutory Guidance, CIPFA Investment Pooling Principles and MiFID II

Board/Group Training

Areas identified for additional Training Needs

Regulatory impacts on wider pensions and LGPS Landscape (Pensions Reform quarterly)

Refresher/Bitesize Training

Asset Management including the safeguarding of Funds, the role of the Global and Treasury Management

Refresher/Bitesize Training

The difference between and discretionary powers

Refresher/Bitesize Training

Employing Authority Dispositions and Delegations

Refresher/Bitesize Training

Communications of IA requirements to members

Refresher/Bitesize Training

Essex Pension Fund Strategy Board	PSB 11a
Date: 07 July 2021	

The Pensions Regulator (TPR) Single Modular Code Consultation

Joint report by the Technical Hub Manager and Compliance Manager

Enquiries to David Tucker on 03330 138493

1. Purpose of the Report

- 1.1 To share with the Board an overview of the Fund's response to The Pensions Regulator (TPR) consultation concerning the draft Single Modular Code.

2. Recommendations

- 2.1 That the Board note the key themes of the Fund's response to the Single Modular Code Consultation, which was submitted to TPR on 25 May 2021.

3. Background

- 3.1 At its 17 March 2021, the Board were made aware of the release of the TPR's SMC consultation. The Fund's Independent Governance and Administration Adviser (IGAA) notified the Board that the SMC was likely to impact resources if published in its current format.
- 3.2 Fund Officers reviewed the consultation document and completed the required PDF documents to return to TPR.
- 3.3 Due to the prescribed response documents running to some 420 pages and some of the Fund's responses having to be replicated for each module, i.e. 51 times, Fund Officers have provided an overview of the key themes of their response for the Board's information.

4. The Fund's Consultation Response – Key Themes

- 4.1 The draft Single Modular Code comprises of 51 modules all with a lack of acknowledgement of the uniqueness of the Local Government Pension Scheme (LGPS), and how it operates differently to other Public Services Schemes and Private Sector Schemes.
- 4.2 The Fund believes the decision to introduce a Single Code should be based on the needs of the UK pensions industry and not on the ease of future updates for TPR. In particular, the Fund does not believe the Single Code meets the needs of the LGPS which has a unique governance framework with layers of delegation.
- 4.3 The draft Single Modular Code lacks clarity in many areas and would mean it would be down to each LGPS Fund across the country to try to interpret and apply the code or guidance in the context of the LGPS, which would hinder Funds rather than help them. All Funds need codes of practice and guidance that help introduce clarity and consistency, rather than risking ambiguity, confusion, and perceived scope creep.
- 4.4 TPR has attempted to utilise a coverall term ('Governing Bodies') which the Fund believe is weak and does not work for the LGPS. The Code needs to list and define each type of body (Board/manager/committee etc) the Code applies to and each module (and parts of module as applicable) should then show which

type of body it applies to. Trustees/Boards/Committees need guidance to understand what applies to them, it needs to be obvious and explicit.

4.5 The Fund believes that the draft Code is poorly structured with some very confusing headings and sub-headings, for example:

- The structure and numbering of the Governing body, Board structure and activities section is as follows:
 - Role of the governing body (TGB001)
 - Recruiting to the governing body (TGB014)
 - Member-nominated trustee appointments (TGB044)
 - Role of the chair (TGB015)
 - Meetings and decision-making (TGB006)
 - Remuneration policy (TGB016)

Neither the order (jumping from Role to Recruitment back to Role to Meetings to Remuneration) nor the numbering (001, 014, 044, 015, 006, 016) seem to make much sense and the Fund has suggested that a more sensible structure would be:

- Role of the governing body (G01)
 - Role of the chair (G02)
 - Meetings and decision-making (G03)
 - Recruiting to the governing body (including Member-nominated trustee appointments) (G04)
 - Remuneration policy (G05)
- Also, instead of the number prefixes of TGB (The Governing Body), FAI (Funding and Investment), ADM (Administration), CAD (Communications and Disclosures) and RTT (Reporting to TPR) used in the draft Code, the Fund has suggested using G, F, A, C and R for simplicity and clarity.

4.6 The Fund has also pointed out to TPR that the modules are littered with unnecessary cross references/links to other parts and definitions and many of these are in bold and a different colour meaning the bits highlighted in a module are bits that aren't actually part of that module. A scheme needs to be able to go through the Code and easily identify the things they need to ensure they are

doing and a better structure with better wording would remove the requirement for any cross-referencing etc.

- 4.7 The Fund eagerly wait for the final version of the Single Modular Code and hope that the issues raised are resolved prior to publication otherwise the resource impacts on the team would be high to interpret the Code in its current form.

5. Link to Essex Pension Fund Objectives

- 5.1 Ensure compliance with the Local Government Pension Scheme (LGPS) regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.
- 5.2 Deliver a high quality friendly and informative service to all beneficiaries and employers at the point of need.

6. Risk Implications

- 6.1 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.
- 6.2 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.

7. Background Papers

- 7.1 [TPR Consultation Document](#).
- 7.2 [Essex Pension Fund's Response to the TPR Consultation](#).

Essex Pension Fund Strategy Board	PSB 11b
Date: 07 July 2021	

HM Treasury Consultations

Report by the Director for Essex Pension Fund

Enquiries to Jody Evans 03330 138489

1. Purpose of the Report

- 1.1 To notify the Board of two HM Treasury (HMT) Consultations released on 24 June 2021.

2. Recommendations

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

3. Background

3.1 On 24 June 2021, HMT announced two Consultations:

- SCAPE discount rate methodology; and
- Cost control mechanism.

3.2 HMT have stated that these consultations will be live for a period of eight weeks with any responses to be provided by 19 August 2021.

3.3 Fund Officers will review the Consultations, and if the Fund believe the consultations warrant a response, the Out of Committee decision making process will need to be enacted over the Summer.

4. Background Papers

4.1 [SCAPE discount rate methodology consultation.](#)

4.2 [Cost control mechanism consultation.](#)

Essex Pension Fund Strategy Board	PSB 12a
Date: 07 July 2021	

Amendments to Funding Strategy Statement

Report by the Employer Manager

Enquiries to Sara Maxey on 0330 0138496

1. Purpose of the Report

- 1.1 To provide the Board with an update in regard to the Out of Committee Decision Making Process on the Fund's Flexibilities Policies.

2. Recommendations

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

3. Background

3.1 This paper provides an update in regard to an Out of Committee decision.

4. Out of Committee Process and Consultation on Flexibilities Policies

4.1 At the 16 December 2020 meeting, the Board were updated on the introduction of Employer Flexibilities to help manage Employers when exiting the Fund.

4.2 Officers sought approval to use the Out of Committee Process to develop the Policies due to the late issue of Statutory Guidance.

4.3 The Chairman and Vice Chairman of the Essex Pension Fund Strategy Board (PSB) were sent the draft Policies for comment and approval to use the Out of Committee Decision Making Process on 06 April 2021.

4.4 Board Members and Scheme Employers were sent the Consultation documents on 15 April 2021.

4.5 The closing date for comments to be received was 30 April 2021. Following the end of the Consultation, no comments were received and therefore the Policies were subsequently approved, and the Funding Strategy Statement was updated to reflect these Policies.

5. Link to Essex Pension Fund Objectives

5.1 Prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement.

5.2 Recognise in drawing up its Funding Strategy the desirability of employer contribution rates that are as stable as possible.

5.3 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.

6. Risk Implications

6.1 The Fund maintains a full Risk Register. Risks are reviewed periodically and reported to the Board on a quarterly basis with a full review undertaken annually.

7. Background Papers

7.1 Employer Update, PSB 12a, 16 December 2020.

7.2 The published Funding Strategy can be found at:

<https://www.essexpensionfund.co.uk/media/6333/funding-strategy-statement-v4-updated-6-apr-21.pdf>

Essex Pension Fund Strategy Board	PSB 12b
Date: 07 July 2021	

Government Actuary's Department (GAD) S13

Report by Graeme Muir – Fund Actuary

Enquiries to Jody Evans 03330 138489

1. Purpose of the Report

- 1.1 To provide the Board with the outcome review of the Actuarial Valuation of the Fund as at 31 March 2019 as carried out by Government Actuary's Department (GAD).

2. Recommendations

- 2.1 That the Board note the content of the report and training presentation.

3. Background

- 3.1 GAD are required to undertake a review of Local Government Pension Scheme Actuarial Valuations, to report on compliance, consistency, solvency and long term cost efficiency as set out in Section 13 of the Public Services Act 2013 (S13).
- 3.2 The S13 Valuation adopts standard assumptions for all LGPS Funds so that Funds can be compared on a like for like basis. The full report from the Fund Actuary is provided at Appendix A of this report.

4. GAD S13 Report

- 4.1 The purpose of the S13 Valuation is to identify any outlying Funds measured against the four aims set out above.
- 4.2 GAD have adopted the use of a RAG rating status to identify any Funds that are outliers relative to the measures of the other LGPS Funds.
- 4.3 Essex Pension Fund did not receive any red or amber flags and achieved green flags on all measures disclosed in the GAD summary (attached at Appendix B).

5. Link to Essex Pension Fund Objectives

- 5.1 Ensure compliance with the Local Government Pension Scheme (LGPS) regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.
- 5.2 To prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement.

6. Risk Implications

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

- 6.2 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

7. Communication Implications

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

8. Background Papers

- 8.1 2019 Valuation and Funding Strategy, PSB 03, 04 March 2020.

Essex Pension Fund

Section 13 summary report

Introduction

This paper has been requested by Essex County Council, as Administering Authority to the Essex Pension Fund (the Fund). This paper summarises the review of the actuarial valuation of the Fund at 31 March 2019 as carried out by the Government Actuary's Department (GAD), under section 13 of the Public Service Pensions Act 2013 ("the Section 13 valuation").

For the avoidance of doubt, the formal actuarial valuation is still carried out by the Fund's actuary based on assumptions set locally and agreed with the Fund. The key objectives of the formal actuarial valuation are to review the financial position of the Fund and to set appropriate employer contribution rates for the subsequent three years, as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations). The Section 13 valuation does not directly impact employer contribution rates.

Background

The Section 13 valuation carried out by GAD is based on the formal actuarial valuations of the English and Welsh LGPS Funds, as carried out by their Fund actuary. The Section 13 valuation adopts standard assumptions for all LGPS Funds with the aim of providing a level playing field so that Funds can be compared on a like for like basis.

For the purposes of comparing funding levels, GAD use a standardised market basis (standardised basis) consistent with the basis used by the Scheme Advisory Board for comparing Funds. This will be different from the funding basis the Fund adopted for the triennial valuation.

In summary, the purpose of the Section 13 valuation is to identify any outlying Funds measured against the following objectives:

1. Compliance – whether the actuarial valuation has been carried out in accordance with the Regulations;
2. Consistency – whether the actuarial valuation has been carried out "not inconsistently" with other Funds;
3. Solvency – whether a Fund has sufficient assets together with employer and employee contributions to pay all the benefits due over the long term; and
4. Long term cost efficiency – whether a Fund is paying sufficient contributions to meet the cost of benefits accruing and repair any existing deficit over an appropriate period.

As part of the Section 13 valuation a number of measures have been calculated to help GAD consider the above objectives. GAD have then chosen to use a Red/Amber/Green (RAG) flagging system to identify any Funds that are outliers relative to the other measures of the other LGPS Funds. This may not always lead to appropriate conclusions. For example, a Fund in surplus may still be flagged as they are less in surplus than other Funds. Should a fund be identified as an outlier, they would be expected to put a plan in place to help improve their position, having had relevant discussions with GAD and their actuary.

However, our view is that this application of measures is not helpful when each is considered in isolation and a more holistic view is required. For example, a reader may conclude that significant contribution increases may be required at the next formal actuarial valuation, when in fact, given other factors, this is highly unlikely.

Analysis of results

In summary, **the Fund did not receive any red or amber flags and achieved green flags on all measures** disclosed in the GAD summary. Further details of the analysis are given below.

SAB funding level and employer contribution rate

This graph shows the Fund's funding level relative to the average LGPS funding level against the total employer contribution rate, expressed as a percentage of pay. In theory, this graph should show a direct relationship between funding level and contribution rate – funds with a lower funding level should be paying higher contributions and vice versa, all else being equal. However, there are lots of factors to consider and so in practice this will not always be the case.

The Fund's SAB funding level is 109.9% which is around 6% - 7% above the SAB LGPS average funding level, as shown by the larger blue dot. However, the Fund is paying broadly the same contributions as the majority of funds at 22.8% of pay. From the graph this looks like the Fund are paying a bit more than most funds relative to the funding level and contributions of other LGPS funds (i.e. your blue dot is to the right and slightly higher compared to other funds on the chart). Despite the use of a 5% asset shock reserve when setting the contributions, that effectively reduced the funding level of all employers meaning in theory they would pay more deficit contributions, the main reason for the relatively high contributions was the cautious approach taken to reducing overall contributions. Due to the Fund's policy of reducing the deficit recovery period by three years each triennial valuation, tax-raising bodies had been paying a high rate of deficit contributions. Aided with strong investment returns, the tax-raising bodies now have a very small deficit or are over 100% funded. Rather than reduce deficit contributions significantly they were reduced slightly in order to keep overall contributions relatively stable and avoid increases in the near future.

Solvency

Funding level is the most commonly used measure of solvency. The Section 13 valuation provided some other measures of solvency which are given below. **The Fund achieved green flags on all these measures.** The measures are defined as follows:

- Asset shock – this measures the annual deficit payments spread over 20 years and expressed as a percentage of the Fund's core spending if there was a fall in markets and the Fund's return seeking assets fell in value by 15%. A lower percentage is good here as it indicates the Fund can manage the risk of volatile, falling markets.
- Liability shock – liabilities are assumed to increase by 10% and the resulting additional deficit amount is spread across the tax-raising authorities and assumed to be repaid over 20 years. This amount is then expressed as a percentage of core spending. Again, a lower percentage is good here as it indicates the Fund can withstand an increase in liabilities.
- Employer default shock – this is the change in average employer contributions if all employers without tax raising powers/statutory backing cannot repay their deficit amount as calculated at the 2019 valuation. A low percentage means the Fund is less exposed to the default of more risky employers and the impact on employer contribution rates would be low.

The data for the Fund are set out below:

Asset shock	2.3%
Liability shock	surplus
Employer default	surplus

Long term cost efficiency

Where a Fund achieved a green flag, this demonstrates that the contributions being paid are, in GAD's view, sufficient to meet the cost of benefits accruing and to repair any deficit over an "appropriate period". In particular, it demonstrates the Fund is not deferring payments excessively so that they impact future generations.

As pension funding is very long term and the LGPS is an open scheme with Government backing many Funding Strategy Statements require overall contribution stability. A more sensible approach is to try and reduce the recovery period when and if this is affordable. Otherwise Funds could end up paying very high levels of contributions during the recovery period and then coming to a cliff edge as the deficit at that point is paid off.

A number of measures were calculated to check if the objective was met. Some of these are defined below.

- Deficit recovery period – this measures the time it will take to pay off the deficit calculated using the standardised basis at the current level of deficit contributions. A low number is good as this indicates the Fund is paying sufficient deficit contributions to clear the deficit more quickly. As the Fund is in surplus on the SAB basis there is no deficit recovery period.
- Required return – this shows the return the Fund's assets need to achieve to be fully funded in 20 years' time on the standardised basis. A lower required return means a lower bar for the Fund to exceed and so a greater chance of doing so. The Fund has the 14th lowest required return out of the 87 E&W funds.
- Repayment shortfall – this calculates the difference between actual deficit contributions and the implied deficit contributions based on the standardised basis. The actual deficit contributions are calculated as the difference between the total contributions certified and the primary rate on the standardised basis. A large positive difference is good as this shows the Fund is paying more than sufficient contributions to meet the cost of benefits accruing and repay the deficit. As mentioned above, as the Fund is in surplus but agreed to use an asset reserve to help keep contributions stable, employers are paying more than expected on the SAB basis.
- Return scope – The estimated return that the Fund's investment strategy is expected to deliver, in excess of the required return. A higher percentage is good as it means there is a much higher chance of the Fund's investment strategy beating the return needed.
- Deficit recovery plan – a check on whether the current deficit recovery period is a continuation of the previous deficit recovery period. Despite the increase by 9 years this is a green flag. The reason is that the Deficit Recovery End Point at the 2016 valuation was an average calculated across the Fund. However, the actual Deficit Recovery End Points for each employer in the Fund is different so the Deficit Recovery End Point at the 2019 valuation is based on the employer/pool with the longest recovery period which is 21 years, a decrease of 3 years from the equivalent at the 2016 valuation.

The results for the Fund are as follows:

Deficit recovery period	surplus
Required return	2.6%
Repayment shortfall	6.1%
Return scope	1.9%

Impact on the next valuation

We will be reviewing our assumptions and approach ahead of the next valuation and, although the Section 13 valuation is a useful check on the health of the LGPS and its funds, it would not be helpful to allow this to influence decisions. We will of course take the Section 13 valuation into our considerations as we want to ensure the Fund continues to not raise any flags but it is important that the Fund also continues to meet its objectives in line with the Funding Strategy Statement and Investment Strategy statement and any decisions are taken for the right reasons.

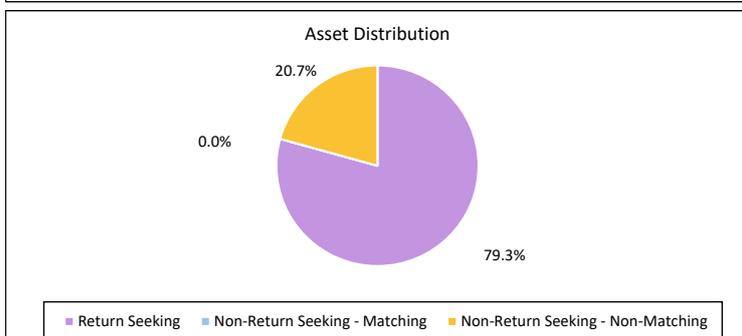
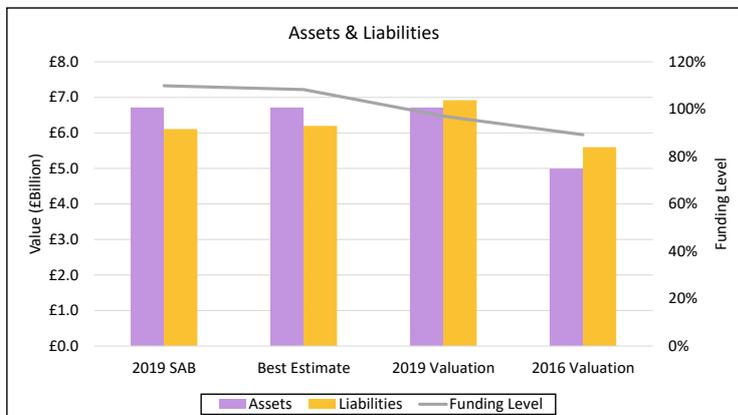
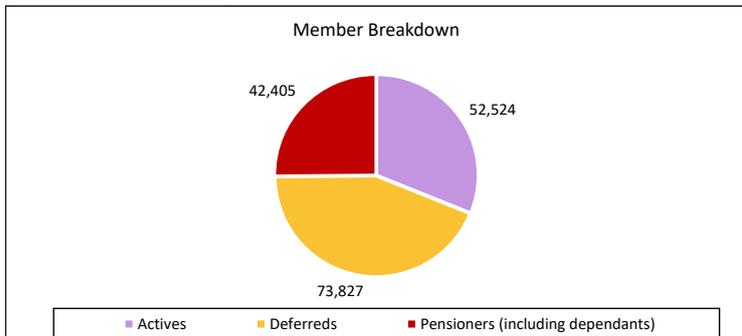
The assumptions adopted for the Section 13 valuations have become more prudent over time. This is a result of the assumptions being linked to the expected growth in the UK economy which has been reducing. The LGPS is a funded scheme, and this is not necessarily an appropriate approach, however this is the approach adopted for the unfunded public sector schemes and so the Section 13 valuations use the same approach for the LGPS schemes. We will need to consider whether any changes to the market related basis is likely in light of the pandemic and any impact on future expected economic growth, when setting our assumptions.

Conclusions

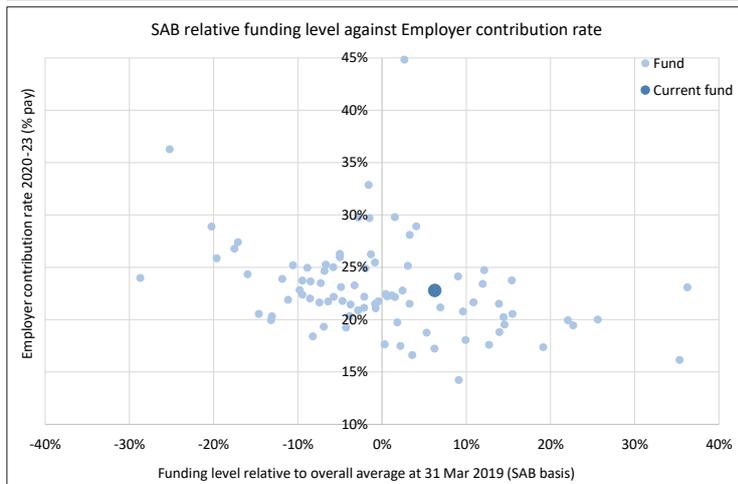
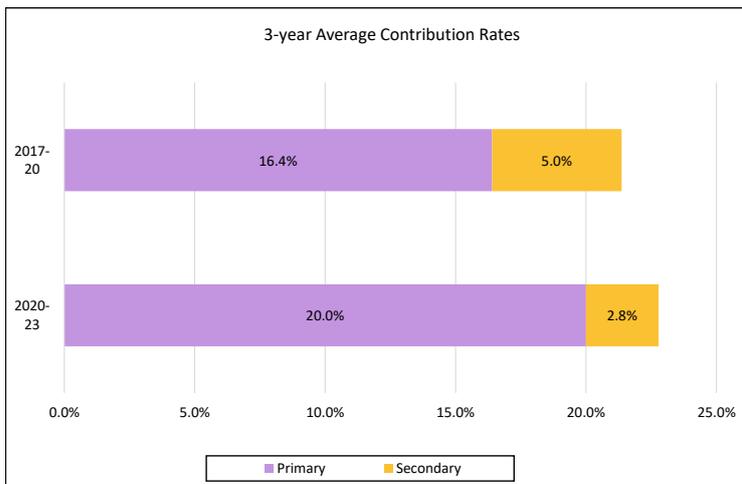
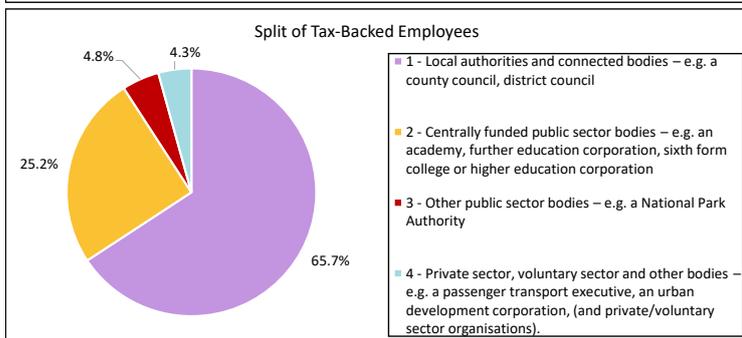
The key point for the Fund and other interested parties is that it has met all the criteria of the Section 13 valuation. This evidences that the contributions set and the assumptions and approach adopted, is appropriate when considering the funding objectives. There is an increasing amount of scrutiny on the LGPS from external parties and it is becoming increasingly important to ensure the Fund is well governed and takes a balanced, sensible approach to funding and investment strategy, which the Fund has of course been doing.

There are therefore no concerns for the Fund and it's not expected that GAD will engage further with the Fund. The Fund may want to report to GAD's analysis and results to the Pension Committee and Local Pension Board. We would be happy to present this and answer any questions.

Essex Pension Fund



Local Authority	Core Spending (£m)	Core Spending (%)
Total	£1,373.1	100.0%
Southend on Sea	£124.9	9.1%
Thurrock	£114.5	8.3%
Essex	£905.4	65.9%
Basildon	£24.6	1.8%
Braintree	£13.8	1.0%
Brentwood	£8.0	0.6%
Castle Point	£10.5	0.8%
Chelmsford	£16.2	1.2%
Colchester	£20.3	1.5%
Epping Forest	£13.2	1.0%
Harlow	£10.9	0.8%
Maldon	£6.2	0.5%
Rochford	£9.5	0.7%
Tendring	£14.4	1.1%
Uttlesford	£10.0	0.7%
Essex Fire Authority	£70.8	5.2%



Essex Pension Fund

Solvency Breakdown

Asset Shock	
<i>Assets are divided into the following classes:</i>	
Return seeking - Equity, Property, Infrastructure debt & other return seeking assets	
Non-return seeking - All other assets	
Return seeking assets are stressed by reducing them by 15%	
New deficit allocated to tax-raising authorities	
= (Pre-stress asset value - Post-stress asset value) × % Tax backed employees	
This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending	
	£m
Pre-stress asset value	£7,027.3
Return seeking assets	£5,574.2
Non-return seeking assets	£1,453.1
Post-stress asset value	£6,191.2
Return seeking	£4,738.0
Non-return seeking	£1,453.1
Percentage of tax-backed employees (Group 1 + Group 3)	70.6%
New deficit allocated to tax raising authorities	£590.0
Annual deficit payment (spread over 20 years)	£31.8
Total core spending (pensionable payroll used where core spending unavailable)	£1,373.1
Deficit percentage of core spending	2.3%
Deficit percentage of core spending (allowing for post-asset shock surplus)	2.3%
Liability Shock	
<i>Non-matched liabilities are stressed by increasing them by 10%</i>	
New deficit allocated to tax-raising authorities	
= (Post-stress liability value - Pre-stress liability value) × % Tax backed employees	
Deficit is spread over 20 years and compared to the fund's core spending	
	£m
Liability value pre-stress (GAD's best estimate calculation)	£6,196.8
Liability value post-stress	£6,816.5
New deficit allocated to tax raising authorities	£437.2
Annual deficit Payment (spread over 20 years)	£23.6
Deficit percentage of core spending	1.7%
Deficit percentage of core spending (allowing for post-liability shock surplus)	Surplus
Employer Default Shock	
<i>Determine funding level on GAD's best estimate basis</i>	
If the fund is in deficit, non-tax backed deficits are allocated to tax-backed	
The non-tax backed deficit is spread over 20 years and compared to the fund's core spending	
	£m
Deficit on best estimate basis	£0.0
Proportion of deficit allocated to non-tax raising authorities	£0.0
Annual deficit payment (spread over 20 years)	£0.0
Deficit percentage of core spending	Surplus
Fund Open/Closed	Open
SAB Funding Level	109.9%
Percentage of Non-Statutory Employees (Group 3 + Group 4)	9.1%

Minor inconsistencies in totals may occur due to rounding.

Long Term Cost Efficiency

Deficit Recovery Period	
<i>Implied deficit recovery period calculated on a standardised market consistent basis</i>	
Recovery period (years)	Surplus
Ranking of fund (out of 87 funds)	N/A
Required Return	
<i>Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis</i>	
Required return under best estimate basis	2.6%
Ranking of fund (out of 87 funds)	14
Repayment Shortfall	
<i>Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis</i>	
Annual deficit recovery payment as % of implied 31 March 2019 payroll	0.0%
Actual contribution rate paid less SCR on best estimate basis	6.1%
Difference	6.1%
Return Scope	
<i>Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained</i>	
Expected return	4.4%
Required return	2.6%
Difference	1.9%
Ranking of fund (out of 87 funds)	13
Deficit Recovery Plan	
<i>Consideration of how the deficit recovery plan has changed compared to 2016 valuation</i>	
Valuation	2016
Deficit Recovery End Point	2031
	2019
	2040
2017-20 Average Contribution Rate	21.4%
2020-23 Average Contribution Rate	22.8%
Increase in contributions	
Difference in Average Contribution Rate between 2017-20 and 2020-23	1.4%
Increase in deficit recovery end point (years)	9

Essex Pension Fund Strategy Board	PSB 13
Date: 07 July 2021	

Governance Effectiveness Review

Report by the Independent Governance and Administration Adviser (IGAA)
Enquiries to Karen McWilliam on 07711016707

1. Purpose of the Report

- 1.1 To provide the Board with the key findings and recommendations from the review of the effectiveness of the Fund's governance arrangements which has been undertaken by the Fund's IGAA.

2. Recommendations

- 2.1 That the Board note the contents of the report and the attached summary of the Governance Effectiveness Review.

3. Overview

3.1 The IGAA was asked to review the effectiveness of the Fund's Governance Arrangements and to recommend any potential areas of improvement. In doing this the IGAA considered the following areas which are the key elements of Aon's Governance Framework:

- Direction – does the Fund have clear Strategies and Policies that meet Legislative requirements and Best Practice;
- Delivery – does the Fund have a clear plan for implementing its Strategies and appropriate monitoring of whether they are being achieved and is there good Risk Management to ensure effective and efficient delivery;
- Decisions – does the Fund have an appropriate Governance Structure with the right people, with the right attitude and appropriate knowledge and skills.

3.2 A detailed report has been provided to Officers and a summary of the findings has been prepared for the Board (at Appendix A). The overall conclusion is that the Fund's Governance is Excellent, reflecting Best Practice in many areas. This was backed up by the results of effectiveness questionnaires completed by Essex Pension Fund Strategy Board (PSB) Members which, taken as a whole, were tremendously positive. The majority also stated that the effectiveness of Governance of the Fund has either improved or stayed the same in the last two years despite the COVID-19 pandemic. In addition, the overwhelming view of the Essex Pension Fund Advisory Board (PAB) (based on discussions at their March 2021 meeting) was that there was a high quality of Governance at the PSB and Investment Steering Committee (ISC).

3.3 The Review also acknowledged the ongoing challenges the Fund will face both in the short term and in the longer term, noting that in addition to the three evolving areas likely to impact Governance (SAB's Good Governance Project, The Pensions Regulator's (TPR) New Code, and CIPFA's Knowledge and Skills Code and Framework), there are other critical projects expected in the next three years, including implementation of the McCloud Remedy, the evolution of Responsible Investment Policies (including expected Task Force on Climate related Financial Disclosures (TCFD) requirements) and the implementation of the National Pensions Dashboard.

4. Risk Implications

- 4.1 A review of the Effectiveness of the Fund's Governance is particularly important given the Fund's key risks are managed as part of the Governance Arrangements. Further, appropriate Risk Management is a key element of those Governance Arrangements.

5. Communication Implications

- 5.1 None directly relating to this report.

6. Finance and Resource Implications

- 6.1 None directly relating to this report.



Governance Effectiveness Review – Summary Version

Essex Pension Fund

Prepared for: Pension Strategy Board, Essex Pension Fund
Prepared by: Karen McWilliam, Independent Governance and Administration
Adviser | Mary Lambe, Senior Benefits and Governance
Consultant, Aon Solutions Limited UK
Date: 24 June 2021

Approach, conclusions and recommendations

Introduction

As the Independent Governance and Administration Advisor to Essex Pension Fund ("EPF"), my remit is to provide independent advice on the proper governance and administration of EPF.

This is a summary of the findings of my recent review as presented to officers, the purpose of which was to consider whether EPF is meeting good practice in relation to governance and to recommend any potential areas for improvement. The Pensions Strategy and Advisory Boards should be aware of the outcomes of this review as outlined in this summary.

Approach

The approach taken has been to compare EPF's current practices relating to governance (at a high level) against the Aon governance framework. The framework considers the following key areas:

 Direction Having clear strategies and policies that also meet legislative requirements is fundamental.	 Delivery Having a clear plan for implementing the fund's strategies and policies, together with appropriate monitoring of whether they are being achieved, along with good risk management, to ensure effective and efficient delivery.	 Decisions Having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is key.
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I have also considered:

- the results of recent governance effectiveness questionnaires completed by Pensions Strategy Board ("PSB") and Investment Steering Committee ("ISC") members, as well as feedback from Pensions Advisory Board ("PAB") members on similar questions.
- some of the ongoing challenges EPF will face both in the short term and in the longer term.

The report does not consider administration nor the effectiveness of the PAB. The review does include consideration, at a high level, of some legal requirements relating to governance, for example, the requirement to publish certain policies and strategies under LGPS legislation. These are presented by us in our capacity as pension consultants and not as legal experts, and as such nothing in this report should be considered as legal advice.

Conclusions

Our overall conclusion is that the governance of the EPF is of an excellent standard, with the Administering Authority demonstrating best practice in many areas. Specific conclusions we have arrived at include:

Direction

- All the key strategies and policies are in place, and those relating to governance matters adhere to legal and professional guidance requirements and in many circumstances go beyond minimum requirements.
- All the key features expected are included within the EPF strategies and policies and, critically, there are clear objectives in place.
- Fund officers have a clear programme for ensuring these policies and strategies are reviewed regularly by the PSB.

Delivery

- An excellent business planning process is in place and after a recent review of its format, the business plan is now even clearer and more informative. It incorporates all the key areas we would expect and more. The business planning process also drives budget-setting for the EPF.
- The way EPF carry out ongoing measurement against their key objectives using their scorecard functionality and the regular updates they provide against their business plan are exemplary and demonstrate some of the best practices we have seen in the LGPS environment.
- Robust risk management processes are in place which are aligned with EPF's objectives and integrated into the day to day management of the EPF.

Decisions

- There is a robust governance structure, with decisions being made at the right level and following appropriate information being provided and discussion taking place.
- There is a robust Knowledge and Skills Strategy, backed by a range of methods of delivery of training and an excellent approach to assessing the effectiveness of training. The PSB, ISC and PAB have excellent access to a wide range of experts (officers and advisers).
- Attendance at meetings and training by PSB, ISC and PAB members is excellent. PSB meetings are extremely well chaired and members actively contribute to discussions. Members demonstrate strong understanding of their role on PSB and are quick to highlight potential conflicts.

Effectiveness Questionnaire

Our conclusions were backed up by the results of effectiveness questionnaires completed by PSB members. The responses, taken as a whole, were tremendously positive. The majority also stated that the effectiveness of governance of the EPF has either improved or stayed the same in the last two years despite the COVID-19 pandemic.

The key questions were also included in a poll of PAB members at the March 2021 PAB meeting to gather the PAB's views on how effective governance at the PSB and ISC are. Again, the overwhelming view of the PAB was that there was a high quality of governance

Recommended actions and future challenges

The recommendations we have made to officers in relation to the existing governance arrangements are as follows:

1 Scorecard

Officers should ensure that the final measures within the scorecard are made live (i.e. "turned on") as planned in 2021/22, given they include enhancements to monitor whether legal timescales are being met.

2 Diversity, Equality and Inclusion

As has been suggested by the Director for EPF, we agree that diversity, equality and inclusion matters should be considered in the context of managing and delivering EPF services. New requirements in this area are expected to be included in The Pension Regulator's ("TPR") New Code.

3 Future challenges and resources

Our other recommendations relate to the continuing challenging times ahead within the LGPS environment. In addition to the three evolving areas which are likely to impact governance (SAB Good Governance Project, TPR New Code, and CIPFA's Knowledge and Skills Code and Framework), there are many other critical projects expected in the next three years. These include implementation of the McCloud remedy, the evolution of Responsible Investment policies (including TCFD and climate change initiatives) and the implementation of the National Pensions Dashboard.

In our view it is critical that EPF continue to focus on ensuring there are sufficient resources in place to meet the objectives and the business plan of the EPF, and to continue to provide a quality and timely service to stakeholders.





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Essex Pension Fund Strategy Board	PSB 14
Date: 07 July 2021	

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 dates of the PSB for municipal year 2021/22 as detailed in Section 5;
- notify the Compliance Team of any training sessions they would like to attend as detailed in Section 4; and
- 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 The next events to take place are:

Date	Title	Venue	Action
Weds 14 July 2021	Aon - Pensions legislation and guidance, and national governance	Webinar	To notify Amanda.crawford@essex.gov.uk by COP Friday 09 July 2021 if any Member wishes to attend
Weds 28 July 2021	Aon - Local governance and pensions procurement, contract management and relationship matters	Webinar	To notify Amanda.crawford@essex.gov.uk by COP Friday 16 July 2021 if any Member wishes to attend
Weds 11 August 2021	Aon - Funding strategy and actuarial methods, and financial, accounting and audit matters	Webinar	To notify Amanda.crawford@essex.gov.uk by COP Friday 30 July 2021 if any Member wishes to attend

Date	Title	Venue	Action
Weds 25 August 2021	Aon - Investments – Strategy, asset allocation, pooling, performance and risk management	Webinar	To notify Amanda.crawford@essex.gov.uk by COP Friday 06 August 2021 if any Member wishes to attend
Weds 08 September 2021	Aon - Investments - Financial markets and products	Webinar	To notify Amanda.crawford@essex.gov.uk by COP Friday 20 August 2021 if any Member wishes to attend
Weds 22 September 2021	Aon - Pensions Administration and Communications	Webinar	To notify Amanda.crawford@essex.gov.uk by COP Friday 10 September 2021 if any Member wishes to attend
3-day event Day 1 – Tues 12 October 2021 Day 2 – Tues 09 November 2021 Day 3 – Thur 02 December 2021	Fundamentals Training Programme	London (also Hybrid)	To notify Amanda.crawford@essex.gov.uk by COP Friday 30 July 2021 if any Member wishes to attend Further details at Appendix A

5. Schedule of Meetings

5.1 The schedule of meetings for the municipal year 2021/22 are as follows:

Pension Strategy Board	
Wednesday 22 September 2021	10am – 1pm
Wednesday 15 December 2021	10am – 1pm
Wednesday 23 March 2022	10am – 1pm
Investment Steering Committee	
Wednesday 13 October 2021	10am – 1pm
Monday 29 November 2021	10am – 4pm
Wednesday 23 February 2022	10am – 1pm

Training Days	
Day 1- EPF Back to Basics	03 November 2021 TBC

6. Finance and Resources Implications

6.1 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.

7. Background Papers

7.1 Schedule of Future Meetings and Events, PSB 08, 17 March 2021.

Fundamentals - Day 1 – LEGAL FRAMEWORK OF THE LGPS

- 9:30 **Registration and Coffee**
- 9:30 **Chair's introduction to the day**
- 10:00 **The Legal Landscape**
- The LGPS in its legal context
 - General local authority legal issues
 - LGPS specific duties and responsibilities
 - Wider duties and responsibilities
 - What happens when things go wrong?
- 11:15 **Break**
- 11:30 **Governance Framework**
- The Hutton report
 - The Public Service Pensions Act 2013
 - The law governing -
 - The responsible authority (MHCLG)
 - Scheme advisory board
 - Local pension board
 - Asset pools
- 12:45 **Lunch**
- 1:30 **Benefit Structure**
- The basis of the LGPS
 - Final salary v CARE schemes
 - A tour of the 2014 Scheme
 - Administering authority and scheme employer roles
- 2:15 to 4:00 **(Break at 2:45)**
- 3:00 **Investment Framework**
- The Management and Investment of Funds Regulations – a history
 - Statement of investment principles
 - Investment Strategy Statement (ISS)
 - ISS statutory guidance
 - Funding strategy statement
 - Annual reports and auditing
- 3:55 **Course Review and Further Information**
- 4:00 **Close**

Fundamentals - Day 2 – LGPS INVESTMENTS

9:30 Registration and refreshments

9:55 Introduction from the Chair

10:00 Investing strategically Part 1

What is asset allocation and why it really drives return?

10.40 Investing strategically Part 2

What are the different asset classes and how do they work?

11.20 Break

11.40 The climate challenge

What are the options to minimise the risk of your portfolio to climate change and contribute to a low carbon world?

12.40 Lunch

1.30 The stewardship challenge

How to manage your managers and be an effective asset owner

2.10 The impact challenge

Taking account of the social impact of your investments and the opportunities to make a difference

2.50 Break

3.10 The 'crystal ball' challenge

The outlook for opportunities and risks over the medium and long term

4:15 Close

Fundamentals - Day 3 – DUTIES AND RESPONSIBILITIES

- 9:30 **Registration and Coffee**
- 9:30 **Chair's introduction to the day**
- 10:00
members **Duties and responsibilities of Pension Committee and Board**
- The evolving requirements
 - Committee vs Board - delegation and representation
 - The governance budget
 - The Pension Regulator's involvement
 - Standing agenda items, breaches of law, knowledge and training
 - Bodies with oversight over the LGPS
- 11:00 **Break**
- 11:15 **Preparing and maintaining Scheme strategies and policies**
- Mandatory and desirable policies in the LGPS
 - How strategies and policies assist the scheme manager
- 12:00 **MHCLG – a view from the bridge**
- The role of the ministry
 - Issues on the radar
- 12:45 **Lunch**
- 1:30 **The Local Pension Board - a case study**
- How the local pension board can improve service delivery
 - Good practice, scrutiny and supporting the board
- 2:15 to 4:00 **(Break at 2:45)**
- 3:00 **Valuations, Exit Payments and Funding Valuation**
- The purpose of an actuarial valuation
 - Assets and liabilities
 - How do liability calculations work?
 - What assumptions are used?
- Funding**
- What is the importance of funding strategy?
 - Different employers – different characteristics and objectives
 - Employer covenants
- 3:55 **Course Review and Further Information**
- 4:00 **Close**

