

Essex Pension Fund Board

14:00	Wednesday, 08 July 2015	Committee Room 2, County Hall, Chelmsford, Essex
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Quorum: 4

Membership

Councillor R Bass
Councillor S Barker
Councillor S Canning
Councillor K Clempner
Councillor N Hume
Councillor N Le Gresley
Councillor J Whitehouse
Councillor C Riley
Councillor R Woodley
Mr K Blackburn
Ms J Moore

Representing

Essex County Council (Chairman)
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Essex County Council
Castle Point Borough Council
Southend-on-Sea Borough Council
Scheme Members
Smaller Employing Bodies

For information about the meeting please ask for:

Ian Myers, Senior Committee Officer

Telephone: 03330 134575

Email: ian.myers@essex.gov.uk



Essex County Council

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Part 1

(During consideration of these items the meeting is likely to be open to the press and public)

	Pages
1 Appointment of the Chairman and Vice Chairman To confirm appointments.	
2 Board Membership and Terms of Reference To note a report (EPB/06/15) by the Secretary to the Board.	7 - 12
3 Apologies for Absence	
4 Declarations of Interest To note any declarations of interest to be made by Members.	
5 Reminder of schedule of meetings for remainder of municipal year To confirm all scheduled dates: <ul style="list-style-type: none">• Wednesday 16 September 2015• Wednesday 9 December 2015• Wednesday 9 March 2016	
6 Minutes To approve as a correct record the minutes of the Board meeting held on 4 March 2015.	13 - 18
7 End of Year Returns and Annual Benefit Statements To receive a report (EPB/07/15) by the Director for Essex Pension Fund and the Head of Essex Pension Fund.	19 - 22
8 Update on Pension Fund Activity To consider a report (EPB/08/15) by the Director for Essex Pension Fund and the Head of Essex Pension Fund.	23 - 26
8A(i) 2015-16 Business Plan	27 - 36
8A(ii) Three Year Business Plan	37 - 38

8B	Risk Management - Risk Register	39 - 40
8C	Measurement against Fund Objectives - Scorecard	41 - 64
9	Effectiveness of the Essex Pension Fund Board To consider a recommendation (EPB/09/15) from the Independent Governance & Administration Advisor.	65 - 82
10	Investment Steering Committee (ISC) Quarterly Report To note a report (EPB/10/15) by the Director for Essex Pension Fund.	83 - 86
11	External Audit Programme of Work and Fees To note a report (EPB/11/15) by the External Auditor.	87 - 104
12	Internal Audit Annual Report of Pension Fund Reviews To note a report (EPB/12/15) by the Head of Internal Audit.	105 - 124
13	Draft Pension Fund Accounts To note a report (EPB/13/15) by the Executive Director for Corporate and Customer Services.	125 - 174
14	Employer Forum To note a report (EPB/14/15) by the Director for Essex Pension Fund and the Head of Essex Pension Fund.	175 - 178
15	Essex Pension Fund Board - Annual Report To note a report (EPB/15/15) by the Secretary to the Board	179 - 188
16	Annual Review of Member Attendance To note a report (EPB/16/15) by the Secretary to the Board	189 - 194
17	Date of Next Meeting To note that the next meeting will be held on Wednesday 16 September 2015 at 2.00pm in Committee Room 2, County Hall.	
18	Urgent Business To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.	

Exempt Items

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

To consider whether the press and public should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, Members are asked to decide whether, in all the circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

19 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	EPB/06/15
date: 8 July 2015	

Membership and Terms of Reference

Report by Secretary to the Board

Enquiries to Ian Myers, 033301 34575

1. Purpose of the Report

1.1 To note the Board's membership and terms of reference.

2. Recommendation

2.1 That the Board note the report.

2.2 That the Board nominate the Employer observer on the Investment Steering Committee

3. Background

- 3.1 In accordance with usual practice, as this is the first meeting of the Municipal Year the Pension Strategy Board's (PSB's) membership and Terms of Reference are attached as Appendices A and B respectively for Members' information.
- 3.2 In addition, membership details of the Pension Advisory Board are attached in Appendix C.

4. Observer arrangements

- 4.1 In establishing the PAB revisions have been made to the overall governance structure. These include arrangements for observers which are detailed below:

	Investment Steering Committee (ISC)	Pension Strategy Board (PSB)	Pension Advisory Board (PAB)
Total Membership	7	11	9
PSB Employer Observer	1 TBC		
PSB Scheme Member Observer	K Blackburn		
PAB Employer Observer	1 TBC	1 TBC	
PAB Scheme Member Observer	1 TBC	1 TBC	
Maximum potential additional observers	9	7	11
GRAND TOTAL	20	20	20

- 4.2 Whilst the membership of the PSB is now known in full, the PSB is required to nominate the employer observer to the ISC. **It is therefore recommended** that the PSB nominate an employer observer to the ISC.
- 4.3 The scheme member observer remains Mr K Blackburn (for the remainder of his term).

5. Link to Essex Pension Fund Objectives

- 5.1 This information will assist the Board in achieving the following Fund objective:

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

6. Risk Implications

- 6.1 An uninformed membership may offer inadequate leadership and make decisions which do not take account of relevant factors.

7. Communication Implications

- 7.1 None

8. Finance and Resources Implications

- 8.1 None

9. Background Papers

- 9.1 None

**Essex Pension Fund Strategy Board
Membership (as at 8 July 2015)**

Representing		Term of Office
Essex County Council (4:1:1:1)		
Councillor R L Bass (Chairman)	Conservative	Until 2017 CC elections
Councillor S Barker	Conservative	"
Councillor S Canning	Conservative	"
Councillor K Clempner	Labour	"
Councillor N Le Gresley	UKIP	"
Councillor N J Hume (Deputy Chairman)	Conservative	"
Councillor J Whitehouse	Liberal Democrat	"
Named substitutes:		
Councillor W Archibald	Labour	"
Councillor K Bobbin	Labour	"
Councillor J Huntman	UKIP	"
Councillor M Mackrory	Liberal Democrat	"
Councillor J Spence	Conservative	"
District/Borough Councils in Essex (1)		
(nominated by Essex Borough and District Leaders' Group)		
Councillor C Riley	Castle Point Council	Until 2019 District/Borough Council elections)
Unitary Councils in Essex (1)		
Councillor A Woodley	Southend-on-Sea Borough Council	
Smaller Employing Bodies (1)		
Mrs Jenny Moore	The Billericay School	4 years, from Employer Forum 2015 until Employer Forum 2019
Scheme Members (1)		
(nominated by UNISON)		
Mr Keith Blackburn		4 years from date of appointment (26/09/11 until 25/09/15)
Total	11	

EXTRACT FROM ESSEX COUNTY COUNCIL CONSTITUTION:

8.1.6 Essex Pension Fund Strategy Board

Membership: 11 members consisting of seven Members of the Council, one member representing Borough, City and District Councils in Essex, one member representing Southend-on-Sea and Thurrock Unitary Councils, one member representing other Employing Bodies nominated by the Employer Forum and one member representing Scheme Members nominated by Unison.

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

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

**Essex Pension Fund Advisory Board
Membership (as at 30 June 2015)**

Representing	
Councillor S Walsh	Conservative
District/Borough Councils in Essex (1) (nominated by Essex Borough and District Leaders' Group)	
Councillor J Galley	Chelmsford City Council
Unitary Councils in Essex (1)	
Councillor B Johnson	Thurrock Borough Council
Smaller Employing Bodies (1)	
Mr James Durrant	Essex Fire Authority
Scheme Members (1) (nominated by UNISON)	
Mr Keith Flowers	
Scheme Members (3)	
1. To be confirmed	
2. To be confirmed	
3. To be confirmed	
Independent Chairman (1)	
Nicola Mark	Norfolk Pension Fund
Total	9

Minutes of a meeting of the Essex Pension Fund Board held at 2.00 pm at County Hall, Chelmsford on 4 March 2015

Present:

Member**Essex County Council**

Cllr R Bass (Chairman)

Cllr S Barker

Cllr K Clempner

Cllr J Whitehouse

District/Borough Councils in Essex

Cllr J Galley Chelmsford City Council

Unitary Councils**Essex Fire****Authority**

Cllr C Seagers

Scheme Members

Keith Blackburn

Smaller**Employing Bodies**

J Moore

Police and Crime**Commissioner**

C Garbett

The following officers and advisers were also present in support:

Jody Evans Head of Essex Pension Fund

Kevin McDonald Director for Essex Pension Fund

Barry Mack Independent Governance and Administration Adviser (IGAA)
(Hymans Robertson LLP)

Matt Mott Communications Manager Essex Pension Fund

Ian Myers Secretary to the Board

David Tucker Employer Liaison Manager Essex Pension Fund

The Chairman welcomed Cllr John Galley to his first meeting of the Board.

1. Apologies for Absence

Apologies for absence were received from Councillors Archer, Hume and Rice.

Cllr R Woodley, although in County Hall, was unable to attend the meeting as regrettably he had not been escorted by officers to the committee room.

2. Declarations of Interest

The Chairman requested Members declare any interests as appropriate.

The Chairman also informed the Board that the Essex Pension Fund had recently acclaimed as winner in the prestigious “Defined Benefit Scheme of the Year” category at the recent Pension Age Awards 2015. This was the third award of national recognition received within recent months and represented a major achievement. The Board recorded their congratulations to Kevin McDonald and his team.

3. Minutes

Resolved:

That the minutes of the Essex Pension Fund Board held on 19 January 2015 be approved as a correct record and signed by the Chairman.

4. Local Government Pension Scheme Structural Reform

Members received a verbal update from the Director for Essex Pension Fund noting the DCLG intend to publish a summary of their consultation later this year.

Resolved:

That the report be noted.

5. Governance Working Group (GWG)

Members considered the report (EPB/01/15) by the Director for Essex Pension Fund and the Independent Governance & Administration Adviser which outlined the decision by Essex County Council to agree the Board’s proposal to establish a new Local Pension Board and the GWG’s recommended approach to appointing the employer and scheme member representatives.

Resolved:

That the report be noted, the draft timetable be agreed and the composition of the Boards, as outlined in Annex B of the report, be accepted and reviewed within two years but noting that any election at the employers’ forum required to select an employer representative would be conducted by secret ballot, that the invitation to the unions for a trade union representative would be conducted through Unison and that declaration of employer support for a scheme member representative, whilst desirable (for example, to facilitate time off), would not be required.

6. Pension Freedoms and Flexibilities

Members received a presentation on Pension Freedoms and Flexibilities from the Essex Pension Fund Communications Manager and the Independent Governance & Administration Adviser.

It was recommended that the Director and Head of Essex Pension Fund give consideration to the inclusion of Freedom of Choice implications on the risk register.

Resolved:

That the report be noted.

7. Update on Pension Fund Activity

Members considered a joint report (EPB/02/15) by the Director for Essex Pension Fund and Head of Essex Pension Fund which provided the Board with an update on:

- 2014/15 business plan
- Three year business plan
- Risk management
- Scorecard

Following discussion it was agreed that, in future, death grant and other training information be included on the scorecard.

Members also supported the proposal that future Member training be delivered within the Board meeting on a trial basis.

Resolved:

That the reports be agreed.

8. Effectiveness of the Essex Pension Fund Board

Members considered the report (EPB/03/15) by the Independent Governance & Administration Adviser

Members requested that an additional question in relation to the business of the ISC be considered.

Resolved:

That the report be noted and recommendations agreed.

9. Investment Steering Committee (ISC) Quarterly Report

The Board considered a joint report (EPB/04/15) by the Director of Essex Pension Fund detailing ISC activity since the last Board meeting.

It was noted the ISC would, in future, be considering a revised scorecard cash flow measure.

Resolved:

That the report be noted.

10. Date of Next Meeting

The next Board meeting will be held at 2.00pm on Wednesday 8 July 2015 in Committee Room 2

11. Urgent Business

There was no urgent business.

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

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

13. Fund Actuary

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

The Board considered a report (EPB/05/15) by the Director for Essex Pension Fund.

Resolved:

- (i) That the report be noted.
- (ii) That the recommendations concerning the continuation of the current contract be agreed.

There being no further business, the meeting closed at 4.00pm.

Chairman

Essex Pension Fund Strategy Board	EPB/07/15
Date: 8 July 2015	

Year end data submissions and Annual Benefit Statements

Report by the Director for Essex Pension Fund and Head of the Essex Pension Fund
Enquiries to Kevin McDonald on 03330 138 488 and Jody Evans on 03330 138 489

1. Purpose of the Report

- 1.1 To update the Board on 2014/15 year end data submissions by Fund employers and the likelihood of delays in distributing Annual Benefit Statements to active scheme members.

2. Recommendations

- 2.1 That the report be noted.
- 2.2 That a new risk, reflecting the likelihood of delays in distributing Annual Benefit Statements to active scheme members, be agreed and added to the Fund's risk register.
- 2.3 That the verbal update on this matter presented by Fund Officers at the meeting be considered.

3. Background

- 3.1 At its December meeting the Board considered a report on year end returns. It was noted that the end of year process is a very busy period for Fund officers who receive data from around 500 fund employers. The process is not straightforward as the data first has to be checked for consistency and sent back to the employer for correction if the data is not correct.
- 3.2 With the introduction of the new CARE scheme in April 2014, the end-of-year data from employers has taken on even more significance. For 2014/15 onwards, the actual pensionable pay figure provided by the employer as part of the end-of-year return is used to calculate the actual pension accrued by the member for that scheme year.
- 3.3 Furthermore, the Fund has a statutory duty to issue an annual benefit statement to over 49,000 active members by 31 August each year and this leaves a relatively short time to check and upload around 500 end-of-year returns onto the administration system.
- 3.4 The Board noted arrangements which included regular Fund communications from January 2015 highlighting the importance of the year end return and the need for employers who may encounter difficulties to engage with Fund officers.
- 3.5 The Board agreed a policy which enabled a fine of £250 to be issued to employers who neither provided the data on time nor engaged with Fund officers.
- 3.6 Finally, the Board noted that ultimately the Fund and its employers need to be strongly positioned to meet the requirements of the 2016 Actuarial Valuation process.

4. Experience

- 4.1 The new CARE reporting requirements have been challenging for all Fund employers. Payroll systems (either in house or external) have required significant alterations (a “patch”) to enable the relevant data to be produced. Whilst a number of employers have used payroll systems that have been “patched” in time, more have not.
- 4.2 The provisional position as at the end of June is as follows:

Employers submitting returns on time	28%
Employers submitting returns late	52%
Employers from whom a return is outstanding	20%
Total	100%

- 4.3 The new CARE arrangements have meant that more data than usual has been required to be sent back to employers for correction. Furthermore late submission has created significant pressure on internal deadlines and currently Fund officers are working through a large backlog.
- 4.4 Most of the outstanding returns are due from smaller employers.
- 4.5 A verbal update will be given at the meeting.

5. Impact on Annual Benefit Statements

- 5.1 Under the LGPS Regulations, Funds are required to distribute Annual benefit Statements to active scheme members by 31 August each year. In light of the issues highlighted above, it is the view of Fund officers that, for 2015, it is unlikely that this deadline will be met.

- 5.2 As a consequence a new risk is set out below.

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous risk score	Risk Owner	Comments, Actions and Recommendations
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A18	Unable to produce Annual Benefit Statements for active Scheme Members in line with Regulatory deadlines due to lack or late provision of data from employers	4	3	12	n/a	Jody Evans	A significant number of Fund employers have encountered difficulties providing a timely year end return after the first year of the Career Average benefit structure. This inhibits the Fund's ability to meet the Regulatory ABS deadline.

- 5.3 It is recommended that the above risk is added to the Fund's Risk Register.

6. Link to Essex Pension Fund Objectives

- 6.1 Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need

7. Risk Implications

- 7.1 Highlighted above at 5.2

8. Communication Implications

- 8.1 Ongoing.

9. Finance and Resources Implications

- 9.1 The Fund is currently paying overtime to officers on the system team to address the backlog.

10. Background Papers

- 10.1 Agenda item 7, Board meeting, December 2014.

Essex Pension Fund Board	EPB/08/15
Date: 8 July 2015	

Update on Pension Fund Activity

Joint Report by the Director for Essex Pension Fund & Head of Essex Pension Fund
 Enquiries to Kevin McDonald on 03330 138488 and Jody Evans on 03330 138489

1. Purpose of the Report

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

- 2015/16 business plan
- three year business plan
- risk management
- scorecard

2. Recommendations

2.1 That the Board considers:

- progress against the 2015/16 business plan
- the 3 year business plan
- the current risks with a residual score of six or above
- the latest scorecard measures

2.2 That the board agrees:

- that the new actions highlighted in 5.3 are added to the 2015/16 Business Plan
- the revised risk scores highlighted in 8.2 and 8.3 and detailed in Annex B (ii).

3. Background

3.1 The following documents accompany this report:

- an update on the 2015/16 business plan at Annex A(i);
- the 3 year business plan at Annex A(ii);
- unchanged risks with a residual score of six or above are detailed at Annex B (i);
- new risks / risk with a changed score are detailed at Annex B (ii)
- the full scorecard is attached at Annex C.

4. Related matters subject to separate agenda items

4.1 Matters subject to separate agenda items include:

- Year end data submission and Annual Benefit Statements
- Effectiveness of the Essex Pension Fund Board
- infoBOARD workshop

5. Cessation of “contracting out” from 1 April 2016

5.1 The LGPS is one of a number of pension schemes which is “contracted out” of the second state pension. This means that both employers and employees pay reduced levels of National Insurance.

5.2 Contracting out is due to cease on 31 March 2016. This has two implications:

- The National Insurance arrangements for both employers and active scheme members will increase w.e.f. 1 April 2016. Assuming no changes are made to these plans in the Chancellor’s 8 July 2015 budget, it will be necessary to communicate with both employers and active scheme members
- The Guaranteed Minimum Pension (GMP) element of Scheme Members entitlement will be required to be confirmed. This will take place over two years starting 1 April 2016.

5.3 In light of the above **it is recommended** that the 2015/16 business plan be amended to include two actions which reflect

- Communicating with employers and active scheme members regarding forthcoming National Insurance changes; and
- Preparations for process of confirming the GMP element of Scheme Members’ entitlement.

6. Business Plan 2015/16

6.1 Progress is on track with the business plan shown at Annex A(i). Of the 21 actions agreed at the Board's March 2015 meeting:

- 2 (10%) have been completed;
- 11 (52%) are in progress, of which 3 are subject to items elsewhere on this agenda
- 8 (38%) are scheduled to commence later in the year.

7. 3 year Business Plan

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

8. Risk Register

8.1 Unchanged risks with a residual score of six or above are detailed at Annex B (i);

8.2 Risks with a changed score are detailed at Annex B (ii). Two risks have had scores reduced since the last meeting:

G1 – The likelihood of failure of governance arrangements to match up to recommended best practice – especially if Regulations were late – has receded. Arrangements to establish the new Pension Advisory Board were made prior to the April deadline. The residual risk has reduced from 9 to 3.

A1 – The likelihood of failure to administer the scheme in line with Regulations owing to the migration of new UPM Civica software has receded. The system has been live since January 2015, and this residual risk has reduced from 9 to 6.

8.3 Item 7 proposes a new risk (A18) in relation to Annual Benefit Statements. This has been included within Annex B (ii) for completeness. In addition one further existing risk has had an increased score since the last meeting:

C1 – Freedoms and Flexibilities for members of Defined Contribution Schemes were introduced from 1 April 2015. Whilst the (defined benefit) Fund has not seen any significant change in scheme members withdrawing from LGPS membership, since the start of 2015, the volume of enquiries (mostly by phone) has increased significantly. This has increased the Fund's residual risk score on effective communication with stakeholders from 1 to 6.

8.4 It is recommended that the Board agrees these revised risk scores.

8.5 The full risk register is available on infoBOARD.

9. Scorecard

- 9.1 The scorecard is set out in Annex C.
- 9.2 Objective 4.1 “deliver a high quality friendly and informative service” has contains the highest number of individual measures. In light of the Board’s decision in March 2015 to adopt a further measure in relation to death grants, changes have been made to the presentation of 4.1.
- 9.3 As detailed in Annex C, 4.1 is now split between two separate pages: the first for the twelve annual measures, and the second for the two quarterly measures which includes the new measures on death grants.

10. Link to Essex Pension Fund Objectives

- 10.1 Monitoring Pension Fund activity via the business plan, risks and scorecard assists the Fund in achieving all of its objectives, and in particular:
 - Provide a high quality service whilst maintaining value for money
 - Understand and monitor risk and compliance
 - Continually measure and monitor success against our objectives

11. Risk Implications

- 11.1 Key risks are identified at Annex B

12. Communication Implications

- 12.1 Key lines of communication are required with both Board Members and other stakeholders. .

13. Finance and Resources Implications

- 13.1 The business plan for 2015/16 is challenging and will require significant input by officers and advisers to bring some of the actions to conclusion. The staffing structure will be reviewed during the year.

14. Background Papers

- 14.1 None.

Essex Pension Fund Business Plan 2015/16

Governance

Objectives:

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

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at July 2015
1. Annual business plan will be put in place.	Proposed actions for 2015/16 business plan actions presented to 4 March 2015 Board for approval.	DfEPF & HoEPF	Complete

Action	How will this be achieved?	Officer managing action*	Progress as at July 2015
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2015/16.	IGAA	In progress. .
3. Board members' knowledge centre	Further infoBOARD training will take place during 2015/16	HoEPF	In progress. A workshop on infoBOARD is scheduled for immediately after the Board's meeting on 8 July 2015
4. Annual review of governance policy	A review of governance policy will take place after arrangements for the Pensions Advisory Board have been finalised.	DfEPF, HoEPF & IGAA	Scheduled for September. The Governance Compliance Statement will be updated to reflect the changes to the membership of the PSB and the formation of the PAB.
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it.	GTM and IGAA	In progress. A separate item appears on the Board's 8 July 2015.
6. Implement the requirements of the Public Sector Pension Act 2013	Implement required changes to Governance arrangements	DfEPF, HoEPF & IGAA	In progress. The first meeting of the new Pension Advisory Board is scheduled for 17 July 2015.

Investments

Objectives:

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

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at July 2015
7. Review of asset allocation	Review of asset allocation as part of the strategy & structure deliberations at the ISC strategy meetings.	DfEPF	In progress. Reviews scheduled to take place on 22 July 2015 and 22 February 2016
8. Implement any review of investment allocation arrangement	Any asset allocation decisions made by the ISC will be implemented as required.	DfEPF	As required.
9. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.	DfEPF	Scheduled for November 2015.

Action	How will this be achieved?	Officer managing action*	Progress as at July 2015
10. Review the Statement of Investment Principles (SIP)	Annual Review of SIP – to include review of Statement of Compliance on Investment Decision Making	DfEPF	The SIP will be kept under review.
11. Procurement of Independent Investment Adviser (IIA)	The position of IIA will be advertised, and a shortlist of suitable candidates will be interviewed by a sub-committee of Members.	DfEPF	Complete. The Appointment Sub Committee met on 19 June 2015 and agreed to appoint Mark Stevens as the new IIA.
12. Respond to the requirements of LGPS structural reform process	Developments in relation to LGPS structural reform will be monitored.	DfEPF	The situation will continue to be monitored.

Funding

Objectives

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

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at July 2015
13. Interim Review as at 31 March 2015.	An interim review of the Fund as at 31 March 2015 will be commissioned from the Actuary.	DfEPF and HoEPF	Scheduled for September 2015 The results of the 31 March 2015 Interim Review will be considered at the September 2015 meeting.
14. Review Funding Strategy Statement	Consideration will be given to whether the Funding Strategy requires review in the light of the results of the Interim Review as at 31 March 2015.	DfEPF and HoEPF	Scheduled for September 2015.

Action	How will this be achieved?	Officer managing action*	Progress as at July 2015
15. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis	DfEPF and HoEPF	In progress - Monitoring continues

Administration

Objectives:

- Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need
- Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount
- Data is protected to ensure security and authorised use only

Actions:

Action	How will this be achieved	Officer managing action*	Progress as at July 2015
16. Complete the annual end of year data exercise as at 31 March	Complete year end accounting, gather information from employer and update UPM, and produce annual benefit statements.	HoEPF	In progress. A separate item on this matter appears on the 8 July agenda.
17. Administration Strategy	The Administration Strategy will be monitored during 2015/16.	HoEPF	In progress. Monitoring continues

Action	How will this be achieved	Officer managing action*	Progress as at July 2015
18. Auto Enrolment – Work based Pensions	Monitor developments and maintain dialogue with Pension Fund employers throughout the process of auto enrolment implementation. (Staggered staging dates apply to all employers – depending on size – between 2012 and 2016)	HoEPF	In progress. Monitoring continues
19. Implementation of new administration system	The second phase including “ <i>member online</i> ” and “ <i>employer online</i> ” is scheduled to commence in 2015/16	HoEPF	In progress. Testing continues. Phase 2 expected to be implemented in early 2016.
20. Review of staffing structure	A review of staffing structure will take place.		Scheduled for Q4 2015

Communications

Objectives:

- Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally
- Ensure our communications are simple, relevant and have impact
- Deliver information in a way that suits all types of stakeholder
- Aim for full appreciation of the pension scheme benefits and changes to the scheme by all scheme members, prospective scheme members and employers

Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at July 2015
21. Monitor Communications Policy	A review of the communications policy will take place.	HoEPF	A review of the communications policy will take place after arrangements for the new Local Pension Board have been finalised

Key:

DfEPF: Director for Essex Pension Fund

HoEPF: Head of Essex Pension Fund

GTM: Governance Team Manager

IGAA: Independent Governance & Administration Adviser

Essex Pension Fund

3 Year Business Plan

April 2015 to March 2018

Area of activity	2015/16	2016/17	2017/18
Governance			
Business plan	March for the following year	March for the following year	March for the following year
Members' knowledge and understanding			
• Prepare & implement training strategy	September (Review)	September Ongoing	September (Review)
• Training needs assessment (TNA)	Ongoing		Ongoing
Governance review	September	September	September
Effectiveness of Pension Fund Board	July	July	July
Annual Statement of Accounts	July (draft) September (Final)	July (draft) September (Final)	July (draft) September (Final)
Employer Forum(s)	May (onwards)	May (onwards)	May (onwards)
Review scorecard (risk register)	Quarterly	Quarterly	Quarterly
Review performance	Quarterly	Quarterly	Quarterly
Administering Authority discretions and delegations review			September (review)
Employing Authority discretions and delegations review			September (review)
Communications policy review	September	September	September

Area of activity	2015/16	2016/17	2017/18
Investment (Steering Committee)			
Strategic asset allocation review	July & February	July & February	July & February
Asset/Liability study		February	
Statement of Investment Principles review	March	March	March
Review investment management fees	November	November	November
Individual manager review	Quarterly	Quarterly	Quarterly
Funding			
Funding Strategy Statement review	September	July - March	September
Actuarial Valuation 2016	Preparation	April - March	Implementation
Interim funding review	September		September
Admission/employer participation/bulk transfer policy	Ongoing	Ongoing	Ongoing
Administration			
LGPS reform – planning for administration changes	Follow up amendments	Ongoing	Ongoing
Review/Procurement of IT System	Ongoing (Phased installation)	Review of effectiveness & development	
End of year data exercise	July	July	July
Auto-enrolment / workbased pensions	Rolling Employer staging dates	Rolling Employer staging dates	Rolling Employer staging dates
Communications			
LGPS reform	Ongoing	Ongoing	Ongoing
Implement communications policy	Ongoing	Ongoing	Ongoing
Introduce infoBOARD and develop usage	Ongoing	Ongoing	Ongoing

ANNEX B (i)

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous Risk Score	Risk Owner	Comments, Actions and Recommendations
Governance	Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G7	Failure of succession planning for key roles on PFB	3	2	6	6	Ian Myers	The Board's approach to training, where members are working toward compliance with the CIPFA Knowledge & Skills Framework, should help minimise any adverse impacts of failure in succession planning because there should be a greater number of candidates for any position with
Governance	Evolve and look for new opportunities that may be beneficial for our stakeholders, ensuring efficiency at all times	G12	Insufficient staff causes failure to free up time to look for other best practice areas then opportunities may be missed	2	3	6	6	Kevin McDonald /Jody Evans	A review of the staffing structure planned for 2015/16
Investments	To maximise the returns from investments within reasonable risk parameters	I1	If investment return is below that assumed by the Actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk.	3	3	9	9	Kevin McDonald	Diversified portfolio; Annual Strategy Review; Asset Liability Study, extended recovery periods to smooth contribution increases.
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	3	3	9	9	Kevin McDonald	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	3	2	6	6	Kevin McDonald	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	3	2	6	6	Kevin McDonald	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis.
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	3	2	6	6	Kevin McDonald	Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F21	Employee participation in the Essex LGPS reduces (possibly in response to changes in contribution rate / benefit structure or changes in patterns of service delivery)	3	2	6	6	Kevin McDonald / Jody Evans	Communications with both Employers and Employees over the benefits of the LGPS, both before and after any structural change. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A6	Fund's resources not able to match the demands of providing the service.	3	3	9	9	Kevin McDonald / Jody Evans	A review of the staffing structure planned for 2015/16
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A17	Failure to administer scheme in line with Regulations and policies - Brewster test case in Northern Ireland pave way for retrospective action re: surviving co-habiting partners with no nomination for surviving partners pension.	3	2	6	6	Jody Evans	In the event of revised LGPS Regulations on nomination arrangements for surviving co-habiting partners' pensions, a case by case review will be conducted.

ANNEX B (ii)

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous risk score	Risk Owner	Comments, Actions and Recommendations
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	G1	Failure of governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice. This could occur if Regulations are not timely.	3	1	3	9	Barry Mack / Kevin McDonald	The Essex Local Pension Board (PAB) was established prior to April 2015 deadline. As at end of June, 6 of 9 PAB Members confirmed. Process to confirm 3 Scheme Member Representatives underway.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A1	Failure to administer scheme in line with Regulations and policies	3	2	6	9	Jody Evans	Phase one of the new UPM Civica system was implemented in January 2015 and monitoring continues. Phase two is anticipated in early 2016.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A18	Unable to produce Annual Benefit Statements for active Scheme Members in line with Regulatory deadlines due to lack or late provision of data from employers	4	3	12	n/a	Jody Evans	A significant number of Fund employers have encountered difficulties providing a timely year end return after the first year of the Career Average benefit structure. This inhibits the Fund's ability to meet the Regulatory ABS deadline.
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally	C1	Increase in enquiries from Scheme Member resulting in increased workload for Fund officers	2	3	6	1	Kevin McDonald /Jody Evans	The Freedoms & Flexibilities (for DC schemes) introduced in April 2015 has resulted in a significant number of phone calls to the office.

Essex Pension Fund Scorecard - 8 July 2015

Guidance: Measures are grouped around key objectives identified by the Board. For some objectives there are several indicators monitoring progress. The number of measures which are red, amber and green for each objective are displayed on the scorecard. Details of individual measures, including performance, targets, contextual commentary, definition and scope are given in the attached drill down pack.

1. GOVERNANCE

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

5

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

2

2

1

1.3 - Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times. Continually measure and monitor success against our objectives.

1

1.4 - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based

1

3

1.5 - Understand and monitor risk and compliance

1

4

2. INVESTMENTS

2.1 - Maximise returns from investments within reasonable risk parameters

4

1

2.2 - Ensure the Pension Fund is properly managed (ISC attendance, skills and governance arrangements)

1

1

1

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

5

3. FUNDING

3.1 - Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters and Funding Strategy timescales

1

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

2

3.3 - To have consistency between Investment and Funding strategies

2

3.4 - To manage employers liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives.

1

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

1

3.6 - Minimise unrecoverable debt on termination of employer participation

2

4. ADMINISTRATION

4.1 - Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need.

14

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

2

4.3 - Ensure proper administration of financial affairs

2

4.4 - Compliance with Fund's governance arrangements

5

5. COMMUNICATIONS

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

3

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

4

2

5.3 - Aim for full appreciation of the pension scheme benefits and changes to the Scheme by all scheme members, prospective scheme members and employers.

1

1

Key

G

= on or exceeding target

Gy = data not currently available / work in progress

A

= missing target but within agreed tolerance

R

= missing target by more than agreed tolerance

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

Measure Purpose: To provide a high quality service whilst maintaining value for money

Scope: Cost, scheme member satisfaction and scheme member complaints and compliments

Measure Owner: Jody Evans

Data lead: David Tucker/Matt Mott

Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
1.1.1 Cost per scheme member	2nd	quartile	G	G	2nd/3rd quartile	2nd/3rd quartile	Low	Annual (Sep)
1.1.2 Number of scheme member complaints	3		G	G	5	20	Low	Quarterly
1.1.3 Number of scheme member compliments	9		G	G	15	60	High	Quarterly
1.1.4 Scheme member survey - % of positive answers	96.4%	%	G	G	95%	95%	High	Annual (Sep)
1.1.5 Employer survey - % of positive answers	97.3%	%	G	G	95%	95%	High	Annual (Sep)

Rationale for performance status and trend

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

1.1.2. The number of complaints received in the 3 months to 31 March 2015 was 3 (Previous quarter 2)
As the annual total is 11 the maximum target of 20 has not been reached, and the measure is scored green.

1.1.3. The number of compliments received in the 3 months to 31 December 2014 was 9. (Previous quarter 18)
As the annual total is 76 the minimum target of 60 for the year 2014/15 has been exceeded and the measure is scored green.

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

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

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

Measure Purpose: To ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise

Scope: Training needs analysis, attendance of training. Progress against training plans and My Performance objectives.

Measure Owner: Kevin McDonald

Data lead: Ian Myers/Jody Evans/Barry Mack

Status

	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity	Frequency
1.2.1 Board Member attendance at training	49%	%	A	A	80%	80%	High	Quarterly
1.2.2 Board Members completing training needs analysis (TNA)	49%	%	R	R	90%	90%	High	Quarterly
1.2.3 Board Members with adequate skills - average scores for comprehensive training need analysis (TNA)	33%	%	R	R	65%	65%	High	Quarterly
1.2.4 Board Member attendance at Board meetings	72%	%	A	A	80%	80%	High	Quarterly
1.2.5 Officer training plans and My performance Objectives in place	100	%	G	G	100%	100%	High	Annual (Jul)

Rationale for performance status and trend

1.2.1. This measure reflects attendance by Board Members at training prior to, and included within, the July 2014, September 2014, December 2014 and March 2015 meetings.

1.2.2. This represents the completion rate of TNA by board members (last quarter 56%).

1.2.3. This represents the score of the completed TNA forms (last quarter 35%).

1.2.4. This represents attendance at Board meetings in July 2014, September 2014, December 2014, January 2015 and march 2015 Board meetings. Also included is attendance at the Pension Board Appointment sub-committee on 13 October 2014.

1.2.5. Supporting Success objectives have been agreed for all Pension Administration & Pension Investment officers.

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

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

Scope: Actions listed in Business Plan

Measure Owner: Kevin McDonald & Jody Evans

Data lead: Kevin McDonald & Jody Evans

Status	Value	Previous status	Current status	Target	Annual target	Polarity	Frequency
1.3.1 Fund Business Plan quarterly review - actions on track	10% Complete 52% in progress 38% yet to commence	A	A	15% Complete, 10% in progress	100% complete	High	Quarterly

Rationale for performance status and trend
<p>1.3.1 Against a total of 23 actions or projects for the year:</p> <p>2 (10%) complete 11 (52%) in progress 8 (38%) scheduled to commence later in 2015/16</p> <p>The business plan is detailed in Annex A of this report.</p>

1.4 - Act with integrity and be accountable to our stakeholders

Measure Purpose: To act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based

Scope: Formal complaints against Board Members relating to their role as member of the EPFB or ISC, with reference to Essex County Council's Code of Conduct. Formal complaints are those made to Standards Committee. The same complaint may be referred onto the Local Government Ombudsman or a third party may seek judicial review. Measure also includes annual review of key decisions and accountability and contract management measures currently in development

Measure Owner: Ian Myers

Data lead: Ian Myers

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

Rationale for performance status and trend

1.4.1 Reflects performance over the previous 12 months as at 31 March 2015

1.4.2 Reflects performance over the previous 12 months as at 31 March 2015

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

1.4.3 This is a new measure. As at 29 June, three Scheme Member Representatives on the PAB were to be confirmed. Yes = green; No = red.

1.5 - Understand and monitor risk and compliance

Measure Purpose: Understand and monitor risk and compliance

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

Measure Owner: Kevin McDonald & Jody Evans

Data lead: Kevin McDonald & Jody Evans

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
1.5.1 Number of internal audit reviews finding limited/no assurance	0		G	G	0	0	Low	On-going
1.5.2 Number of internal audit recommendations outstanding	0		G	G	0	N/A	Low	On-going
1.5.3 Percentage of risks on the risk register with a residual score that is classified as amber	15	%	G	G	<20%	<20%	High	Quarterly
1.5.4 Percentage of risks on the risk register with a residual score that is classified as red	1	%	G	R	0%	0%	High	Quarterly
1.5.5 Number of matters raised by external auditors relating to Pensions Services	0		G	G	0	N/A	Low	Annually (Sep)

Rationale for performance status and trend

1.5.1 This includes all internal audits conducted in the last 12 months. The 2014/15 internal audit reports for both Pensions Administration and Pensions Investment received good assurance.

1.5.2 The 2014/15 internal audit reports for both Pensions Administration and Pensions Investment contained a total of one moderate recommendation, which has been completed.

1.5.3 The Fund currently has 82 risks in its register, of which 12 have a residual score that is classified as amber. (12 in March Full details are at Annex B to this report. Measurement: below 20% = green; between 20%-25% = amber; above 25% = red

1.5.4 The Fund currently has 82 risks in its register, of which 1 has a proposed residual score that is classified as red. (0 in March). Measurement: 0% = green; above 0% = red

1.5.5 There are no recommendations for Members to note in the 2013/14 Annual Results Report from EY. The 2014/15 report will be brought to the September Board.

2.1 - Maximise returns from investments within reasonable risk parameters

Data as at: 31 March 2014

Measure Purpose: To maximise the returns from investments within reasonable risk parameters

Scope: All investments made by Pensions Fund: asset returns, liquidity and volatility risk

Measure Owner: Kevin McDonald

Data lead: Samantha Andrews

Status	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity
2.1.1 Annual return compared to Peer Group	1st	ranking	G	Gy	1st	1st	High
2.1.2 Annual Return compared to Benchmark	14.8	%	R	G	13.1%	13.1%	High
2.1.3 Five year (annualised) return compared to Benchmark	9.6	%	G	G	8.1%	8.1%	High
2.1.4 Five year (annualised) return compared to central expected return of current investment strategy	9.6	%	G	G	6.4%	6.4%	High
2.1.5 Five year (annualised) return compared to central expected return of current investment strategy	9.6	%	G	G	7.2%	7.2%	High

Rationale for performance status and trend

2.1.1. The 2014/15 annual returns for the peer group are awaited., and will be reported to the Board in September.

2.1.2 The annual return of 14.8% was above the benchmark.

2.1.3 The five year return of 9.6% was above the benchmark.

2.1.4 The five year return of 9.6% was above the central expected return of the current investment strategy.

2.1.5 The five year return of 9.6% was above the expected return of the current investment strategy including investment manager outperformance.

2.2 - Ensure the Fund is properly managed

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

Status								
	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
2.2.1 ISC Member attendance at ISC meetings	81	%	G	G	80%	80%	High	On-going
2.2.2 ISC Members completing training needs analysis (TNA)	63	%	A	R	90%	90%	High	Quarterly
2.2.3 ISC Members with adequate skills - average scores for comprehensive training need analysis (TNA)	52	%	G	A	65%	65%	High	Quarterly

Rationale for performance status and trend

2.2.1 . This represents attendance at ISC meetings in July 2014, November 2014, February 2015, March 2015, June 2015 and the ISC Appointment Sub Cttee on 19 June 2015.

2.2.2 . This represents the completion rate of TNA by ISC members. (87% in previous quarter)

2.2.3. This represent the score of the completed TNA forms. (65% in previous quarter)

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

Measure Purpose: To ensure all significant Fund investment issues are communicated properly to all interested parties

Scope: Publication of meeting minutes and agendas, communication governance arrangements agreed by Board and ISC

Measure Owner: Kevin McDonald

Data lead: Kevin McDonald

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

Rationale for performance status and trend

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

- ISC Terms of Reference in place and noted at the beginning of the municipal year
- Pension Fund Business Plan in place and renewed at the beginning of the financial year
- SIP to be reviewed and published annually
- Annual Report & Accounts published by 30 November
- One independent adviser and one institutional investment consultant attended or were available to attend the last ISC meeting
- Briefing report provided to EPFB on the matters dealt with at the preceding ISC meeting
- Complete management information including asset values and returns made available for consideration at last ISC meeting

All arrangements are in place.

3.1 - Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters and Funding Strategy timescales

Data as at: February 2014

Measure Purposes: To achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters.

Scope: Sources of funding: employer contributions and investments

Measure Owner: Kevin McDonald

Data leads: Kevin McDonald

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

Rationale for performance status and trend

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

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

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

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

Scope: Fund Employers

Measure Owner: Kevin McDonald

Data lead: Sara Maxey

Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.2.1 Stability mechanisms are included within the current Funding Strategy	Yes		G	G	Yes	Yes	High	3 yearly
3.2.2 Each of the 17 major precept raising bodies are were offered contributions which increased by no more than 1% per year or 3% per valuation.	Yes		G	G	Yes	Yes	High	3 yearly

Rationale for performance status and trend

3.2.1 The Funding Strategy Statement is reviewed at least every three years as part of the Valuation process to include suitable stability mechanisms.

3.2.2 During consultation on the 2013/14 Funding Strategy, each of the 17 major presenting bodies were offered five options for employer contributions. These included an option which would increase employer contributions by no more than 1% (of pensionable pay) in the first year and 3% (of pensionable pay) over the three year Valuation cycle. The 17 major precepting bodies are listed below:

Essex County Council
 Basildon District Council
 Braintree District Council
 Brentwood Borough Council
 Castle Point District Council
 Chelmsford City Council
 Colchester Borough Council
 Epping Forest District Council
 Harlow District Council
 Maldon District Council
 Rochford District Council
 Southend-on-Sea Borough Council
 Tendring District Council
 Thurrock Borough Council
 Uttlesford District Council
 Essex Police Authority
 Essex Fire Authority

3.3 - Consistency between the Investment and Funding strategies

Measure Purpose: To have consistency between the investment strategy and funding strategy

Scope: Long term investment return assumed by funding strategy and average expected return on investment portfolio

Measure Owner: Kevin McDonald

Data leads: Samantha Andrews

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.3.1 Expected return of investment strategy	6.4	%	G	G	5.8%	5.8%	High	Annual
3.3.2 Investment strategy reviewed after Asset Liability Study	Yes		G	G	Yes	Yes	Yes	3 yearly

Rationale for performance status and trend

3.3.1 Long term return assumed by Funding Strategy

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

As part of the review of the Statement of Investment Principles, Investment Consultants Hymans Robertson conducted a review of the Fund's investment structure using their Asset Model (HRAM), the stochastic scenario generator developed by Hymans Robertson LLP, calibrated using market data as at 31 October 2014. The result was an expectation of a 6.4% p.a. return which rose to 7.2% with the inclusion of investment managers outperformance.

3.3.2 Investment Strategy reviewed

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

3.4 - Manage employers’ liabilities effectively

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

Scope: All employers contributing to the scheme

Measure Owner: Kevin McDonald

Data leads: Sara Maxey

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

Rationale for performance status and trend

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

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

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

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.5.1 Income adequate to meet benefit payments.			Gy	Gy				

Rationale for performance status and trend
3.5.1 The Fund is expected to commence requiring to use some investment income to pay benefits during 2015/16. A new scorecard measure twill be developed to reflect this.

3.6 - Minimise unrecoverable debt on termination of employer participation

Measure Purpose: To highlight unrecoverable, or potentially unrecoverable, deficit due to employers leaving the Fund
Scope: All employers contributing to the scheme
Measure Owner: Kevin McDonald **Data leads:** Sara Maxey

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.6.1 Potentially unrecoverable deficit due to employers leaving scheme (as a percentage of Total Fund deficit)	0.000	%	G	G	0.00%	0.00%	Low	Quarterly
3.6.2 Deficit unrecoverable due to employers leaving scheme (as a proportion of Total Fund deficit)	0.000	%	G	G	0.00%	0.00%	Low	Quarterly

Rationale for performance status and trend

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

There have been no potentially unrecoverable deficits during the last quarter.

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

There have been no confirmed unrecoverable deficits during the last quarter.

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

4.1 (Annual) - Deliver a high quality, friendly and informative service

Measure Purpose: Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need

Scope: Communication and administration turnaround times, scheme member appeals, payment errors

Measure Owner: Jody Evans

Data lead: David Tucker/Joel Ellner/Daniel Chessell/Matt Mott

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

4.1.1 - 4.1.8 The Fund is aiming for a target of 95%. Above 95% = green, above 85% = amber, below 85% equals red. It should be noted that the Fund already compares favourably with other funds and is aiming even higher.

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

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

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

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

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

4.1.10 The last dispatch of these statements to Deferred members was in June 2015. The previous dispatch was in June 2014

4.1(Quarterly) - Deliver a high quality, friendly and informative service

Measure Purpose: Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need

Scope: Communication and administration turnaround times, scheme member appeals, payment errors

Measure Owner: Jody Evans

Data lead: David Tucker/Joel Ellner/Daniel Chessell/Matt Mott

Status	Value	Units	Previous status	Current status	Target	CIPFA Average	Polarity	Frequency
4.1.13 Number of payments errors	0	number	G	G	<9	N/A	Low	Quarterly
4.1.14 Payment of death grant not made in line with nomination or next of kin (in absence of nomination).	0		G	G	0	N/A	High	Quarterly

4.1.13 Measure captures the number of errors made by Pensioner Payroll which have resulted in scheme members being paid the wrong amount. During last 3 months, 0 payments errors to scheme members. Quarterly target Green = <9; Amber = <16, Red = >16.

4.1.14 Details of the payment of death grants are set out below:

Payment of Death Grants: Quarter ending:	Dec-14	Mar-15
A: Notifications of Scheme Member deaths received	28	39
B: Number within A with death grant nomination	13	20
C: Number within B paid in line with nomination held	13	20
D: Number within A without death grant nomination	15	19
E: Number within D paid to next of kin	15	19
F: Other	0	0
	0	0

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

Measure Purpose: Data is protected to ensure security and authorised use only

Scope: All service area budgets within the directorate

Measure Owner: Kevin McDonald

Data lead: Jody Evans

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
4.2.1 Number of information security breaches	0		G	G	0	0	Low	Quarterly
4.2.2 Actions in place for all breaches	0		G	G	Actions in place for all	Actions in place for all	N/A	Quarterly

Rationale for performance status and trend
<p>4.2.1 There were no breaches this quarter.</p> <p>Green = 0 breaches Amber = 1 or more medium or minor breaches Red = 1 or more major or critical breaches</p> <p>4.2.2 There were no required actions this quarter.</p>

4.3 - Ensure proper administration of financial affairs

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

Scope: Investments and Contributions

Measure Owner: Kevin McDonald

Data leads: Samantha Andrews & Sara Maxey

Status

	Value	Units	Previous status	Current status	Current target	Annual target	Polarity	Frequency
4.3.1 % of monthly reconciliations of equity and bond investment mandates which are timely	96.3	%	G	A	100%	100%	High	Quarterly
4.3.2 % of contributing employers submitting timely payments	99.86	%	A	A	100%	100%	High	Quarterly

Rationale for performance status and trend

4.3.1 In the quarter up to March 2015 the Investment team completed 26 out of 27 reconciliations within the specified timescale. One outstanding reconciliation was completed two days after the deadline.

4.3.2 For the quarter ending March 2015 two employers made late payments. In cash terms this equated to **99.96%** of a total employer contribution of £31.5m.

4.4 - Compliance with the Fund's governance arrangements

Measure Purpose: To ensure compliance with the Fund’s governance arrangements agreed by the Council
Scope: Publication of Essex Pensions Funding Board agendas and minutes. Governance arrangements agreed by Board
Measure Owner: Ian Myers/Jody Evans/Kevin McDonald **Data lead:** Ian Myers/Jody Evans/Kevin McDonald

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
4.4.1 % of Board agendas sent out 5 working days before meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.2 % of Board items sent out 5 working days before meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.3 % of draft Board minutes available 7 working days after meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.4 % of Board minutes uploaded to internet 12 working days after meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.5 Compliance with governance arrangements - number of governance arrangements not in place	0	number	G	G	0	0	High	On-going

Rationale for performance status and trend

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

- An Employer Forum has taken place during the last year - Fund is compliant
- The last Employer Forum received reports and representation from the ISC and EPFB - Fund is compliant

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

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

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

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.1.1. % of positive responses from the scheme member survey. - <i>Helpfulness of the Pensions Teams.</i>	99.1	%	G	G	95%	95%	High	Annual (Sep)
5.1.2. % of positive responses from the Employer Survey. - <i>Expertness of Pensions Teams.</i>	99.1	%	G	G	95%	95%	High	Annual (Sep)
5.1.3. % of positive responses from the Employer Survey. - <i>Pensions Teams are friendly and Informative.</i>	100	%	G	G	90%	90%	High	Annual (Sep)
5.1.4. A Communication Plan is in place for the current year.			Gy	Gy	Yes	Yes	High	Annual (Sep)

Rationale for performance status and trend

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

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

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

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

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

Measure Purpose: Ensure our communications are simple, relevant and have impact. To deliver information in a way that suits all types of stakeholder

Scope: All Scheme members and employers

Measure Owner: David Tucker

Data lead: Matt Mott

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

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

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

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

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

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

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

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

5.3 - Aim for a full appreciation of the pension scheme benefits and changes to the Scheme by all scheme members, prospective scheme members and employers

Measure Purpose: Aim for a full appreciation of the pension scheme benefits and changes to the Scheme by all scheme members, prospective scheme members

Scope: All scheme members and employers

Measure Owner: David Tucker **Data lead:** Matt Mott

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
5.3.1. % of opt outs is within reasonable parameters		%	Gy	Gy	0.10%	0.10%	N/A	Quarterly
5.3.2. % of positive responses from the Employer Survey - <i>Information available is helpful in employers understanding their responsibilities</i>	97.3%	%	G	G	95%	95%		Annual (Sep)

Rationale for performance status and trend

5.3.1 This measure is under development.

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

Essex Pension Fund Strategy Board	EPB/09/15
date: 8 July 2015	

Board Effectiveness

Report by the Independent Governance & Administration Adviser

Enquiries to Kevin McDonald on 0333 013 8488 and Barry Mack on 020 7082 6141

1. Purpose of the Report

1.1 To provide feedback on the survey carried out during March 2015.

2. Recommendation

2.1 To consider the suggested actions within the report.

3. Background

- 3.1 In March 2015 members of the Pension Strategy Board (PSB) and the Investment Steering Committee (ISC) were issued with a survey which provided a framework to collect viewpoints and comments on the effectiveness of these bodies.
- 3.2 The Independent Governance and Administration Adviser produced the attached report to show the results of the survey.

4. Background Papers

- 4.1 The Review of Board & ISC effectiveness paper – March 2015.

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

Governance Effectiveness Review

Governance Effectiveness Interim Questionnaire – Results & Commentary April 2013

In March 2015 the PSB and ISC members were issued with a brief questionnaire which was designed to provide a framework for comment from these governance groups on where they think they are relative to the March 2013 effectiveness review. This paper provides a brief report on the results of this survey.

Results, Commentary and Suggested Actions

A total of 8 responses (57% of the PSB) were received across the PSB and ISC and the “traffic light” analysis of these responses is set out below. Two PSB members commented that having only recently been appointed to the PSB it would be inappropriate to answer any questions at this point, the feedback therefore excludes these responses.

Overall from the responses received, the feedback suggests both the PSB and ISC believe they are effective governance bodies albeit with some acceptance that there is always room for improvement. However, this broad picture must be considered in light of the low response rate and the ‘blank’ returns. We suggest consensus on the views expressed in this feedback is sought from the whole PSB at the July 2015 Board meeting.

The responses suggest the PSB & ISC:

- Know what their objectives are and have the strategies and policies in place to achieve these.
- Members returning the questionnaire believe they collectively have sufficient knowledge, skill and understanding which together with the confidence they have in the professional advice they receive, enables them to make effective decisions and manage risks.
- The PSB and ISC have a good understanding of their accountabilities but work may be needed to demonstrate how their business plan is aligned with their objectives.

There is a common theme that induction training provided to new members should be reviewed in order to familiarise them at an early stage with the Fund's objectives to ‘get their feet under the table’ and to safeguard the integrity of the current PSB & ISC which their members have worked so hard to establish once the Essex Pension Fund Advisory Board (PAB) is up and running. It was also noted that with training becoming part of the PSB's regular agenda, all PSB members are likely to be attending training.

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In more detail: the table overleaf sets out the questions asked in the survey followed by a brief commentary and the suggested actions for consideration by the PSB which include those made by PSB & ISC members.

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Essex Pension Fund Board & Investment Steering Committee Governance Questionnaire March 2015 - Feedback Analysis	Positive response	Probable "Y" or "N"	Negative response							
Q1. Do you think that the Board has a demonstrable and suitably focused set of objectives against which it can now benchmark its performance?										I believe so but think that the remit of the Board should be on Agenda on a regular basis - just printed on reverse of agenda just to remind us of terms of reference
Q2. Can you cite any instances since February 2013 where failure to allocate suitable time in meetings to key issues has impacted effectiveness with regard to strategic and policy issues?										Meetings are well structured. It has been difficult in as much as the anticipated changes cited by government have not always happened to their own deadlines
Q3. Overall, do you think the meetings and additional training sessions have been pitched about right in terms of frequency, content and duration?										Board - Yes ISC - some presentations are far too detailed about world markets and indices where we are investing, why, how much and how their performance is on our portfolio. Frequency, content and duration of meetings is fine. Training a bit sporadic and, questions in tests are not necessarily being addressed in training session
Q4. Pensions is an increasingly complex area, undergoing a significant period of change in the public sector and becoming subject to increasingly higher levels of regulatory scrutiny. Do you think the present level of pension induction training for new Board members remains adequate in light of this?										I do not know how much induction new members receive. I think Post 2017 elections we probably need to think about how we do this. If this means training sessions above then see comment above. If when new to board then my induction training was one to one and I found it adequate. I think induction training probably needs more time allocated to it. Members need training first to understand, then to digest and consolidate knowledge - which takes times. Given all the changes and complexity of the subject, it is difficult to pitch training just right but I would suggest that new board members may need more training to cover the additional complexity
Q5. Do you think that the Board substantially has sufficient confidence in the information and advice provided at meetings by all advisers and officers to make effective and timely decisions at meetings?										Yes I do. I think we have an excellent team of officers and advisers who are always very happy to answer questions and accommodate members views. I have full confidence in advisers and officers. I have always found the information provided fit for purpose and have complete confidence in its accuracy
Q6. Do you know what steps you would expect the Board to take where for whatever reason, a group of experienced Board members left?										I believe we will lose experienced members in 2017 (see 4 above) but members have to learn very quickly at Essex about a large variety of subjects. Good training available and perhaps a member "Buddy" who they can ask "silly" questions of. Put simply, I would expect existing (remaining) Board Members to review eligible individuals who could undergo the necessary training to replace existing members. There are "substitute" members who could be considered. I presume they would try and find new members as soon as possible. Broadly I think I do. New board members would have to be brought up to speed as quickly as possible, however, this is one of the dangers of the democratic process for which there is no real answer
Q7. Imagine that a local TV station wanted to run a 2 minute interview with an Essex Pension Fund Board Member on how the Board and ISC function together to manage Essex Pension Fund risks. Would you be content to have your name pulled at random from a "hat" to attend such an interview? For the purposes of this question, ignore media skills.										With some briefing, I think I so. I really dislike radio or TV interviews and never appear without doing homework and knowing questions, so with that caveat yes. I am still not confident enough to articulate it. I do not trust such media to report areas in which they have no expertise in a fair manner and with understanding. Provided there was sufficient briefing to check current facts etc. So long as what we are talking about is the apolitical, cross party focus the Board and the ISC in evaluating information and proposals from officers and other experts in order to get the best deal for Pension Fund members
Q8. Again, in the local TV station interview scenario, would you be able to articulate what the Board's responsibilities are to the Administering Authority, participating employers and Essex Pension Fund Membership?										As above. The boards responsibilities are to invest on behalf of employers and membership their contribution wisely to build the pot up for when people retire. With prior revision! I have a general grasp but I would need to fully revise my knowledge before I would be comfortable to appear on TV or radio
Q9. Do you think the Board gets an appropriate level of appreciation from its stakeholders for the responsibility it takes for managing £4.5bn of pension assets?										Probably not, but it would be a lot worse if we were trying to defend something we had got wrong. No. I think they have no idea. The work of the Board goes unnoticed as it is conducted in an efficient manner. Whether there is a case for greater appreciation is a moot point, particularly if such appreciation were to be in the form of monetary allowances. Don't know. Probably not, but that is because majority do not understand what is involved. I have no knowledge of what if any appreciation has been expressed
Q10. If a new Board member asked you for one piece of key advice about how to approach effective alignment of Board / ISC objectives and goals with business planning, could you provide this?										I think so. No. Ensure you obtain the best possible professional advice in the area of investment advice and actuarial planning. It is not a political meeting we are all there to achieve the goal of investing wisely to grow the Pension Pot. Ridiculous question to answer in regard to a complex area. Not well or with total confidence. Business planning by whom?
Q11. Do you think the Board could make one further material improvement to the format of its meetings and those of the ISC?										Not sure. ISC presentations, as previously stated, far too focussed on the minutiae of investment. We want to know about your funds performance and investment policies. Possibly ensure that at the start of each item, every member understands the purpose of it
Q12. (a) Non-ISC members only - do you get sufficient information from the ISC to understand the nature of the business that they have conducted and to enable you to call the ISC to account as appropriate?										Yes, and can attend ISC meetings as an observer capacity
(b) ISC members only - considering the questions above, are there any changes or comments you would like to make in relation to the ISC?										Given the low rates of interest received on cash balances I believe more emphasis should be given on reducing such balances - I appreciate that the %s are small but the number is substantial. I believe the report from the ISC should be higher up the Agenda - Board members (other than ISC) more likely to ask questions on early items. It would help me if I had a clear statement of the time off I am allowed for this function and/or preparation for meetings. At present it rests on the goodwill of my line manager which can't be taken for granted forever
General comments/suggestions for improvement										
I think that the Chairman should attend training. It sets a good example to others. I hope that if we move training to a slot inside the meeting will be achieved.										

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Responses	Commentary and Suggested Action
<p>Q.1 Do you think that the Board has a demonstrable and suitably focused set of objectives against which it can now benchmark its performance?</p> <p>Yes 7, No 0.</p> <p><i>Responses</i></p> <p>I believe so but think that the remit of the Board should be on Agenda on a regular basis - just printed on reverse of agenda just to remind us of terms of reference.</p>	<p><i>Commentary</i></p> <p>A unanimously positive response indicating members know what objectives have been set and can monitor achievement or failure to meet them.</p> <p><i>Suggested Action</i></p> <ol style="list-style-type: none"> 1. The Board and ISC can currently find all their objectives set out on one page on the front of the Governance Scorecard. We suggest these continue to be kept to hand during meetings for reference and to act as an aide memoire to keep the Board and ISC focused in meetings.

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Responses	Commentary and Suggested Action
<p>Q.2 Can you cite any instances since February 2013 where failure to allocate suitable time in meetings to key issues has impacted effectiveness with regard to strategic and policy issues?</p> <p>Yes 0, No 7.</p> <p><i>Responses</i></p> <p>Meetings are well structured. It has been difficult in as much as the anticipated changes cited by government have not always happened to their own deadlines.</p>	<p><i>Commentary</i></p> <p>A unanimously positive response indicating members believe suitable time is given to consider reports on key issues.</p> <p><i>Suggested Action</i></p> <p>2. The PSB's agenda has recently been reviewed to include training which can be used to give members an overview of issues to be discussed. However any member who feels that he/she has not fully understood any points in relation to issues where decisions are being made should not feel averse to saying so at that time.</p>

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Responses	Commentary and Suggested Action
<p>Q.3 Overall, do you think the meetings and additional training sessions have been pitched about right in terms of frequency, content and duration?</p> <p>Yes 7, No 0.</p> <p><i>Responses</i></p> <p>Board - Yes</p> <p>ISC - some presentations are far too detailed about world markets and indices and we really want to know where we are investing, why, how much and how their performance is on our portfolio.</p> <p>Frequency, content and duration of meetings is fine. Training a bit sporadic and, questions in tests are not necessarily being addressed in training session.</p>	<p><i>Commentary</i></p> <p>A fairly positive response to the training sessions but with feedback received as to whether the technical content and focus in relation to what is required in relation to investment requirement is being pitched quite right.</p> <p>Presenters of training sessions need to be aware of assessment questions in order they can be covered in training sessions.</p> <p><i>Suggested Action</i></p> <ol style="list-style-type: none"> 3. Technical content to be reviewed for appropriateness by officers and Independent Governance and Administration Adviser (IGAA) prior to training sessions. 4. Officers and IGAA to provide assessment questions to presenters and ensure answers are suitably covered in training sessions.

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Responses	Commentary and Suggested Action
<p>Q.4 Pensions is an increasingly complex area; undergoing a significant period of change in the public sector and becoming subject to increasingly higher levels of regulatory scrutiny. Do you think the present level of pension induction training for new Board members remains adequate in light of this?</p> <p>Yes 4, Undecided 3, No 0.</p> <p><i>Responses</i></p> <p>I do not know how much induction new members receive. I think Post 2017 elections we probably need to think about how we do this.</p> <p>If this means training sessions above then see comment above. If when new to board then my induction training was one to one and I found it adequate.</p> <p>I think induction training probably needs more time allocated to it. Members need training first to understand, then to digest and consolidate knowledge – which takes time.</p> <p>Given all the changes and the complexity of the subject, it is difficult to pitch the training just right but I would suggest that new board members may need more training to cover the additional complexity.</p>	<p><i>Commentary</i></p> <p>Good point on considering the impact of elections on PSB membership and planning accordingly for impact change.</p> <p>One to one induction well received.</p> <p><i>Suggested Action</i></p> <ol style="list-style-type: none"> 5. Impact assessment to be carried out on the risk of more than 50% of the PSB not being re-elected and contingency plans to be drafted. 6. One to one induction for new PSB members to continue but with the impact assessment in mind if number of new members makes this too resource intensive. 7. Look at options for induction training.

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Responses	Commentary and Suggested Action
<p>Q.5 Do you think that the Board substantially has sufficient confidence in the information and advice provided at meetings by all advisers and officers to make effective and timely decisions at meetings?</p> <p>Yes 7, No 0.</p> <p><i>Responses</i></p> <p>Yes I do. I think we have an excellent team of officers and advisers who are always very happy to answer questions and accommodate members' views.</p> <p>I have full confidence in advisers and officers.</p> <p>I have always found the information provided fit for purpose and have complete confidence in its accuracy.</p>	<p><i>Commentary</i></p> <p>It is good to see the recognition of the good work undertaken and the confidence shown to the officers of the EPF.</p> <p>It is also re-assuring to see that the PSB believes it has confidence in all its advisers. However, no adviser should be complacent, but in the same breath, replacing them can be very time consuming.</p> <p><i>Suggested Action</i></p> <p>8. The PSB should continue to monitor adviser performance, but equally ensure take up of any opportunities offered by their advisers to carry out informal performance reviews. It can be a very effective way of "nipping in the bud" any perceived problems with service.</p> <p>9. PSB members should feel comfortable to raise any concerns they have about any advisers with the PSB or ISC Chairmen and to Kevin McDonald or Jody Evans.</p>

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Responses	Commentary and Suggested Action
<p>Q.6 Do you know what steps you would expect the Board to take where for whatever reason, a group of experienced Board members left?</p> <p>Yes 4, Undecided 1, No 2.</p> <p><i>Responses</i></p> <p>I believe we will lose experienced members in 2017 (see 4 above) but members have to learn very quickly at Essex about a large variety of subjects. Good training available and perhaps a member "Buddy" who they can ask "silly" questions of.</p> <p>Put simply, I would expect existing (remaining) Board Members to review eligible individuals who could undergo the necessary training to replace existing members. There are "substitute" members who could be considered.</p> <p>I presume they would try and find new members as soon as possible.</p> <p>Broadly I think I do.</p> <p>New board members would have to be brought up to speed as quickly as possible, however, this is one of the dangers of the democratic process for which there is no real answer.</p>	<p><i>Commentary</i></p> <p>The responses indicate that there is little if any awareness of what action will be taken by the PSB if experienced members were to leave.</p> <p>Responses though indicate that the PSB is sensitive to the risks posed by elections to maintenance of governance standards long term.</p> <p><i>Suggested Action</i></p> <p>10. In conjunction with suggested action No 5 above the impact assessment is to take into account what information should be passed to PSB members to raise awareness and set out the actions planned for remaining PSB members.</p> <p>11. A training strategy and training plan is to be drafted that clearly sets out the training for new and/or experienced members of the PSB and how required knowledge levels will be met and retained.</p>

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Responses	Commentary and Suggested Action
<p>Q.7 Imagine that a local TV station wanted to run a 2 minute interview with an Essex Pension Fund Board Member on how the Board and ISC function together to manage Essex Pension Fund risks. Would you be content to have your name pulled at random from a “hat” to attend such an interview? <i>For the purposes of this question, ignore media skills.</i></p> <p>Yes 5, No 2.</p> <p><i>Responses</i></p> <p>With some briefing, I think so.</p> <p>I really dislike radio or TV interviews and never appear without doing homework and knowing questions, so with that caveat yes.</p> <p>I am still not confident enough to articulate it.</p> <p>I do not trust such media to report areas in which they have no expertise in a fair manner and with understanding.</p> <p>Provided there was sufficient briefing to check current facts etc.</p> <p>So long as what we are talking about is the apolitical, cross party focus of the Board and the ISC in evaluating information and proposals from officers and other experts in order to get the best deal for Pension Fund members.</p>	<p><i>Commentary</i></p> <p>A mixed response with evidence from responses of a general reluctance or acceptance of media as well as being confident to take part in a TV interview on managing pension fund risk so this mixed reaction is probably to be expected.</p> <p>Perhaps a better question would have been “Could you in 30 seconds give a brief summary of what you understand the role of the PSB to be?”</p> <p><i>Suggested Action</i></p> <p>12. In the possibly rare circumstance a media presentation would arise it would be helpful to have in preparation a script (or crib sheet) or statement that can be made available to the media.</p>

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Responses	Commentary and Suggested Action
<p>Q.8 Again, in the local TV station interview scenario, would you be able to articulate what the Board's responsibilities are to the Administering Authority, participating employers and Essex Pension Fund Membership?</p> <p>Yes 5, Undecided 1, No 1.</p> <p><i>Responses –</i></p> <p>As above</p> <p>The board's responsibilities are to invest on behalf of employers and membership their contribution wisely to build the pot up for when people retire.</p> <p>With prior revision!</p> <p>I have a general grasp but I would need to fully revise my knowledge before I would be comfortable to appear on TV or radio.</p>	<p><i>Commentary</i></p> <p>A little more encouraging response to the previous question. The comment received on the responsibilities however could have been expanded to include the stewardship of the Fund and the duty to consider all stakeholders and the stability and affordability of the scheme for the employers and their scheme members.</p> <p><i>Suggested Action</i></p> <p>13. Consider drafting a short paper by officers to insert into induction packs.</p>

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Responses	Commentary and Suggested Action
<p>Q.9 Do you think the Board gets an appropriate level of appreciation from its stakeholders for the responsibility it takes for managing £4.5bn of pension assets?</p> <p>Yes 0, No 7.</p> <p><i>Responses</i></p> <p>Probably not, but it would be a lot worse if we were trying to defend something we had got wrong.</p> <p>No. I think they have no idea.</p> <p>The work of the Board goes largely unnoticed as it is conducted in an efficient manner. Whether there is a case for greater appreciation is a moot point, particularly if such appreciation were to be in the form of monetary allowances.</p> <p>Don't know.</p> <p>Probably not, but that is because majority do not understand what is involved.</p> <p>I have no knowledge of what if any appreciation has been expressed.</p>	<p><i>Commentary</i></p> <p>Opinion is diverse, but broadly the balance is that the PSB does not get the recognition reflective of its responsibilities, but in the same breath, this is not expected.</p> <p>The issue here is the relationship with stakeholders and to what extent if any, improved communication with them would improve the Governance of the Essex Pension Fund.</p> <p><i>Suggested Action</i></p> <p>14. Suggest adding to the Employer Survey, some questions around how employers think the PSB is doing with regard to the running of the Essex Pension Fund.</p> <p>15. Issue a periodical update from the Chairman (appropriate frequency to be discussed) to Employers (and Members of the EPF) updating them on what the Board is currently doing and has achieved compared with the objectives set out in the business plan.</p> <p>16. Seek comment from the PAB once up and running to include in its annual report.</p>

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Responses	Commentary and Suggested Action
<p>Q.10 If a new Board member asked you for one piece of key advice about how to approach effective alignment of Board / ISC objectives and goals with business planning, could you provide this?</p> <p>Yes 2, Undecided 2, No 3.</p> <p><i>Responses –</i></p> <p>I think so</p> <p>No</p> <p>Ensure you obtain the best possible professional advice in the area of Investment advice and actuarial planning.</p> <p>It is not a political meeting we are all there to achieve the goal of investing wisely to grow the Pension Pot.</p> <p>Ridiculous question to answer in regard to a complex area.</p> <p>No, not well or with total confidence</p> <p>Business planning by whom?</p>	<p><i>Commentary</i></p> <p>A mixed response with one member reminding us that this is a complex area and one where it is difficult to pinpoint one key piece of advice when the role takes on a wide range of competencies.</p> <p><i>Suggested Actions</i></p> <p>17. Suggest adding to training objectives, a specific objective around raising awareness of the business plan and how the shape of this is driven by the objectives the Board sets for itself.</p>

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Responses	Commentary and Suggested Action
<p>Q.11 Do you think the Board could make one further material improvement to the format of its meetings and those of the ISC?</p> <p>Yes 2, Undecided 3, No 2.</p> <p><i>Responses</i></p> <p>Not sure.</p> <p>ISC presentations, as previously stated, far too focussed on the minutiae of investment. We want to know about your funds' performance and investment policies.</p> <p>Possibly ensure that at the start of each item, every member understands the purpose of it.</p>	<p><i>Commentary</i></p> <p>Further comment has been made on the relevance of presentations not being focussed on Fund performance and investment policies.</p> <p><i>Suggested Action</i></p> <p>18. Officers and advisers to ensure that papers and management information are clear as to the objectives they're fulfilling.</p>

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Responses	Commentary and Suggested Action
<p>Q.12</p> <p>(a) Non-ISC members only – do you get sufficient information from the ISC to understand the nature of the business that they have conducted and to enable you to call the ISC to account as appropriate?</p> <p>Yes 2, Undecided 0, No 1.</p> <p><i>Responses</i></p> <p>Yes, and can attend ISC meetings as an observer capacity.</p> <p>(b) ISC members only – considering the questions above, are there any changes or comments you would like to make in relation to the ISC?</p> <p>Yes 2, Undecided 2, No 0.</p> <p><i>Responses</i></p> <p>Given the low rates of interest received on cash balances I believe more emphasis should be given on reducing such balances I appreciate that the %s are small but the number is substantial.</p> <p>I believe the report from the ISC should be higher up the Agenda - Board members (other than ISC) more likely to ask questions on early items.</p> <p>It would help me if I had a clear statement of the time off I am allowed for this function and/or preparation for meetings. At present it rests on the goodwill of my line manager which can't be taken for granted forever.</p>	<p><i>Commentary</i></p> <p>Generally a positive response from both groups but should not be complacent.</p> <p><i>Suggested Action</i></p> <p>19. Appointees to the PSB should be provided with an indication of the anticipated amount of personal time they will have to spend in the role in order they can advise their employer (where relevant) and seek approval for appropriate paid time off. Consider providing a policy?</p> <p>20. Consider moving the agenda around to prioritise where key issues are being covered.</p> <p>21. PSB reports cover the reasons why investment changes are not/made.</p> <p>22. PSB members can already attend ISC meetings as an observer but perhaps this should be encouraged more.</p>

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General comments / suggestions for improvement

Response(s)

I think the Chairman should attend training. It sets a good example to others. I hope that if we move training to a slot inside the meeting this will be achieved.

Commentary

Training is now part of the regular agenda.

Prepared by:-

Barry Mack, EPF Independent Governance & Administration Adviser

Partner, Head of Governance

26 June 2015

For and on behalf of Hymans Robertson LLP

Essex Pension Fund Strategy Board	EPB/10/15
date: 8 July 2015	

Investment Steering Committee (ISC) Quarterly Report

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on: 0333 0138 488

1. Purpose of the Report

1.1 To provide a report on ISC activity since the last Board meeting.

2. Recommendations

2.1 That the Board should note the report.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Board.
- 3.2 Since the Board's last meeting the ISC has met twice on 25 March 2015 and 17 June 2015. In addition the ISC Appointment Sub-Committee was held on 19 June 2015.

4. Report of the meeting of ISC on 25 March 2015

- 4.1 The Committee agreed that the responses to the Statement of Investment Principles (SIP) consultation be noted and that the SIP be approved and published.
- 4.2 The Committee reviewed the draft Treasury Management Strategy 2015/16. It was agreed that the Northern Trust GLF limit be increased from £60m to £80m and that the Fund's cash flow situation be kept under review.
- 4.3 A report on the Q4 2014 Investments Tables, which detailed investment manager performance, was discussed. It was noted that the Fund's value had risen from £4.253bn as at 30 September 2014 to £4.663bn as at 31 December 2014.
- 4.4 The Committee noted the traffic light report on investment managers and the reports of meetings that officers & advisers had held with M&G Alpha Opportunity and L&G on 4 February 2015 and 6 March 2015 respectively.
- 4.5 Presentations were received from Hamilton Lane on the private equity portfolio and Partners Group on the infrastructure portfolio. The Committee agreed to a further commitment of £50m to new private equity opportunities and a further commitment of £180m to Partners Group during 2015/16.
- 4.6 The Committee received a report on the Institutional Investment Consultant Contract and the arrangements to select a successor for Keith Neale, the Independent Investment Adviser. It was agreed that Hymans Robertson contract continue for the remainder of 2015 and the calendar year of 2016. That during the latter part of 2016 the contract would be then be subject to re-tender using the National LGPS framework. The Committee agreed that an Appointment Sub Committee be established to appoint the new Independent Investment Adviser.

5. Report of the meeting of ISC on 17 June 2015

- 5.1 The Committee noted its new membership, its Terms of Reference, and the appointment of Cllr Bass as Chairman following the 12 May 2015 annual meeting of Essex County Council. Cllr Hume was appointed as Vice Chairman.

- 5.2 The Committee noted a report on progress on the procurement of a new Independent Investment Adviser, ahead of the meeting of the ISC Appointment Sub-Committee on 19 June 2015.
- 5.3 A verbal update on Q1 2015 market conditions was discussed followed by the Investment Tables which detailed Investment Managers performance. It was noted that as at 31 March 2015 the value of the Fund's assets had risen to a provisional value of £4.933bn.
- 5.4 The Committee noted the report of the meeting that officers & advisers held with Marathon and M&G Investments on 29 May 2015.
- 5.5 Presentations were received from M&G Investments on the global equity portfolio and Aviva on the property portfolio.

6. Report of the meeting of the ISC Appointment Sub Committee 19 June 2015

- 6.1 The Members of the Appointment Sub Committee received a presentation on the process to date and the three shortlisted candidates.
- 6.2 The Committee interviewed three shortlisted candidates and agreed the appointment of Mark Stevens to the role of Independent Investment Adviser to the Essex Pension Fund.

7. Link to Essex Pension Fund Objectives

- 7.1 Investments
To maximise the returns from investments within reasonable risk parameters.
To ensure the Fund is properly managed.

8. Risk Implications

- 8.1 None other than those already identified as part of the Fund's investment strategy.

9. Communication Implications

- 9.1 None

10. Finance and Resources Implications

- 10.1 None other than those already identified as part of the Fund's investment strategy.

11. Background Papers

- 11.1 ISC meetings of 25 March 2015 and 17 June 2015 – agenda and draft minutes.
- 11.2 ISC Appointment Sub-Committee 19 June 2015 – agenda and draft minutes.

Essex Pension Fund Strategy Board	EPB/11/15
date: 8 July 2015	

External Audit 2014/15: Audit Plan

Report by Baldeep Singh, Partner Ernst & Young LLP

Enquiries to Dean Bardrick on 0789 6684 728

1. Purpose of the Report

For External Audit to outline the Audit Plan in relation to the 2014/15 financial statements of the Essex Pension Fund.

2. Recommendation.

That the Board should note the report.

3. External Audit Plan

Baldeep Singh, on behalf of Ernst & Young has submitted the attached Essex Pension Fund Audit Plan which describes the approach that will be adopted for the external audit of the 2014/15 Essex Pension Fund Accounts.

This Audit Plan was reported to Essex County Council's Audit Committee on 16 March 2015.

4. Link to Essex Pension Fund Objectives

4.1 Audit work assists the Fund in achieving a number of its objectives, including:

- to ensure that the Fund is properly managed
- understand and monitor risk and compliance
- to deliver a high quality, informative and friendly service to all beneficiaries, potential beneficiaries and employers

5. Risk Implications

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

6. Communication Implications

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

7. Finance and Resources Implications

7.1 As highlighted in the attached Audit Plan, the charge to the Fund in 2015/16 will be £31,266.

8. Background Papers

8.1 None.

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Essex County Council Pension Fund

Year ending 31 March 2015

Audit Plan

2 March 2015

Ernst & Young LLP



Building a better
working world

Audit Committee
Essex County Council
County Hall
Market Road
Chelmsford
CM1 1QH

2 March 2015

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Essex County Council Pension Fund and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you on 16 March 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Baldeep Singh
For and behalf of Ernst & Young LLP
Enc

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

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

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

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

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

1. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Essex County Council Pension Fund (the Pension Fund) give a true and fair view of the financial position as at 31 March 2015 and of the amount and disposition of the Fund's assets and liabilities for the year then ended;

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part three of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section four.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Fund's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions
Other financial statement risks	
Pensions payroll system change	
The Council changed its pension's payroll system from Axis to Civica part way through 2014/15.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Assessing that all balances have been brought forward correctly to the new system. ▶ Testing the controls operating over the new system ▶ Undertaking additional substantive testing as required by our audit approach.

We will keep our risk assessment under review throughout our audit and communicate to the Audit Committee any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code') our principal objectives are to review and report on, the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also review the Pension Fund's annual report and form an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Essex County Council Pension Fund.

4.2 Audit process overview

Our approach is to assess the Pension Fund's level of internal controls and to place reliance upon those controls where our assessment allows.

In doing so, we will look to rely on the work of Internal Audit as much as possible whilst complying with the requirements of auditing standards. We have discussed our requirements with Internal Audit, establishing which financial systems they are reviewing this year and have built this in to our work plan.

Processes

Our initial assessment of the key processes across the Pension Fund has identified the following key processes where we will seek to test key controls, both manual and IT:

- Contributions
- Pension's payroll

Investments and cash balances will be tested substantively at year end.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ give greater likelihood of identifying errors than random sampling techniques.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of experts

In producing the financial statements, management will place reliance on the work undertaken by a small number of experts. We anticipate being able to undertake sufficient procedures such that we will be able to place reliance on the work undertaken by management's experts.

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ auditor independence.

Procedures required by the Code

- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements; and
- ▶ reviewing and examining, where appropriate, evidence relevant to the Pension Fund's corporate performance management and financial management arrangements, and its reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Pension Fund is £43.374 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £2.167 million to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Pension Fund is £31,266. Further information is provided in Appendix A.

4.5 Your audit team

The engagement team is led by Baldeep Singh who leads EY's pension's assurance team. Baldeep is supported by Christine Connolly who is responsible for the day-to-day direction of audit work, and who is the key point of contact for your finance and pension teams.

Rob Murray is the director leading our overall engagement with Essex County Council and our relationship with the Audit Committee.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit. The timetable includes the deliverables we have agreed to provide to the Pension Fund through the Audit Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 14		Audit Fee letter
Risk assessment and setting of scopes	January to March 15	March 15	Audit Plan
Testing routine processes and controls	March to April 15		
Year-end audit	July to September 15		
Completion of audit	September 15	September 15	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements). Audit completion certificate
Conclusion of reporting	October 15	December 15	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Pension Fund. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Pension Fund has approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Pension Fund. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Baldeep Singh, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Out-turn 2013/14 £	Published fee 2013/14 £	Explanation
Total Audit Fee – Code work	31,266	31,266	31,266	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ the operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ our accounts opinion being unqualified;
- ▶ appropriate quality of documentation is provided by the Pension Fund; and
- ▶ the Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process 	► Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant 	► Report to those charged with governance
Fraud <ul style="list-style-type: none"> ► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud 	► Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity 	► Report to those charged with governance
External confirmations <ul style="list-style-type: none"> ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures 	► Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	► Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary

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Essex Pension Fund Strategy Board	EPB/12/15
Date: 8 July 2015	

Internal Audit Annual Report of Pension Fund Reviews

Report by Peter Tanton - Head of Internal Audit

Enquiries to Peter Tanton 03330138445

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 2014/15 activity in relation to the pension fund and proposals for 2015/16.

2. Recommendations

- 2.1 Pension Board Members are requested to note the outcomes of the 2014/15 plan.
- 2.2 Pension Board members are requested to note the outcomes of the 2014/15 National Fraud Initiative.
- 2.3 Pension Board members are requested to note the planned audits of the Pension Fund for 2015/16.

3. Background

- 3.1 ECC is the administering authority for the Pension Fund and as such the Pensions Administration and Pension Fund Investment represent major systems in terms of financial control and reporting of the Council's activities.
- 3.2 In 2014/2015 a new pension system (UPM) was successfully implemented, going live on 1 January 2015. Due to the in-year implementation the Pension Administration review encompassed both the new (UPM) and old (AXIS) systems.

4. 2014/15 Internal Audit Reviews

- 4.1 We undertook two reviews in accordance with the agreed Audit Plan:
- Pension Administration (Annex A) – Good Assurance
 - Pension Investment (Annex 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 our highest level of assurance.**

5. National Fraud Initiative (NFI)

- 5.1 The Audit Commission are currently responsible for the biennial NFI where electronic data is matched 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 As part of the overall NFI data matching exercise ECC Pension Payroll data is matched against the Department for Work and Pensions deceased persons' data. This has identified **overpayments in respect of deceased pensioners of £29,116, with an annualised pension value of £103,590**; recovery is ongoing. There could be further outcomes as some matches are still under investigation.

6. 2015/16 Internal Audit Coverage

- 6.1. On 16 March 2015, the Audit Committee approved the Internal Audit plan for 2015/16. The plan contains the following Pension Audits:

- KFS 9 Pension Investment – 25 days
- KFS10 Pensions Administration – 25 days
- CF1 National Fraud Initiative – 5 - 10 days (see note 1 below)

Note 1: The plan details 60 days (for all NFI datasets) - a proportion will be used for the pension payroll data submission and investigation of matches. We will also be undertaking a supplementary NFI matching exercise for pension data only in December 2015, which ensures the pension fund is subject to an annual matching exercise. Indicatively this activity, in total, is usually between 5 and 10 days but this is dependent on the nature and volume of matches returned and further investigatory work.

- 6.2 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:

- to ensure that the Fund is properly managed
- understand and monitor risk and compliance
- to deliver a high quality, informative and friendly service to all beneficiaries, potential beneficiaries and employers

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 Committee, there are no communications implications.

10. Finance and Resources Implications


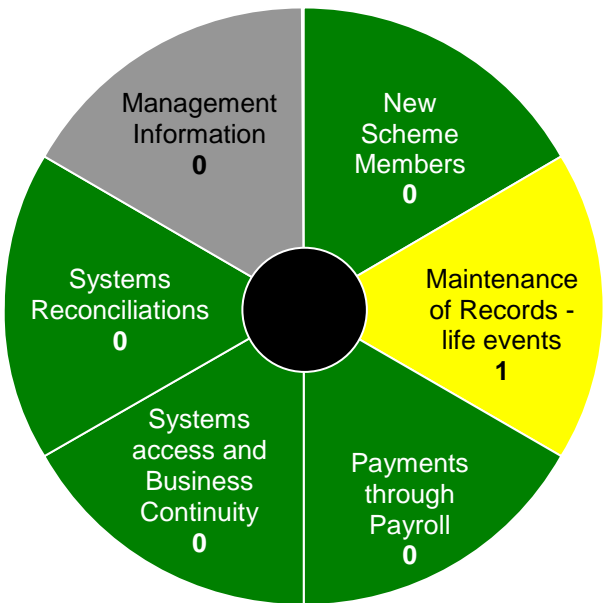
10.1 As highlighted at 6.2 the charge to the Fund in 2015/16 will be £22,500.







11. Background Papers

11.1 None.

Final Internal Audit Report 2014/15 – Pension Service & Administration (KFS10)





1. Executive Summary

<p>Function: Corporate Services</p> <p>Audit Sponsor: Kevin McDonald, Director for Essex Pension Fund</p> <p>Distribution List: Kevin McDonald, Jody Evans, Pensions Services Manager; Joel Ellner, Team Manager; Daniel Chessell, Team Manager, Pensions; Margaret Lee, Executive Director for Corporate and Customer Services; Cllr Rodney Bass, Chairman of Essex Pension Fund; Christine Connolly, Ernst & Young (External Audit).</p> <p>Final Report Issued: 7 May 2015 Date of last review: March 2014</p>	<p>Overall Opinion</p> <p>GOOD ASSURANCE </p> <p>Direction of Travel</p> <p>NA - the scope is not consistent with our prior audit</p>	<p>Number of Control Design Issues Identified</p> <p>0 Critical 0 Major 0 Moderate 0 Low</p>	<p>Number of Control Operating in Practice Issues Identified</p> <p>0 Critical 0 Major 1 Moderate 0 Low</p>	<p>Number of Recommendations</p> <p>1 Made 0 Rejected N/A Critical Rejected N/A Major Rejected</p>
<p>Scope of the Review and Limitations:</p>	<p>A new pension system (CIVICA) was introduced in December 2014 with "Go Live" on 1 January 2015. With this in mind it was decided to complete the audit work in two stages. The first stage covering the period April to September based on the existing systems and processes and the second stage post implementation of UPM. Due to the timing of the audit the annual Pension Increase (payable from April 6 2015), testing of the Lump Sum reconciliations which were still being completed at the time of the audit and management information from the new system were not included within the testing. The management and controls surrounding the Essex Pension Fund Bank reconciliation and coding on the General Ledger were out of scope of this audit, these areas are being reviewed as part of the Pensions Investment audit (KFS19).</p>			
<p>Critical and Major Findings and Recommendations</p> <p>There are no critical or major recommendations.</p> <p>The audit opinion is an overall opinion of the controls operated under the previous AXIS system and the new UPM system (note limitations to scope above for UPM). The functionality of the UPM system has improved the control environment around the administration of pensions.</p>	<p>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</p>  <p> ■ Critical priority Control Design or Control Operating in Practice issues identified ■ Major priority Control Design or Control Operating in Practice issues identified ■ Moderate priority Control Design or Control Operating in Practice issues identified ■ No / Minor Control Design or Control Operating in Practice Issues identified ■ Not tested </p>			

Auditor: Sarah Collins		Issues raised and officers responsible for implementation:							
Fieldwork Completed: 14 April 2015		Name		Critical	Major	Moderate	Low	Total	Agreed
Draft Report Issued: 14 April 2014		Daniel Chessell and Joel Ellner – Pension Team Managers		0	0	1	0	1	1
Management Comments Expected: 5 May 2015		Releasing Internal Audit Reports: All distributed draft and final reports remain the property of the respective Director and the Executive Director for Corporate Services. Approval for distributing this report should be sought from the relevant Director. Care must be taken to protect the control issues identified in this report. Risk Management: The management of the following risks has been reviewed in this audit. Where appropriate, the Audit Sponsor is responsible for adding new risks identified to the relevant risk register.							
Management Comments Received: 6 May 2015									
Final Report: 7 May 2015									
Risk Ref	Risk						Risk Already Identified	Risk Managed	
Registered Risks Reviewed									
	None								
Unregistered Risks Identified & Audited									
N/A	New Scheme Members: New scheme members (including transfers in) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Essex Pension Fund regulations. Supporting documentation for members is not retained resulting in failure to demonstrate members have met the requirements of the scheme.						N/A		
N/A	Maintenance of Records - life events: Scheme members' records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Essex Pension Fund regulations and potential for incorrect pension calculations.						N/A		
N/A	Payments through Payroll: New members to the payroll system are not authorised, processed and recorded completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made to pensioners or dependants and individuals who are no longer eligible. Manual calculations are not correctly calculated and checked before input resulting in the potential for under and over payments of lump sum entitlements and pensions. Notification of deaths are not received and actioned promptly resulting in overpayments of pensions and the potential for fraudulent payments. The recovery of pension overpayments is not managed resulting in financial loss to the Essex Pension Fund. Amendment to payroll data are not authorised, processed and recorded completely and accurately; and checked for accuracy resulting in over/underpayments. Management information and checks on the payroll process are inadequate resulting in errors and fraudulent payments going undetected. Lump sum payments are not authorised and processed correctly resulting in incorrect or potentially fraudulent payments.						N/A		
N/A	Systems access and Business Continuity: Loss of connectivity causes an inability to deliver a service for pension's administration and pensioner payroll which may lead to claims being made against the Essex Pension Fund and loss of reputation. Access to AXIS and payroll systems and data is not controlled and restricted to relevant staff, leading to systems and data being amended and/or fraudulently manipulated by unauthorised people. Essex Pension Fund data is not held securely resulting in loss or theft of data.						N/A		
N/A	Systems Reconciliations: System errors will not be identified leading to errors or omissions in the transfer of data between the AXIS modules. Reconciliations between the Essex Pension Fund payroll system and the general ledger are not performed regularly resulting in errors going undetected and inaccurate financial reporting. Reconciliations of payroll, payment file and BACS are not carried out resulting in erroneous and/or fraudulent payments being made. Returned monies are not properly recorded, managed and reconciled resulting in failure to account for such monies and detect any errors.						N/A		
N/A	Management Information: Management information is inadequate or incomplete resulting in poor performance management of the pensions and payroll systems.						N/A		

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2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p>Remedial action must be taken immediately</p>
 Major	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p>Remedial action must be taken urgently</p>
 Moderate	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p>Prompt specific action should be taken</p>
 Low	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines. ▪ Reputational damage – Internal review, unlikely to have a wider impact. <p>Remedial action is required</p>
Assurance Level	Description
Good	Good assurance – 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.
Adequate	Adequate assurance – whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	Limited assurance – there are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	No assurance – internal controls are generally weak leaving the system/process open to significant error or abuse or reputational damage. There are Critical recommendations indicating major failings

Auditors' Responsibilities 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 work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

3. Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Operating Effectiveness - Duplicate Payment					
1.	<p>During audit testing of the lump sum payments (paid via the AXIS system), it was noted that a duplicate payment had been made in April and May 2014/15 for the sum of £33,384.46 that had not been identified during the monthly reconciliation process. It was advised by the Pensions Operations Analyst that a creditor had been raised for the payment in the old year and was cancelled off against the April 2014 payment but this still did not provide a clear reason as to how / why this duplicate payment had occurred and not been identified within the monthly reconciliation process.</p> <p>The Pensions Team Manager contacted the pensioner via letter on 27 January 2015 advising her that a duplicate payment had been made and acknowledgement was received via a telephone call on 25 February 2015 confirming that the payment would be repaid. Payment has now been recovered in full.</p> <p>Following identification of the duplicate payment the controls around payment approval were strengthened. Additionally the functionality within UPM, which is driven by task workflow authorisation, has strengthened the</p>	<p><u>Maintenance of Records:</u> A failure to ensure that any overpayments are identified in a timely manner via the internal reconciliation process and overpayments robustly pursued may result in a financial loss to the Essex Pension Fund.</p>	<p>It is recommended that the processes and system controls that are being implemented within UPM are reviewed on a regular basis to ensure that duplicate payments cannot be paid. The reconciliation process should be tested to ensure that any duplicate payments would be identified at this point.</p> <p>Future development of UPM should include implementation of payment files being generated directly from UPM. This would improve the controls around payments.</p>	<p>● Moderate</p>	<p>Agreed: Yes</p> <p>Action to be taken: System controls for payments are included within the new processes implemented on UPM.</p> <p>Reconciliations will continue to be completed on a monthly basis and all non-schedule payment instructions to P2P are to be authorised by a member of the Essex Pension Fund Management Team only.</p> <p>The option of making all non-payroll payments directly from UPM as the benefits include additional controls, reduced cost, increased efficiency for the completion of UPM processes, reconciliations and accounts is being explored.</p> <p>Additional Resources Required for Implementation: No</p> <p>Responsible Officer: Daniel Chessell and Joel Ellner - Pension Team Managers</p> <p>Target Date: Completed</p>

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
	<p>approval process; only managers can approve payments within the workflow process.</p> <p>Payment instructions are now generated directly from UPM with the functionality within UPM producing the schedule for payment and this is authorised through the internal control process. The approved schedule is printed off and is sent to Purchase to Pay (P2P) for payment.</p>				

4. Controls Assessment Schedule

New Scheme Members Risks:

New scheme members (including transfers in) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Essex Pension Fund regulations. Supporting documentation for members is not retained resulting in failure to demonstrate members have met the requirements of the scheme.

Control	Control In Place?	Action Plan Ref.
Clearly defined processes are in place to authorise and admit new starters and these are complied with. New scheme members are entered onto AXIS accurately and receive a notification of membership in a timely manner.	Yes	
The disks received from the admitted bodies are complete and sense checked pre and post input into AXIS to ensure all data has been transferred accurately. All new scheme members entered onto AXIS.	Yes	
Documentation received and completed for individuals transferring into the Essex Pension Fund is recorded on the system and retained securely. All quotations, calculations, notifications to scheme members and payments are checked by management before payment.	Yes	

Maintenance of Records - Life Events Risks:

Scheme members' records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Essex Pension Fund regulations and potential for incorrect pension calculations.

Control	Control In Place?	Action Plan Ref.
Deferred membership pensions are independently checked and authorised before they are paid. All documentation is securely retained.	Yes	
There is a clearly defined process in place for admitting new retirees onto the Payroll system. This process includes ensuring appropriate authorisation, processing and accurate recording of data in accordance with scheme rules. All documentation is securely retained.	Yes	
Documentation is received and retained on notification of death in accordance with regulations. All related documentation is securely retained. Notification of deaths is received and actioned promptly. Pension on death calculations are produced from AXIS and checked for accuracy by an appropriate manager prior to payment.	Yes	
Any overpayment identified is recovered in accordance with set policy. All documentation is securely retained.	Partially	1
Procedure notes describing all key processes are complete and adhered to by all Pensions Service Administration staff.	Yes	
Transfers out have been calculated in accordance with scheme rules, approved by an authorised manager and all documentation retained securely.	Yes	
There is a clearly defined process in place for payment of lump sums. This process includes ensuring appropriate authorisation, processing and accurate recording of data in accordance with scheme rules. All documentation is securely retained.	Yes	

Payments through Payroll Risks:

Control	Control In Place?	Action Plan Ref.
Amendments to payroll data are in writing and promptly recorded and authorised by management. Amendment reports are produced and checked before the BACS file is sent for payment. Payments are independently checked, correctly authorised, supported by appropriate documentation and calculations have been verified prior to authorisation. Overpayments are identified and recovered in line with set policy. All overpayment calculations have been verified and supporting documentation retained. Lump sum payments are accurate and authorised by appropriate management in accordance with the scheme regulations.	Yes	
All new members to the Payroll system are authorised by an appropriate manager in accordance with the scheme rules, ensuring separation of duty is maintained.	Yes	
All new members to the Payroll system are authorised by an appropriate manager in accordance with the scheme rules, ensuring separation of duty is maintained.	Yes	
Amendment reports are produced and checked before the BACS file is sent for payment. Payments are independently checked, correctly authorised, supported by appropriate documentation and calculations have been verified prior to authorisation.	Yes	

Systems Reconciliation Risks:

Loss of connectivity causes an inability to deliver a service for pension's administration and pensioner payroll which may lead to claims being made against the Essex Pension Fund and loss of reputation.

Reconciliations between the Essex Pension Fund payroll system and the general ledger are not performed regularly resulting in errors going undetected and inaccurate financial reporting.

Reconciliations of payroll, payment file and BACS are not carried out resulting in erroneous and/or fraudulent payments being made.

Returned monies are not properly recorded, managed and reconciled resulting in failure to account for such monies and detect any errors.

Control	Control In Place?	Action Plan Ref.
The Essex Pension Fund Control Accounts are reconciled monthly and appropriate management authorisation is evidenced.	Yes	
Procedure notes describing the key processes are followed by staff when performing the various reconciliations.	Yes	
Regular reconciliation between the AXIS modules is undertaken to ensure that all data is transferred between modules and is complete and there are no system errors. Appropriate management sign-off is evidenced. Regular reconciliation between IFS and the AXIS modules is completed and approved. Investigation is undertaken if there are any discrepancies.	Yes	

Systems Access and Business Continuity Risks:

System errors will not be identified leading to errors or omissions in the transfer of data between the AXIS modules.

Access to AXIS and payroll systems and data is not controlled and restricted to relevant staff, leading to systems and data being amended and/or fraudulently manipulated by unauthorised people.

Essex Pension Fund data is not held securely resulting in loss or theft of data.

Control	Control In Place?	Action Plan Ref.
Access permissions and restrictions are in line with Business need and there is appropriate separation of duty. Robust controls exist for the administration of passwords, password changes and account lockout following failed attempts.	Yes	
Business continuity / disaster recovery plans are in place if critical systems are unavailable and these are tested regularly.	Yes	
Regular back-up of core data is undertaken and tested to ensure adequate recovery processes are in place.	Yes	

Management information Risks:






Management information is inadequate or incomplete resulting in poor performance management of the pensions and payroll systems.

Control	Control In Place?	Action Plan Ref.
Management information is provided on a regular basis identifying compliments and complaints and also providing information on poor performance. Where complaints or poor performance is identified there is a process in place to address these to a satisfactory outcome.	Not tested	

Final Internal Audit Report 2014/15 – Pension Investment (KFS19)

1. Executive Summary

<p>Function: Corporate Services</p> <p>Audit Sponsor: Margaret Lee, Executive Director for Corporate and Customer Services</p> <p>Distribution List: Margaret Lee, Executive Director for Corporate and Customer Services; Kevin McDonald, Director for Essex Pension Fund; Jody Evans, Head of Essex Pension Fund; Christine Connolly, Ernst & Young (External Audit). Cllr Rodney Bass, Chairman Essex Pension Fund Board.</p> <p>Final Report Issued: 16th April 2015</p> <p>Date of last review: March 2014</p>	<p>Overall Opinion</p> <p>GOOD ASSURANCE</p> <p>Direction of Travel</p> <p>Control environment has not changed since our prior audit</p>	<p>Number of Control Design Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p>Number of Control Operating in Practice Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p>Number of Recommendations</p> <p>0 Made</p> <p>N/A Rejected</p> <p>N/A Critical Rejected</p> <p>N/A Major Rejected</p>
<p>Scope of the Review and Limitations:</p>	<p>The audit examined the extent to which the risks regarding potential non-compliance with governance arrangements, investment management and performance monitoring, and receipt of employer contributions were being addressed, controlled and managed. There are no limitations of scope.</p>			
<p>Critical and Major Findings and Recommendations</p> <p>No recommendations were identified.</p>	<p>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</p> <div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; background-color: red; margin-right: 5px;"></div> <p>Critical priority Control Design or Control Operating in Practice issues identified</p> </div> <div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; background-color: orange; margin-right: 5px;"></div> <p>Major priority Control Design or Control Operating in Practice issues identified</p> </div> <div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; background-color: yellow; margin-right: 5px;"></div> <p>Moderate priority Control Design or Control Operating in Practice issues identified</p> </div> <div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; background-color: green; margin-right: 5px;"></div> <p>No / Minor Control Design or Control Operating in Practice Issues identified</p> </div>			





Auditor: Jo Russell		Issues raised and officers responsible for implementation:						
Fieldwork Completed: 24th March 2015		Name	Critical	Major	Moderate	Low	Total	Agreed
Draft Report Issued: 2 April 2015		n/a	0	0	0	0	0	
Management Comments Expected: 23 April 2015		Releasing Internal Audit Reports: All distributed draft and final reports remain the property of the respective Director and the Executive Director for Corporate Services. Approval for distributing this report should be sought from the relevant Director. Care must be taken to protect the control issues identified in this report. Risk Management: The management of the following risks has been reviewed in this audit. Where appropriate, the Audit Sponsor is responsible for adding new risks identified to the relevant risk register.						
Management Comments Received: 14 April 2015								
Final Report: 16 April 2015								
Risk Ref	Risk						Risk Already Identified	Risk Managed
Registered Risks Reviewed								
	Governance Arrangements: Lack of knowledge of and failure to apply pension regulations leading to ultra vires acts and a failure to comply with regard to: <ul style="list-style-type: none">• preparing, publishing and maintaining the Statement of Investment Principles, Statement of Compliance, Funding Strategy and Annual Report;• obtaining actuarial valuations and certificates; and• providing copies of these documents to stakeholders resulting in potential loss of reputation, qualification of accounts, and legal reprimand. Lack of knowledge of and a failure to operate best practice resulting in governance arrangements not matching up to recommended best practice, leading to loss of reputation and employer and employee confidence.						Yes	
	Investment Management: Poor strategic planning and response to incidents, changes in markets, rules and regulations leading to failure of the funding strategy, resulting in a forecasted inability to pay benefits and a consequent need to raise employer contributions. Poor security of data leading to potential loss of records, resulting in non-compliance with regulations and additional staff costs to correct. Lack of reconciliations between Council and Custodian records allowing discrepancies between the two to remain undetected and potential errors in the accounts, resulting in qualification of the accounts, misrepresentation of Fund value and loss of reputation. Fund assets are not accurately accounted for resulting in potential errors in the accounts and Fund valuation leading to inaccurate actuarial conclusions and potential funding shortfall causing increased employer contributions from Council Tax. Lack of restrictions/guidelines on investments resulting in potential loss of income and capital and providing poor value for money for the Pension Fund.						Yes	
	Monitoring of Performance: Poor contract drafting and / or management allowing poor performance in the supply of services to the Pension Fund to occur without redress resulting in loss of reputation, reduced investment income, potential legal proceedings and increased employer contributions and funding from Council Tax.						Yes	
	Employer Contributions: Employer contributions not amended in line with actuarial recommendations resulting in potential forecasted shortfall in the Pension Fund leading to increased reliance on Council Tax and damage to reputation. Employer contributions not accurately accounted for allowing erroneous entries to appear in the accounts resulting in misrepresentation of the Fund value, potential qualification of the accounts and loss of reputation.						Yes	
	Essex Pension Fund Bank Account: Lack of reconciliation of the Essex Pension Fund bank account resulting in erroneous entries remaining undetected (e.g. pension income/expenditure posted to ECC, incorrect amounts posted). Failure to subsequently correct miscoded transactions may result in loss for the Pension Fund and/or Essex County Council.						Yes	

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Unregistered Risks Identified & Audited
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	None		
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2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p>Remedial action must be taken immediately</p>
 Major	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p>Remedial action must be taken urgently</p>
 Moderate	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p>Prompt specific action should be taken</p>
 Low	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines. ▪ Reputational damage – Internal review, unlikely to have a wider impact. <p>Remedial action is required</p>
Assurance Level	Description
Good	Good assurance – 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.
Adequate	Adequate assurance – whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	Limited assurance – there are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	No assurance – internal controls are generally weak leaving the system/process open to significant error or abuse or reputational damage. There are Critical recommendations indicating major failings

Auditors' Responsibilities 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 work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

4. Controls Assessment Schedule

Governance Arrangements Risks:

Lack of knowledge of and failure to apply pension regulations leading to ultra vires acts and a failure to comply with regard to:

- preparing, publishing and maintaining the Statement of Investment Principles, Statement of Compliance, Funding Strategy and Annual Report;
- obtaining actuarial valuations and certificates; and
- providing copies of these documents to stakeholders resulting in potential loss of reputation, qualification of accounts, and legal reprimand.

Lack of knowledge of and a failure to operate best practice resulting in governance arrangements not matching up to recommended best practice, leading to loss of reputation and employer and employee confidence.

Control	Control In Place?	Action Plan Ref.
Best practice guidelines and available and are adhered to wherever possible. Key staff members within the Pension Investment team are aware of best practice guidelines available. Those charged with the governance of the Fund and the scheme are able to fulfil their responsibilities effectively.	Yes	
The Fund's Governance Policy is published, and governance arrangements are subject to review. Required documentation (in accordance with the Local Government Pension Scheme Regulations 2013) have been published and issued. Formal reports and documentation is available for all key stakeholders. Actuarial valuations have been completed and received.	Yes	

Investment Management Risks:

Poor strategic planning and response to incidents, changes in markets, rules and regulations leading to failure of the funding strategy, resulting in a forecasted inability to pay benefits and a consequent need to raise employer contributions.

Poor security of data leading to potential loss of records, resulting in non-compliance with regulations and additional staff costs to correct.

Lack of reconciliations between Council and Custodian records allowing discrepancies between the two to remain undetected and potential errors in the accounts, resulting in qualification of the accounts, misrepresentation of Fund value and loss of reputation.

Fund assets are not accurately accounted for resulting in potential errors in the accounts and Fund valuation leading to inaccurate actuarial conclusions and potential funding shortfall causing increased employer contributions from Council Tax.

Lack of restrictions/guidelines on investments resulting in potential loss of income and capital and providing poor value for money for the Pension Fund.

Control	Control In Place?	Action Plan Ref.
Records retained by Essex County Council, appointed Custodians and Fund Managers are reconciled on a periodic basis. A reconciliation between book cost and cash is undertaken, with supporting information. Calculations of timing differences between Custodian and Employer are	Yes	

Control	Control In Place?	Action Plan Ref.
undertaken.		
The journal updating IFS has supporting evidence, is accurate and is fully authorised.		
Appropriate independent external advisors are engaged, to provide formal advice with a view to mitigating risks and optimising the value of the Fund.	Yes	
Strategic plans are in place, to reflect the Fund's investment objectives. The strategy considers the Pension Fund's own liabilities and risk profile.		
Significant changes to the market are identified promptly and effectively communicated.		

Monitoring of Performance Risks:

Poor contract drafting and / or management allowing poor performance in the supply of services to the Pension Fund to occur without redress resulting in loss of reputation, reduced investment income, potential legal proceedings and increased employer contributions and funding from Council Tax.

Control	Control In Place?	Action Plan Ref.
An effective contract management framework is in place, with monitoring against benchmarks undertaken.	Yes	
Contracts are regularly reviewed in light of changing market conditions and actual performance.		
Any breach of investment guidance or contract is identified, and addressed.		
Administration / Fund Manager costs are reviewed on a periodic basis to ensure that value for money is achieved.	Yes	

Employer Contributions Risks:

Employer contributions not amended in line with actuarial recommendations resulting in potential forecasted shortfall in the Pension Fund leading to increased reliance on Council Tax and damage to reputation.

Employer contributions not accurately accounted for allowing erroneous entries to appear in the accounts resulting in misrepresentation of the Fund value, potential qualification of the accounts and loss of reputation.

Control	Control In Place?	Action Plan Ref.
Checks are completed to ensure that all employer contributions are received, are complete, accurate and accounted for correctly.	Yes	
Contributions are amended in line with actuarial valuations.		
Contribution rates are accurately applied. A process is in place to verify contributions received. Contributions are amended in line with actioned recommendations.	Yes	
On an annual basis, an M99 reconciliation is completed.		

Essex Pension Fund Bank Account Risks:

Lack of reconciliation of the Essex Pension Fund bank account resulting in erroneous entries remaining undetected (e.g. pension income/expenditure posted to ECC, incorrect amounts posted).

Failure to subsequently correct miscoded transactions may result in errors for the Pension Fund and/or Essex County Council.

Control	Control In Place?	Action Plan Ref.
<p>The Essex Pension Fund bank account is subject to reconciliation on a regular basis.</p> <p>Miscoding are promptly identified and amended to the correct cost centre.</p>	Yes	

Essex Pension Fund Strategy Board	EPB/13/15
date: 8 July 2015	

Essex Pension Fund Draft Accounts 2014/15

Report by the Executive Director for Corporate and Customer Services

Enquiries to Samantha Andrews on 03330 138501

1. Purpose of the Report

- 1.1 To provide Members with the draft Pension Fund financial statements for 2014/15; and
- 1.2 To advise Members of the content and timescale for production of the Pension Fund Annual Report.

2. Recommendation.

- 2.1 That the Board should note the report.

3. Draft Accounts 2014/15

- 3.1 The draft County Council Accounts for 2014/15 (incorporating draft Pension Fund financial statements) have been prepared and were submitted to the Audit Committee on 29 June 2015.
- 3.2 Colleagues from EY are due to commence the external audit on 20 July 2015.
- 3.3 The final draft accounts will be brought to the next meeting of the Board on 16 September 2015 ahead of the meeting of Essex CC's Audit Committee on 21 September 2015 and the formal conclusion of the audit on 30 September 2015.
- 3.4 A copy of the Pension Fund's draft financial statements for 2014/15 are attached at Appendix 2.

4. Pension Fund Annual Report publication

- 4.1 Under the Local Authority Pension Scheme (Administration) Regulations 2008 a Pension Fund Annual Report is required to be published by 1 December 2015.
- 4.2 In addition to the financial statements, a number of other documents are required to be included within the Annual Report (e.g. the Funding Strategy Statement, Governance Policy and Compliance Statement, Communications Policy Statement, Knowledge and Skill Training Strategy & Statement of Investment Principles).
- 4.3 Work is currently underway on compiling the Annual Report and a full list of the contents is attached at Appendix 1. When work has been completed a final draft will be submitted to the Essex Pension Fund Strategy Board Chairman for approval. Subsequently a copy of the approved Annual Report will be made available all Board Members.

5. Background papers

- 5.1 The Local Government Pension Scheme (Administration) Regulations 2008

Pension Fund Annual Report 2014/15 Contents

Introduction & Overview

- Chairman's Foreword
- Introduction
- Fund Trends and Financial Summary

Section 1: Introduction & Overview

- Who manages and runs the Essex Pension Fund
- Management Structure
- Business Plan 2014/15 and 2015/16

Section 2: Investments

- Investment Strategy Overview
- Investment Decisions
- Investment Performance 2014/15

Section 3: Administration

- Membership Summary
- Key Service Standards for Scheme Members
- Scheme Details
- Participating Employers of the Fund

Section 4: Scheme Actuary

- Statement by Consulting Actuary 2013 Actuarial Valuation
- Essex Pension Fund Contribution Rates Schedule – Actuarial Valuation 2013

Section 5: Annual Statement of Accounts

- Responsibilities for the Statement of Accounts
- Fund Account
- Net Asset Statement
- Notes to the Accounts
- Statement by External Auditors

Section 6: Additional Information

- Statement of Investment Principles
- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Administration Strategy
- LPGS Knowledge and Skills Training Strategy
- Communications Policy

- Glossary
- Contact Points

Section Two - 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.

	Page
Fund Account	133
Net Assets Statement	134
Notes to the Pension Fund Accounts	135

Section Two - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31 March 2015

2013/14 Restated £000	Note		2014/15	
			£000	£000
		Dealing with members and others directly involved in the Fund		
		Income		
		Contributions receivable		
(48,843)	8	Member contributions	(52,676)	
(164,798)	8	Employers' contributions	(188,654)	
(10,157)	8	Transfers in from other Pension Funds	(8,181)	
(66)		Other income	(149)	
		Total income		(249,660)
		Expenditure		
		Benefits payable		
162,589	8	Pensions	170,900	
36,518		Commutation of pensions & lump sum retirement benefits	31,876	
3,951		Lump sum death benefits	4,440	
		Payments to and on account of Leavers		
29		Refunds of contributions	183	
7		State scheme premiums	91	
9,967	8	Transfers out to other schemes	64,563	
24,011	10	Management expenses	28,779	
		Total expenditure		300,832
		Net additions from dealings with members		51,172
		Returns on investments		
(63,564)	9	Investment income	(75,727)	
(331,555)	11	Profit and losses on disposal of investments and changes in market value of investments	(573,424)	
3,010	14	Taxes on income	2,730	
		Net returns on investments		(646,421)
		Net (increase)/decrease in the assets available for benefits during the year		(595,249)
		Net assets as at 1 April		(4,337,374)
		Net assets as at 31 March		(4,932,623)

Section Two - Pension Fund Accounts

Pension Fund Accounts

Net Assets Statement as at 31 March 2015

31 March 2014 £000	Note		31 March 2015 £000	£000
	11	Investments at market value		
		Investment assets		
186,598		Fixed interest securities	232,568	
2,644,294		Equities	3,065,508	
344,996		Index linked securities	216,532	
237,300		Property	322,135	
231,664		Property unit trusts	217,452	
212,033		Private Equity	237,979	
127,236		Infrastructure	158,975	
34,705		Timber	49,057	
-		Illiquid Debt	63,329	
185,029		Other managed funds	253,665	
4,282		Derivative contracts	22,902	
93,508		Cash/deposits	109,810	
10,524		Other investment balances	6,434	
4,312,169				4,956,346
		Investment liabilities		
(390)		Derivative contracts	(48,206)	
(1,541)		Other investment balances	(1,987)	
(1,931)				(50,193)
4,310,238		Total Investments		4,906,153
		Long term assets		
7,907		Contributions due from employers		6,456
	13	Current assets and liabilities		
		Current Assets		
13,638		Cash		13,967
18,516		Contributions due from employers and other current assets		16,144
4,350,299				4,942,720
		Current liabilities		
(12,925)		Unpaid benefits and other current liabilities		(10,097)
4,337,374		Net assets of the scheme available to fund benefits		4,932,623

Section Two - 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 Fund").

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

Established by the Local Government Superannuation Regulation 1974 the 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 2009.

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. 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 Board and Investment Steering Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for Corporate and Customer Services along with the Director for Essex Pension Fund.

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

Section Two - Pension Fund Accounts

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 **580** employer organisations within Essex Pension Fund including the County Council itself.

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 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31 March 2013**. 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 the Consumer Prices Index.

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.

Section Two - Pension Fund Accounts

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 2014/15 issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2014/15 (SORP) and the Financial Reports of Pension Schemes Statement of Recommended Practice (revised May 2007). The accounts are prepared on a going concern basis.

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies are available on the Pension Fund website www.essexpensionfund.co.uk.

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2014/15 financial year and its position as at 31 March 2015. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2015 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.3.

3. Actuarial valuation

The contributions payable for 2014/15 were determined by the 2013 Actuarial Valuation.

3.1 Actuarial Valuation 2013

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

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£3,926m** (on a smoothed basis) represented **80%** of the Funding Target liabilities of **£4,878m** at the valuation date. The valuation also showed that a common rate of contribution of **14.3%** of Pensionable Pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

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,

Section Two - Pension Fund Accounts

payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

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

The main financial assumptions used were as follows:

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

The assets were assessed at market value.

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

3.2 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 17. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

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3.3 Actuarial present value of promised retirement benefits

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

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

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2015 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond yield curve which is closest to the duration of the Fund's liabilities.

The duration of the Fund's liabilities is the weighted average time to pay each future expected cash flow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2015 is 18 years which in turn means a discount rate of **3.3%** per annum (31 March 2014: 4.4%). The value of the Fund's promised retirement benefits as at 31 March 2015 was **£7,517m** (31 March 2014: £6,515m).

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

4. Accounting policies

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme 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 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 8 which commences on page 148).

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 8 which commences on page 148).

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

4.1.3 Investment Income

- **Dividend income**

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

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

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

- **Income from other investments**

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

- **Property related income**

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

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

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changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

- **Change in market value of investments**

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

4.2 Fund Account – Expense items

4.2.1 Benefits payable

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

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

4.2.2 Taxation

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

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

4.2.3 Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses where possible in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Costs'.

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4.2.4 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. In 2014/15 this totalled **£1.272m** (£1.041m in 2013/14).

4.2.5 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 management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. In 2014/15, this totalled **£1.306m** (£1.543m in 2013/14).

4.2.6 Investment management expenses

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The Fund had one manager, FIL Pensions Management, with an element of their being fee performance related. This ceased in November 2013, when the manager's contract was terminated.

No performance related fees were payable in 2014/15 (£401,000 in 2013/14).

Where an investment manager's fee note 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 2014/15, **£2.957m** of fees is based on such estimates (2013/14: £2.634m). 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.

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

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4.3 Net Assets Statement

4.3.1 Financial Assets

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

4.3.2 Valuation of investments

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

- **Market Quoted Investments**

The value of these investments is taken as the bid market price ruling on each 31st March where available.

- **Unquoted Investments**

Unquoted equity, and private equity limited partnership, investments are valued based on the Fund's share of the net assets of the partnership using the latest financial statements published by the respective fund managers. In 2014/15, these are valued as at 31 December 2014, 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 2015 is made. The 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31 March.

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

- **Directly held investments**

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

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

- **Unit trusts and managed funds**

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

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

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- **Value of fixed interest investments**

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

- **Direct Property Investments**

Direct property investments have been valued, at open market value as at 31 March 2015, by Jones Lang LaSalle, Chartered Surveyors. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

4.3.3 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities – they are not held for speculative purposes.

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

The value of futures contracts is determined using exchange prices published by the relevant futures exchange (e.g. LIFFE – London International Financial Futures Exchange) at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial margin and variation margin. No future contracts were entered into in the year of reporting, or in the prior year.

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

4.3.4 Dividends, Interest and Foreign Currencies

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

4.3.5 Cash and Cash Equivalents

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

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4.3.6 Financial Liabilities

Financial liabilities are recognised at fair value on the date the Fund becomes party to the liability, and any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

4.3.7 Contingent liabilities and contingent assets

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

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

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

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

4.3.8 Other financial Instruments

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

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

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

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

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5. Critical judgements in applying accounting policies

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

- **Use of Financial Instruments**

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

- **Unquoted private equity**

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2015 was **£238m** (31 March 2014: £212m).

- **Infrastructure**

Overseas infrastructure values are determined in accordance with generally accepted valuation principles, in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by M&G Investments is valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The value of infrastructure as at 31 March 2015 was **£159.0m** (31 March 2014: £127.2m).

- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2015 was **£49.1m** (31 March 2014: £34.7m).

- **Pension fund liability**

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

As permitted under 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.

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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. The items in the net assets statement at 31 March 2015 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: Results are taken from the 2013 Actuarial valuation)</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 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £415m.</p> <p>An increase of the CPI assumption by 0.5% per annum increases the value of liabilities by approximately £354m.</p> <p>A 0.5% increase in the long-term rate of salary increase would increase the value of liabilities by approximately £46m.</p> <p>Increasing the long-term rate of improvement used in the mortality projection from 1.5% to 1.75% per annum would increase the liability by approximately £45m.</p>
<p>Private equity / Infrastructure / Timber / Illiquid debt</p>	<p>Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity, infrastructure, timber and illiquid debt investments in the financial statements are £509.3m. There is a risk that this investment may be under or overstated in the accounts.</p>

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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:

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

For example, if there had been a marked decline in the global stock markets that would impact upon the market value of the fund's investments were they to be valued as at the date the accounts were authorized for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

8. Membership activities

8.1 Membership

31 March 2014		31 March 2015 <i>Provisional</i>
49,516	Contributors	50,965
43,693	Deferred pensioners	44,038
35,254	Pensioners	35,455

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

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8.2 Pension benefits payable

2013/14 £000		2014/15 £000
60,296	Administering Authority	63,322
85,589	Scheduled Bodies	89,588
7,681	Admitted Bodies	8,035
4,354	Community Admission Bodies	4,587
4,171	Transferee Admission Bodies	4,849
498	Resolution Bodies	519
162,589		170,900

8.3 Contributions receivable

8.3.1 By category

Contributions receivable from employers are set out below:

2013/14 £000		2014/15 £000
48,843	Employee's normal contributions	52,676
97,611	Employers' normal contributions	113,458
62,905	Employers' deficit recovery contributions	71,706
4,282	Employers' augmentation	3,490
213,641		241,330

Employers' augmentation relates to payments for the cost of early retirements.

Following the 2013 Actuarial Valuation the Funding Strategy allowed employers to pay deficit as a triennial, annual or monthly payment to the Fund. Fourteen employers chose to pay the triennial option, four of which paid in 2013/14 financial year a total of £82,955. The remaining ten paid in April 2015 a total of **£26.709m**. The fourteen employers are made up of five District Councils, two Scheduled and seven Community Admission Bodies.

In 2014/15 Colchester Woman's Refuge entered into a three year payment cessation (termination) plan paying the first instalment of **£25,000** in 2014/15. Two further payments of **£21,056** are due in 2015/16 and 2016/17. These payments are shown within long term and current assets.

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

8.3.2 By type

2013/14			2014/15	
Member £000	Employer £000		Member £000	Employer £000
15,355	49,821	Administering Authority	16,457	50,185
28,590	97,337	Scheduled Bodies	31,284	121,559
848	4,448	Admitted Bodies	949	5,179
1,449	5,127	Community Admission Bodies	1,342	4,747
2,371	7,367	Transferee Admission Bodies	2,389	6,259
230	698	Resolution Bodies	255	725
48,843	164,798		52,676	188,654

Following a review in the year, Anglia Ruskin University has been reclassified from Community Admission Body to Scheduled Body.

8.4 Transfers in from, and out to, other pension funds

2013/14			2014/15	
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000
-	-	Group transfers	-	58,484
10,157	9,967	Individual transfers	8,181	6,079
10,157	9,967	Total	8,181	64,563

In 2014/15 a group transfer to Greater Manchester Pension Fund was paid in respect of Probation Services. No amounts were payable in respect of group transfers to other schemes during 2013/14.

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9. Investment income

9.1 By Type

2013/14 £000		2014/15 £000
36,299	Dividends from equities	47,057
2,732	Income from index linked securities	2,009
7,448	Income from pooled property investments	6,268
14,386	Net rent from properties	17,325
56	Interest from cash deposits	488
788	Other	875
61,709	Total investment income showing net property rent	74,022
	Add back:	
1,855	Property operating expenses	1,705
63,564	Total investment income showing gross property rent	75,727

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

9.2 Investment property net rental

2013/14 £000		2014/15 £000
15,735	Rental Income from investment property	17,056
(1,250)	Direct operating expenses arising from investment property	(1,696)
14,485	Total	15,360

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9.3 Contractual rental receivable

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

2013/14 £000		2014/15 £000
14,304	Within one year	16,861
47,368	Between one and five years	53,752
44,816	Beyond five years	45,024
106,488	Total	115,637

9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2013	146,340	49,325	195,665
Additions	30,272	9,539	39,811
Disposals	(9,854)	-	(9,854)
Net gain/loss on fair value	7,572	4,106	11,678
Fair value at 31 March 2014	174,330	62,970	237,300
Additions	44,827	13,604	58,431
Disposals	-	-	-
Net gain/loss on fair value	21,588	4,816	26,404
Fair value at 31 March 2015	240,745	81,390	322,135

10. Management expenses

10.1 By type

2013/14 £000		2014/15 £000
1,041	Administration costs	1,272
21,427	Investment management expenses	26,201
1,543	Oversight and governance	1,306
24,011	Total	28,779

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The direct running costs recharged back to the Fund are now apportioned out as per the CIPFA guidance on LGPS Management Costs.

10.2 Investment management expenses

2013/14 £000		2014/15 £000
20,900	Management fees	25,909
527	Custody fees	292
<u>21,427</u>	Total	<u>26,201</u>

11. Investments

11.1 Value of investments held by managers

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

2014			2015		
£m	%		£m	%	
-	-	Alcentra Ltd	64	1.3	
510	11.8	Aviva Investors	586	11.9	
383	8.9	Baillie Gifford and Co	489	10.0	
217	5.0	First State Investments (UK) Ltd	250	5.1	
186	4.3	Goldman Sachs Asset Management International	233	4.7	
226	5.3	Hamilton Lane	247	5.0	
1,531	35.5	Legal and General Investment Management	1,551	31.6	
4	0.1	Legal and General Investment Management (Currency)	(26)	-0.5	
290	6.7	Longview Partners	370	7.6	
325	7.6	Marathon Asset Management Ltd	379	7.7	
277	6.4	M&G Investments	299	6.1	
166	3.9	M&G Investments Alpha Opportunities	238	4.9	
68	1.6	M&G Investments Infracapital	84	1.7	
15	0.3	M&G Investments Financing Fund	12	0.2	
60	1.4	Partners Group Management II S.à r.l	75	1.5	
4	0.1	RWC Specialist UK Focus Fund (formerly Hermes)	3	0.1	
35	0.8	Stafford Timberland Limited	49	1.0	
13	0.3	Other	3	0.1	
<u>4,310</u>	<u>100.0</u>		<u>4,906</u>	<u>100.0</u>	

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11.2 Investments by asset type

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

2013/14	Value at 1 April 2013	2013/14 Movement					Value at 31 March 2014
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	179,980	-	-	-	6,618	-	186,598
Equities							
UK quoted	89,363	22,180	33,073	(13,678)	(2,305)	-	128,633
Overseas quoted	1,005,806	304,909	(20,700)	(316,123)	79,437	-	1,053,329
UK unit trusts	351,907	48,559	(104,981)	(98,113)	31,395	-	228,767
Overseas unit trusts	980,811	480,613	(479,084)	(372,057)	75,697	-	685,980
Global unit trusts	-	28,972	506,491	-	12,122	-	547,585
Index linked securities (UK public sector quoted)	264,371	60,626	65,114	(27,828)	(17,287)	-	344,996
Property							
UK properties (freehold)	146,340	30,272	-	(9,854)	7,572	-	174,330
UK properties (leasehold)	49,325	9,539	-	-	4,106	-	62,970
Property unit trusts	222,930	22,304	-	(22,532)	8,962	-	231,664
Private equity							
UK unquoted	382	-	-	-	40	-	422
Overseas unquoted	196,613	34,284	-	(39,912)	20,626	-	211,611
Infrastructure							
UK unquoted	71,594	1,525	-	(7,301)	1,942	-	67,760
overseas unquoted	41,973	22,084	-	(2,829)	(1,752)	-	59,476
Timber (Overseas unquoted)	30,972	5,931	-	(627)	(1,571)	-	34,705
Illiquid Debt							
UK unquoted	-	-	-	-	-	-	-
Overseas unquoted	-	-	-	-	-	-	-
Active currency (UK unquoted)	25,332	-	(23,509)	-	(1,823)	-	-
Other managed funds							
UK unquoted	175,598	4,720	-	(2,383)	7,094	-	185,029
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	68,439	-	-	-	-	(23,727)	44,712
Foreign currency	28,042	-	-	(99,601)	99,601	20,754	48,796
	3,929,778	1,076,518	(23,596)	(1,012,838)	330,474	(2,973)	4,297,363
Adjustments for							
Transaction costs	-	(651)	-	(430)	1,081	-	-
Capitalised alternative asset management fees	-	-	-	-	-	-	-
	3,929,778	1,075,867	(23,596)	(1,013,268)	331,555	(2,973)	4,297,363
Other investment balances							
Assets							
Amounts receivable for sales of investments	4,156						3,787
Investment income due	6,414						6,737
Liabilities							
Amounts payable for purchase of investments	(2,990)						(1,428)
Investment withholding tax payable	(201)						(113)
Derivative pending foreign currency contracts							
Assets	1,925						4,282
Liabilities	(18,010)						(390)
	3,921,072						4,310,238

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2014/15	Value at 1 April 2014	2014/15 Movement					Value at 31 March 2015
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	186,598	50,000	-	-	(4,030)	-	232,568
Equities							
UK quoted	128,633	17,534	-	(10,837)	18,643	-	153,973
Overseas quoted	1,053,329	221,346	-	(234,093)	237,906	-	1,278,488
UK unit trusts	228,767	11,890	(14,376)	(76)	17,565	-	243,770
Overseas unit trusts	685,980	14,285	(44,334)	(639)	124,840	-	780,132
Global unit trusts	547,585	933	-	(526)	61,153	-	609,145
Index linked securities (UK public sector quoted)	344,996	21,762	78	(200,833)	50,529	-	216,532
Properties							
UK properties (freehold)	174,330	44,827	-	-	21,588	-	240,745
UK properties (leasehold)	62,970	13,604	-	-	4,816	-	81,390
Property unit trusts	231,664	5,038	-	(41,840)	22,590	-	217,452
Private equity							
UK unquoted	422	54	-	(17)	(295)	-	164
Overseas unquoted	211,611	50,386	-	(51,924)	27,742	-	237,815
Infrastructure							
UK unquoted	67,760	1,314	-	(284)	15,290	-	84,080
overseas unquoted	59,476	21,117	-	(4,711)	(987)	-	74,895
Timber (Overseas unquoted)	34,705	12,767	-	(521)	2,106	-	49,057
Illiquid Debt							
UK unquoted	-	24,000	-	-	442	-	24,442
Overseas unquoted	-	54,424	-	(11,419)	(4,118)	-	38,887
Active currency (UK unquoted)	-	-	-	-	-	-	-
Other managed funds							
UK unquoted	185,029	74,799	-	(3,174)	(2,989)	-	253,665
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	44,712	-	-	-	-	26,630	71,342
Foreign currency	48,796	-	-	25,006	(25,006)	(10,328)	38,468
	4,297,363	640,080	(58,632)	(535,888)	567,785	16,302	4,927,010
Adjustments for							
Transaction costs	-	(488)	-	(303)	791	-	-
Capitalised alternative asset management fees	-	(4,848)	-	-	4,848	-	-
	4,297,363	634,744	(58,632)	(536,191)	573,424	16,302	4,927,010
Other investment balances							
Assets							
Amounts receivable for sales of investments	3,787						1,232
Investment income due	6,737						5,202
Liabilities							
Amounts payable for purchase of investments	(1,428)						(1,873)
Investment withholding tax payable	(113)						(114)
Derivative pending foreign currency contracts							
Assets	4,282						22,902
Liabilities	(390)						(48,206)
	4,310,238						4,906,153

For 2014/15, the total transaction costs were **£791,000** (2013/14: £1.081m). These have been adjusted from the table above and are now included within investment management expenses (Note 10).

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31 March 2014 £000		31 March 2015 £000
	Fixed interest securities	
186,598	UK quoted	232,568
	Equities	
128,633	UK quoted	153,973
1,053,329	Overseas quoted	1,278,488
228,767	UK unit trusts	243,770
685,980	Overseas unit trusts	780,132
547,585	Global Unit trusts	609,145
344,996	Index linked securities: UK public sector quoted	216,532
	Property	
174,330	UK properties (freehold)	240,745
62,970	UK properties (leasehold)	81,390
231,664	Property unit trusts	217,452
	Private equity	
422	UK unquoted	164
211,611	Overseas unquoted	237,815
	Infrastructure	
67,760	UK unquoted	84,080
59,476	Overseas unquoted	74,895
34,705	Timber: Overseas unquoted	49,057
	Illiquid Debt	
-	UK unquoted	24,442
-	Overseas unquoted	38,887
185,029	Other managed funds: UK unquoted	253,665
	Derivative contracts	
4,282	Assets: Derivative pending foreign currency contracts	22,902
(390)	Liabilities: Derivative pending foreign currency contracts	(48,206)
	Cash deposits	
	Cash deposits held at custodian/other	
44,712	Sterling	71,342
48,796	Foreign currency	38,468
4,301,255		4,901,706
	Other investment balances	
	Assets	
3,787	Amounts receivable for sales of investments	1,232
6,737	Investment income due	5,202
	Liabilities	
(1,428)	Amounts payable for purchase of investments	(1,873)
(113)	Investment withholding tax payable	(114)
4,310,238	Value at 31 March	4,906,153

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11.3 Pooled investments representing 5% or more of net assets

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

31 March 2014			31 March 2015		
£000	%		£000	%	
302,277	7.0	Legal & General North America Equity Index	342,702	6.9	
270,730	6.2	Legal & General FTSE RAFI AW 3000 Index	309,953	6.3	
276,855	6.4	M&G Global Dividend Fund	299,192	6.1	
223,027	5.1	Legal & General Europe (Ex UK) Equity Index	248,438	5.0	

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

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

31 March 2014		Asset type / Asset name	31 March 2015	
£000	%		£000	%
UK QUOTED EQUITIES				
14,820	11.5%	Unilever plc Ord GBP0.031	18,194	11.8%
12,355	9.6%	WPP Plc Ord GBP0.10	16,197	10.5%
12,007	9.3%	Compass Group Ord GBP0.10	13,580	8.8%
10,564	8.2%	Lloyds Banking GP Ord GBP0.1	12,829	8.3%
10,898	8.5%	Imperial Tobacco GBP0.10	12,650	8.2%
8,956	7.0%	Pearson Ord GBP0.25	12,229	7.9%
7,455	5.8%	Arm Holdings Ord GBP0.0005	9,821	6.4%
4,420	3.4%	Burberry Group Ord GBP0.0005	8,186	5.3%
8,969	7.0%	Sabmiller plc Ord USD0.10	7,169	4.7%
UK INDEX LINKED BONDS				
16,960	4.9%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	11,088	5.1%
19,250	5.6%	UK (Govt) Treasury IL Stock 1.875% 22 Nov 2022	9,622	4.4%
17,845	5.2%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2027	9,559	4.4%
19,684	5.7%	UK (Govt) Treasury IL Stock 2.5% 16 April 2020	9,472	4.4%
18,436	5.3%	UK (Govt) Treasury IL Stock 2.5% 17 July 2024	9,378	4.3%
PROPERTY				
-	-	Canning Town Business Park, London	23,950	7.4%
17,400	7.3%	48-49 Chancery Lane, London	20,000	6.2%
13,900	5.9%	55-57 Dean Street, London	14,750	4.6%

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31 March 2014		Asset type / Asset name	31 March 2015	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
27,681	11.9%	Aviva Investors Property Fund	34,217	15.7%
16,156	7.0%	Blackrock UK Property Fund	17,791	8.2%
12,802	5.5%	Industrial Property Investment Fund	16,034	7.4%
12,651	5.5%	Standard Life Property Fund Closed	14,754	6.8%
12,836	5.5%	Lothbury Property Fund	14,708	6.8%
12,154	5.2%	Standard Life UK Shopping Centre	13,559	6.2%
10,872	4.7%	Unite UK Student Accomodation Fund	12,187	5.6%
10,645	4.6%	Henderson UK Retail Warehouse Fund	11,734	5.4%
PRIVATE EQUITY				
11,658	5.5%	New Mountain Partners	11,712	4.9%
10,967	5.2%	Avenue Europe Special Situations Fund II (Euro)	11,226	4.7%
INFRASTRUCTURE				
67,760	53.3%	Infracapital Partners	84,080	52.9%
42,875	33.7%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	46,182	29.1%
10,117	7.9%	Partners Group Global Infrastructure 2012 LP	18,634	11.7%
6,484	5.1%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	10,079	6.3%
TIMBER				
34,705	100.0%	Stafford International Timberland VI Fund LP	38,814	79.1%
-	-	Stafford International Timberland VII Fund (No 2) LP	10,243	20.9%
ILLIQUID DEBT				
-	-	Alcentra European DLF Investor Feeder (No.2) LP	38,887	61.4%
-	-	Alcentra Global Multi-Credit Solutions Class IV A GBP	24,443	38.6%
OTHER MANAGED FUNDS				
166,007	89.7%	M&G Alpha Opportunities Fund	238,436	94.0%
14,529	7.9%	M&G UK Companies Financing Fund	11,921	4.7%
CASH				
34,260	36.6%	BNP Paribas Investment Partners GBP	44,256	40.3%
29,635	31.7%	Northern Trust Liquidity Fund US\$	25,934	23.6%
18,876	20.2%	Northern Trust Liquidity Fund GBP	24,347	22.2%
2,744	2.9%	BNP Paribas Investment Partners EURO	6,355	5.8%

11.5 Derivative contracts

11.5.1 Objectives and policies for holding derivatives

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

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11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2015 and 31 March 2014.

11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **62.2%** of the Fund's portfolio is in overseas assets as at 31 March 2015 (31 March 2014: 59.8%).

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

11.5.4 Open forward currency contracts

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000	Net value £000
Up to one month	AUD	30,060	GBP	15,871	-	(402)	(402)
Up to one month	CAD	25,769	GBP	13,927	-	(221)	(221)
Up to one month	CHF	32,816	GBP	22,998	-	(239)	(239)
Up to one month	EUR	91,132	GBP	67,043	-	(1,111)	(1,111)
Up to one month	GBP	30,540	AUD	59,924	-	(252)	(252)
Up to one month	GBP	36,442	CAD	68,984	-	(242)	(242)
Up to one month	GBP	21,422	CHF	32,740	-	(1,285)	(1,285)
Up to one month	GBP	132,773	EUR	172,827	7,691	-	7,691
Up to one month	GBP	82,559	JPY	15,153,182	-	(2,602)	(2,602)
Up to one month	GBP	83	NOK	999	-	-	-
Up to one month	GBP	8,523	SEK	103,123	468	-	468
Up to one month	GBP	598,827	USD	917,879	-	(19,605)	(19,605)
Up to one month	GBP	14	ZAR	245	-	-	-
Up to one month	HKD	172	GBP	15	-	-	-
Up to one month	JPY	11,364,882	GBP	64,359	-	(522)	(522)
Up to one month	SEK	95,337	GBP	7,511	-	(64)	(64)
Up to one month	USD	444,105	GBP	299,139	23	-	23
One to six months	GBP	24,700	AUD	47,325	435	-	435
One to six months	GBP	15,023	CAD	27,934	174	-	174
One to six months	GBP	54,867	CHF	78,904	-	(46)	(46)
One to six months	GBP	160,287	EUR	216,942	3,109	-	3,109
One to six months	GBP	125,338	JPY	22,670,237	-	(2,187)	(2,187)
One to six months	GBP	22,719	SEK	289,522	70	-	70
One to six months	GBP	539,709	USD	813,434	-	(8,496)	(8,496)
Open forward currency contracts at 31 March 2015					11,970	(37,274)	(25,304)
Open forward currency contracts at 31 March 2014					7,511	(3,619)	3,892

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12. Additional Voluntary Contributions (AVC) Investments

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

The AVC providers to the Fund are the Equitable Life Assurance Society, Prudential and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

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

2013/14 £000		2014/15 £000
5,840	Value of AVC fund at beginning of year	5,655
413	Employees contributions	662
320	Investment income and change in market value	592
(918)	Benefits paid and transfers out	(731)
<u>5,655</u>		<u>6,178</u>

13. Current assets and liabilities

13.1 Analysis of current assets

31 March 2014 £000		31 March 2015 £000	£000
	Cash Balances		
2,660	Cash at bank	2,457	
10,978	Cash on short term deposits within 3 months	11,510	
<u>13,638</u>			13,967
	Debtors and payments in advance		
4,027	Contributions due – employees	3,774	
11,073	Contributions due – employers	11,823	
3,416	Sundry debtors	547	
<u>18,516</u>			16,144
<u>32,154</u>	Total		<u>30,111</u>

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13.2 Analysis of debtors

31 March 2014			31 March 2015		
Short term	Long term		Short term	Long term	
£000	£000		£000	£000	
1,789	7,622	Central Government	3,243	6,309	
11,275	235	Other Local Authorities	11,274	77	
52	-	NHS Bodies	42	-	
1,826	50	Public Funded Bodies	860	70	
3,574	-	Other	725	-	
18,516	7,907	Total	16,144	6,456	

13.3 Analysis of long term debtors

31 March 2014 £000		31 March 2015 £000
374	Financial strain instalments due	157
7,533	Other employer contributions due	6,299
7,907	Total	6,456

13.4 Contingent assets

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

13.5 Analysis of current liabilities

31 March 2014 £000		31 March 2015 £000
	Unpaid benefits and other current liabilities	
(2,570)	Contributions due – employers	(715)
(3,050)	Investment manager fees payable	(3,168)
(5,746)	Benefits payable	(4,572)
(1,559)	Other	(1,642)
(12,925)	Total	(10,097)

Following a review, the ECC recharge creditor for 2013/14 has been reclassified from 'Investment manager fees payable' to 'other' in line with the 2014/15 treatment.

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13.6 Analysis of creditors

31 March 2014 £000		31 March 2015 £000
	Creditors and receipts in advance	
(921)	Central Government	(261)
(6,501)	Other Local Authorities	(3,932)
(20)	NHS Bodies	(109)
(361)	Public Funded Bodies	(590)
(5,122)	Other	(5,205)
<u>(12,925)</u>	Total	<u>(10,097)</u>

13.7 Contingent liabilities and contractual commitments

As at 31 March 2015, the Fund had a commitment to contribute a further **£300.7m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2014: £299.6m). 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.

14. Taxes on income

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

2013/14 £000		2014/15 £000
552	UK withholding tax	551
2,404	Overseas withholding tax	2,077
54	Payment to HMRC in respect of returned contributions	102
<u>3,010</u>		<u>2,730</u>

15. Related party transactions

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

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15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.702m** in 2014/15 (2013/14: £1.686m) 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 **£50.185m** to the Fund in 2014/15 (2013/14: **£49.821m**). No significant amounts were owing to and due to be paid from the Fund in the year.

Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Board on **25 March 2015**. This service is provided to the Fund at a cost of **£26,000** (2013/14: £26,000).

During the year to 31 March 2015, the Pension Fund had an average investment balance of **£20.096m** (2013/14: £15.119m) earning **£108,000** interest (2013/14: £98,000).

15.2 Governance

None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2014, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2014/15, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ K. Blackburn	▪ Cllr N. J. Hume
Representative of small employing bodies	▪ Cllr S. Barker
▪ J. Moore	▪ Cllr J. Whitehouse *
Representatives for Essex Police and Crime Commissioner	▪ Cllr K. Bobbin *
▪ C. Garbett	▪ Cllr M. Mackrory *
* Membership relates to non councillor service.	▪ Cllr J. Spence

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As at 31 March 2015 Keith Neale, independent adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2014/15 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2014/15 approximately **2%** (2013/14: 3%) of the Executive Director for Corporate and Customer Services time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2014/15 was **£161,000** (2013/14: £141,000). The 2014/15 current service cost in respect of these personnel was **£63,000** (2013/14: £82,000). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

16. Financial Instruments

16.1 Classification of financial instruments

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

31 March 2014			Asset type	31 March 2015		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets						
186,598	-	-	Fixed interest securities	232,568	-	-
2,644,294	-	-	Equities	3,065,508	-	-
344,996	-	-	Index linked securities	216,532	-	-
231,664	-	-	Pooled unit trusts	217,452	-	-
212,033	-	-	Private equity	237,979	-	-
120,752	-	-	Infrastructure	148,896	-	-
34,705	-	-	Timber	49,057	-	-
-	-	-	Illiquid debt	24,442	-	-
185,029	-	-	Other managed funds	253,665	-	-
4,282	-	-	Derivative contracts	22,902	-	-
-	107,146	-	Cash deposits	-	123,777	-
10,524	-	-	Other investment balances	6,434	-	-
-	26,423	-	Debtors	-	22,600	-
3,974,877	133,569	-		4,475,435	146,377	-
Financial liabilities						
(390)	-	-	Derivative contracts	(48,206)	-	-
(1,541)	-	-	Other investments balances	(1,987)	-	-
-	-	(12,925)	Creditors	-	-	(10,097)
-	-	-	Borrowing	-	-	-
(1,931)	-	(12,925)		(50,193)	-	(10,097)
3,972,946	133,569	(12,925)	Balance at the end of the year	4,425,242	146,377	(10,097)
4,093,590			Total	4,561,522		

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16.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2014 £000		Asset value as at 31 Mar 2015 £000
	Financial assets	
220,347	Fair value through profit and loss	576,632
99,601	Loans and receivables	(25,006)
<u>319,948</u>	Total	<u>551,626</u>

16.3 Fair value of financial instruments and liabilities

31 March 2014			31 March 2015	
Carry value	Fair value		Carry value	Fair value
£000	£000		£000	£000
		Financial assets		
3,974,877	3,974,877	Fair value through profit and loss	4,475,435	4,475,435
133,569	133,569	Loans and receivables	146,377	146,377
<u>4,108,446</u>	<u>4,108,446</u>		<u>4,621,812</u>	<u>4,621,812</u>
		Financial liabilities		
(1,931)	(1,931)	Fair value through profit and loss	(50,193)	(50,193)
(12,925)	(12,925)	Financial liabilities measured at amortised cost	(10,097)	(10,097)
<u>(14,856)</u>	<u>(14,856)</u>		<u>(60,290)</u>	<u>(60,290)</u>
<u>4,093,590</u>	<u>4,093,590</u>	Total net financial assets	<u>4,561,522</u>	<u>4,561,522</u>

16.4 Valuation of financial instruments carried at fair value

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

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

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

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

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

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

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

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

Values as at 31 March 2014				Values as at 31 March 2015		
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
			Financial assets			
3,190,694	416,693	367,490	Fair value through profit and loss	3,543,944	471,117	460,374
133,569	-	-	Loans and receivables	146,377	-	-
3,324,263	416,693	367,490		3,690,321	471,117	460,374
			Financial liabilities			
(1,931)	-	-	Fair value through profit and loss	(50,193)	-	-
(12,925)	-	-	Financial liabilities measured at amortised cost	(10,097)	-	-
(14,856)	-	-		(60,290)	-	-
3,309,407	416,693	367,490	Total net assets per level	3,630,031	471,117	460,374
		4,093,590	Total Net Assets			4,561,522

17. Nature and extent of risks arising

17.1 Risk and risk management

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

Section Two - Pension Fund Accounts

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

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

17.2 Market risk

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

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

17.3 Other price risk

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

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

17.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2014/15.

Section Two - Pension Fund Accounts

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

31st March 2014 Potential Market movement %	Asset type	31st March 2015 Potential Market movement %
8.7%	UK bonds	9.2%
16.1%	UK equities	17.0%
19.4%	Overseas equities	21.0%
6.5%	UK index linked bonds	7.0%
14.7%	Pooled property unit trusts	15.0%
28.0%	Private equity	29.0%
14.7%	Infrastructure funds	15.0%
14.7%	Timber	15.0%
13.4%	Illiquid debt	14.0%
14.7%	Property	15.0%
0.6%	Cash	1.0%

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

31st March 2014 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2015 £000	Percentage change %	Value increase £000	Value decrease £000
93,508	0.6%	94,069	92,947	Cash and equivalents	109,810	1.0%	110,908	108,712
				Investment portfolio assets				
186,598	8.7%	202,832	170,364	UK bonds	232,568	9.2%	253,964	211,172
128,633	16.1%	149,343	107,923	UK equities	153,973	17.0%	180,148	127,798
1,053,329	19.4%	1,257,675	848,983	Overseas equities	1,278,488	21.0%	1,546,970	1,010,006
228,767	16.1%	265,598	191,936	UK equities unit trusts	243,770	17.0%	285,211	202,329
685,980	19.4%	819,060	552,900	Overseas equities unit trusts	780,132	21.0%	943,960	616,304
547,585	19.4%	653,816	441,354	Global unit trusts	609,145	21.0%	737,065	481,225
344,996	6.5%	367,421	322,571	UK index linked bonds	216,532	7.0%	231,689	201,375
231,664	14.7%	265,719	197,609	Pooled property unit trusts	217,452	15.0%	250,070	184,834
212,033	28.0%	271,402	152,664	Private equity	237,979	29.0%	306,993	168,965
127,236	14.7%	145,940	108,532	Infrastructure	158,975	15.0%	182,821	135,129
34,705	14.7%	39,807	29,603	Timber	49,057	15.0%	56,416	41,698
-	13.4%	-	-	Illiquid Debt	63,329	14.0%	72,195	54,463
185,029	14.7%	212,228	157,830	Other managed funds	253,665	15.0%	291,715	215,615
237,300	14.7%	272,183	202,417	Property	322,135	15.0%	370,455	273,815
3,892	-	3,892	3,892	Net derivative assets	(25,304)	-	(25,304)	(25,304)
6,737	-	6,737	6,737	Investment income due	5,202	-	5,202	5,202
(113)	-	(113)	(113)	WHT payable	(114)	-	(114)	(114)
(1,428)	-	(1,428)	(1,428)	Amounts payable for purchases	(1,873)	-	(1,873)	(1,873)
3,787	-	3,787	3,787	Amounts receivable for sales	1,232	-	1,232	1,232
4,310,238		5,029,968	3,590,508	Total assets available to pay benefits	4,906,153		5,799,723	4,012,583

Section Two - Pension Fund Accounts

17.5 Sensitivity of funding position

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

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

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

17.6 Interest rate risk

The Fund's investments are subject to interest rate risk (i.e. to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates). Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal & General and bond mandates with M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. During 2014/15, the Fund commenced an investment in an illiquid 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 Mar 2014 £000	Asset type	Asset value as at 31 Mar 2015 £000
93,508	Cash and cash equivalents	109,810
13,638	Cash balances	13,967
186,598	Fixed interest securities	232,568
344,996	Index-linked securities	216,532
-	Illiquid debt	63,329
638,740	Total assets	636,206

Section Two - Pension Fund Accounts

17.7 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 100 basis points change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2014 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
93,508	935	(935)	Cash and cash equivalents	109,810	1,098	(1,098)
13,638	136	(136)	Cash balances	13,967	140	(140)
186,598	1,866	(1,866)	Fixed interest securities	232,568	2,326	(2,326)
344,996	3,450	(3,450)	Index-linked securities	216,532	2,165	(2,165)
-	-	-	Illiquid debt	63,329	633	(633)
638,740	6,387	(6,387)	Total change in assets available	636,206	6,362	(6,362)

17.8 Currency risk

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

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The following table summarises the Fund's currency exposure as at 31 March 2015 and prior year:

31 Mar 2014 £000	Asset type	31 Mar 2015 £000
1,053,329	Overseas equities quoted	1,278,488
685,980	Overseas unit trusts	780,132
547,585	Global unit trusts	609,145
211,611	Overseas private equity	237,815
59,476	Overseas infrastructure	74,895
34,705	Overseas timber	49,057
-	Overseas illiquid debt	38,887
2,592,686	Total overseas assets	3,068,419

17.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **13%** (2013/14: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2013/14: 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 Mar 2014 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,053,329	1,190,262	916,396	Overseas equities quoted	1,278,488	1,444,691	1,112,285
685,980	775,157	596,803	Overseas unit trusts	780,132	881,549	678,715
547,585	618,771	476,399	Global unit trusts	609,145	688,334	529,956
211,611	239,120	184,102	Overseas private equity	237,815	268,731	206,899
59,476	67,208	51,744	Overseas infrastructure	74,895	84,631	65,159
34,705	39,217	30,193	Overseas timber	49,057	55,434	42,680
-	-	-	Overseas illiquid debt	38,887	43,942	33,832
2,592,686	2,929,735	2,255,637	Total change in assets available	3,068,419	3,467,312	2,669,526

17.10 Credit Risk

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

Section Two - Pension Fund Accounts

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.

17.11 Commercial

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

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

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

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2015 is provided in Note 13.

17.12 Forward currency contracts

Forward currency contracts are undertaken by Legal & General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2015 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management & Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

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Exposure at 31 March 2014		Counterparty	Exposure at 31 March 2015	
£000	%		£000	%
210,137	11.6%	Barclays Capital	30,230	1.3%
66,410	3.7%	BNP Paribas Capital Markets	-	-
266,650	14.8%	Citigroup	269,359	11.6%
-	-	Australian Commonwealth Bank	42,407	1.8%
198,546	11.0%	Credit Suisse AG	-	-
179,669	9.9%	Deutsche Bank AG	81,717	3.5%
-	-	HSBC	273,907	11.8%
234,581	13.0%	J P Morgan Securities	177,445	7.6%
26,148	1.4%	Lloyds	118,496	5.1%
59,057	3.3%	Merrill Lynch	203,107	8.7%
-	-	Morgan Stanley	258,906	11.2%
90,418	5.0%	RBC Europe	100,383	4.3%
118,333	6.6%	RBS	203,380	8.8%
-	-	SEB	26,538	1.1%
100,508	5.6%	SG Securities	273,547	11.8%
-	-	Standard Chartered	12,769	0.6%
40,831	2.3%	UBS	120,580	5.2%
213,637	11.8%	Westpac Bank Corp	129,012	5.6%
1,804,925	100.0%	Total	2,321,783	100.0%

17.13 Futures

There were no open future contracts as at 31st March 2014 or 31st March 2015.

17.14 Bonds

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

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

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2015, the average credit quality of the M&G bond mandate was **A-** rated (**BBB+** rated as at 31 March 2014). The portfolio had suffered five defaults since inception, one of which was experienced in the financial year ended 31 March 2015. The average credit rating of the financing fund was **BB+** rated as at 31 March 2015 (**BB+** rated as at 31 March 2014), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2015 had an

Section Two - Pension Fund Accounts

average credit quality of **A-** (AA+ rated as at 31 March 2014) and has suffered two defaults since inception, both occurring 2011/12.

17.15 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds TSB Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (A- in 2013/14) long term credit rating with Standard and Poor. Cash is invested with Lloyds TSB and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2015 **£13.967m** (31 March 2014: £13.638m) 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 2015, the total balance held in the Sterling, US dollar and Euro AAA money market funds was **£103.584m** with a smaller balance of **£6.226m** held in the custodian current account (31 March 2014: £85.515m and £7.748m 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.

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

31 March 2014			31 March 2015		
Rating	£000		Rating	£000	
		Cash managed externally			
		Cash held on deposit			
AAA	37,004	BNP Paribas Investment Partners	AAA	53,303	
AAA	48,511	Northern Trust	AAA	50,281	
		Cash held in Current Account			
AA-	7,748	Northern Trust	AA-	6,226	
A	245	Barclays plc	A	-	
	93,508	Total cash managed externally		109,810	
		Cash managed internally			
		Cash held on deposit			
A	2	Barclays Bank	A	-	
AA-	7,473	HSBC	AA-	7,508	
AAA	1,502	IGNIS	AAA	2	
BBB	2,001	Royal Bank of Scotland Group	BBB	-	
AA-	-	Svenska Handelsbanken	AA-	4,000	
		Cash held in Current Account			
A-	2,660	Lloyds TSB Bank plc	A	2,457	
	13,638	Total cash managed internally		13,967	
	107,146	Total		123,777	

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

31 March 2014		31 March 2015	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
Cash managed externally					
Deposit with bank and other financial institutions					
85,515	AAA Rated	103,584	60,000	0.037%	38
7,748	AA Rated	6,226		0.025%	2
245	A Rated	-		0.069%	-
93,508	Total cash managed externally	109,810			40
Cash managed internally					
Deposit with bank and other financial institutions					
1,502	AAA Rated	2	10,000	0.037%	-
7,473	AA Rated	11,508	7,500	0.025%	3
2,662	A Rated	2,457	5,000	0.069%	2
2,001	BBB Rated	-	5,000	0.188%	-
13,638	Total cash managed internally	13,967			5
107,146	Total cash	123,777			45

17.16 Liquidity Risk

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

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **23 February 2015**, **27%** of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions and investment 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 2015 had immediate access to its pension fund cash holdings held internally and externally of **£123.777m** (31 March 2014: £107.146m). These monies are primarily invested on an overnight basis on the money market.

Section Two - Pension Fund Accounts

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

17.17 Refinancing Risk

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

17.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2015 Northern Trust had **\$6.09 trillion** of assets under custody (31 March 2014: \$5.58 trillion) and had a credit rating of **AA-** (31 March 2014: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

17.19 Investment Management

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

18. Further information

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

Director for Essex Pension Fund
County Hall
Chelmsford
CM1 1LX

Telephone 03330 138501

E-mail pensions.investments.web@essex.gov.uk

Essex Pension Fund Strategy Board	EPB/14/15
Date: 8 July 2015	

Employer Forum 2015

Joint Report by the Director for the Essex Pension Fund & the Head of the Essex Pension Fund

Enquiries to Kevin McDonald on: 0333 0138 488 & Jody Evans on 0333 0138 489

1. Purpose of the Report

- 1.1 To provide feedback to the Board from the Essex Pension Fund Forum held on 23rd June 2015.

2. Recommendations

- 2.1 The feedback is noted.

3. Annual Employer Forum - Background

- 3.1 At the 4th March Pension Board, Members agreed to the date of 23rd June for the 2015 Employer Forum.
- 3.2 For the first time the venue was the Council Chamber, at Chelmsford City Council.

4. Annual Employer Forum - Feedback

- 4.1 The event covered the following topics:
 - Governance Arrangements
 - Investments
 - Actuarial Update, and
 - Pensions Freedoms and Flexibilities
- 4.2 The attendees at the event were both financial and administration professionals.
- 4.3 68 delegates attended the Forum representing 59 different Employers. The feedback forms were issued in hard copy at the event, in addition an invitation was also issued to return the forms electronically.
- 4.4 Fund Officers and presenters spoke with delegates after the formal session closed. Feedback – both verbal and on the 20 forms submitted – was broadly positive. Officers will review the detail and comments will be taken into account when planning subsequent events.

5 Link to the Essex Pension Fund Objective

- 5.1 Holding an Employers Forum facilitates effective communication between the Fund and its employers.
 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.
 - Ensure our communications are simple, relevant and have impact.
 - Deliver information in a way that suits all types of stakeholder.
 - Aim for full appreciation of the pension scheme benefits and changes to the scheme by all scheme members, prospective scheme members and employers.

6 Risk Implications

- 6.1 Not holding a Forum, or holding a Forum that was not effective would limit the Fund's ability to communicate with its employer stakeholders.

7 Communication Implications

- 7.1 The slides used at the Forum will be made available on the Fund's website.

8 Finance and Resource Implications

- 8.1 The cost of the venue hire of £1,500 was met by the Pension Fund

Essex Pension Fund Board	EPB/15/15
date: 8 July 2015	

Essex Pension Fund Board Annual Report

Report by Secretary to the Board

Enquiries to Ian Myers, 01245 430481, ext 20481

1. Purpose of the Report

- 1.1 To note the Board's 2014/15 Annual Report (attached as Appendix A) which is due to be considered by the Council on 14 July 2015. Please note the report is still draft at the time of publication.

2. Recommendation

- 2.1 That the Board's Annual Report for 2014/15 be noted.

Essex Pension Fund Board

Annual Report 2014/15

July 2015

1. Introduction

This is the sixth Annual Report of the Essex Pension Fund Board, covering the period from 1 April 2014 until 31 March 2015.

2. Roles and Functions

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

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

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

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

The Board met five times during the period covered by this report: on 9 July, 17 September and 10 December 2014 and 19 January and 4 March 2015.

3. Membership

During the period covered by this report the Board had 14 members. They represented Essex County Council, the other local authorities in Essex (including Unitary Councils), the Essex Police and Crime Commissioner, Essex Fire Authority, Scheme members and Smaller Employing Bodies (i.e. those which are not already specifically represented on the Board).

The membership of the Board as at 31 March 2015 was as follows:

Essex County Council (6)

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

District/City/Borough Councils in Essex (2)

Councillor John Archer	Maldon
Councillor John Galley	Chelmsford

Unitary Councils in Essex (2)

Councillor Gerard Rice	Thurrock
Councillor Ronald Woodley	Southend-on-Sea

Essex Police and Crime Commissioner(1)

Mr Charles Garbett

Essex Fire Authority (1)

County Councillor Colin Seagers

Scheme Members (nominated by UNISON) (1)

Mr Keith Blackburn

Smaller Employing Bodies (1)

Mrs Jenny Moore

4. Dimensions of the Fund

Based on the draft accounts, as at 31 March 2015 the value of the Fund's assets was £4.933 billion.

The total value of pensions paid during 2014/15 was £170.9m, together with other benefits totalling £36.3m. The average value of pension paid was £4,820.

The total number of beneficiaries are as follows:

	2014	2015*
Contributors	49,516	50,965
Pensioners/dependents	35,254	35,455
Deferred Members	43,693	44,038
Total	128,463	130,458

*Provisional numbers

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

The Board exercises on behalf of the Council the management of the Pension Fund whose membership comes from around 530 separate Employing Bodies, including:

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

5. Work of the Board

The following major issues were considered by the Board between 1 April 2014 and 31 March 2015.

A Local Government Pension Scheme (LGPS) Reform

Understandably much of the work of the Board during the year has been focussed on the impact of the Government's plans for pension reform.

LGPS 2014 Regulations

As highlighted in correspondence from the Chairman of the Essex Pension Fund Board to the Parliamentary Under Secretary of State there were significant delays in finalising the LGPS 2014 regulations in particular, the key transitional elements affecting existing members which were only received in March 2014.

One of the highest profile changes with effect from 1 April 2014 was the removal of the provision of a pension arrangement for Local Councillors within the LGPS. Transitional arrangements for current Councillor Members who were contributing on 31 March 2014 are in place allowing them to continue membership of the LGPS until the end of their current term of office.

Following debate in Parliament the regulation changes are to remain in place and the Essex Pension Fund has written to all Councillor Members informing them of the future changes to their pension arrangements.

DCLG Consultation: “Opportunities for collaboration, cost saving and efficiencies”

The Board agreed its response to the consultation. It welcomed the opportunity to participate in a consultation that was central to how the LGPS invests for its future. The Board was encouraged that some common themes raised in a large number of responses to the previous year’s call for evidence had formed the basis for proposals both:

- to keep asset allocation with local fund authorities and
- to enable the availability of transparent and comparable data.

The consultation was set against a backdrop of concern that the LGPS:

- is in deficit
- pays active fees, but
- experiences passive investment performance in aggregate.

These were concerns the Board shared – and took seriously. However, in considering these challenges the Essex Fund had developed an approach that differed markedly from the direction in which some of the Consultation’s proposals appeared to be heading. In particular, the Essex approach led the Board strongly to oppose any proposals for LGPS Funds to be compelled:

- to join Collective Investment Vehicles (CIVs);
- to end successful active mandates

The response discussed the Essex Pension Fund’s consideration of the three concerns highlighted above. It highlighted the approach Essex had adopted. It responded to the specific questions posed by the Consultation and closed with details of Essex’s approach.

Local Government Pension Scheme (LGPS) Reform: Scheme Governance

The Board had concerns over the creation of the local Board. A working group was, therefore, established to explore all options.

It was also agreed that a response to the consultation be submitted. The Essex Pension Fund welcomed the opportunity to participate in this consultation on revised governance arrangements for the Local Government Pension Scheme (LGPS). It agreed that good governance reduced the risks associated with administering the LGPS.

However it had also been clear that the requirements of the Public Service Pensions Act 2013 impacted the LGPS in a unique way. Whilst many public sector schemes’ governance arrangements were starting afresh, in contrast there was already an established governance landscape within the LGPS.

The regulations allowed for the possibility of administering authorities combining an existing s101 committee with the new Local Pension Board (LPB). The Board’s view was that these bodies had separate functions. S101 committees exercised delegated powers on behalf of the administering authority. The new LPB’s role was to assist the administering authority in

complying with legislation. It did not appear to be intended to be the primary decision-making body. This led the Board to conclude that s101 Committees should not be combined with the new Local Pension Boards.

Given the points made above, the Board did not feel that authorities should use the existing s101 arrangements for setting up the new LPBs. It favoured the alternate approach which allowed administering authorities discretion to establish the procedures applicable to the new LPBs such as voting rights, the formation of joint committees and the payment of expenses.

Given the existing governance landscape and the different roles carried out by s101 committees and the new LPBs it was considered sensible to allow joint LPBs to operate across a small number of administering authorities. This would not only promote best practice and strengthen governance standards, but also limit costs. In recent years there have been significant steps taken in terms of joint working, collaboration between funds and the use of frameworks – joint Local Pension Boards build on this.

The requirement to have LPBs in place by 1 April 2015 was understood, however given that Regulations would not be published before autumn 2014 left little time to make the necessary arrangements and populate the new LPBs. The Board therefore suggested that both DCLG and the Pension Regulator regard sympathetically those Funds whose arrangements are evidently “work in progress” at 1 April 2015, and do not formally complete until sometime during 2015/16.

The Board noted that a requirement to hold an AGM was being considered as part of the Regulations. The Essex Pension Fund holds an Employer Forum every year – and so is already in compliance with the existing DCLG statutory guidance. However, dialogue with stakeholders is a continuing commitment that takes a variety of forms. As a result confining engagement to one AGM appeared restrictive.

The Local Pension Board

The Board agreed the proposals of the working group on the Fund’s Governance structure incorporating the formation of a new Local Pension Board. These proposals were subsequently approved by Essex County Council in February 2015 to take effect from 1 May.

The size of the Investment Steering Committee will be increased from 6 to 7 (this will continue to reflect the political balance of the County Council).

The current Essex Pension Board will be retained and renamed as the Essex Pension Fund Strategy Board (PSB) to reflect its strategic role. In light of the membership arrangements for the new PAB the size of the PSB will be reduced from 14 to 11.

The remit of the new Local Pension Advisory Board will be:

- to assist the Essex County Council Administering Authority as Scheme Manager to secure

- a) compliance with the Local Government Pension Scheme regulations and any other legislation relating to the governance and administration of the LGPS
- b) compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
- to ensure that the Essex Pension Fund is managed and administered effectively and efficiently.

The Pension Advisory Board will meet sufficiently regularly to discharge its duties and responsibilities effectively. It will be made up of 9 Members as follows:

- 4 employer representatives made up of ECC (1), Borough/City District (1), Unitary (1), other employers (1)
- 4 scheme member representatives of which 1 will be nominated by the trade unions and the rest drawn from the total scheme membership
- 1 independent non-voting chairman, Nicola Mark, Head of Norfolk Pension fund

The PAB will be a new body. It will not be possible for an individual to be a Member of both the PSB and PAB although existing Members could transfer to the PAB to ensure there is sufficient experience.

B Other Issues

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

- Quarterly reports on the work of the Essex Pension Fund Investment Steering Committee.
- The decision to procure the Civica UPM (Universal Pension Management) software. A significant amount of Officer involvement resulted in its successful implementation and 'go live' status on 5 November 2014.
- Successful Employer and Academy Forums held on 9 May and 5 December 2014 with excellent feedback from attendees.
- The Board agreed:
 - ;
 - the method for setting the academies' employer contribution rates for the remaining two years of the current valuation period.
- The results of the 31 March 2014 Interim Review were brought to the Board in September 2014. These showed an encouraging increase in funding level (ahead of target) and no change to the funding strategy was required. A further review (as at 31 March 2015) will be considered in September 2015. Initial indications from the Actuary are also positive.

6. Awards

Essex won the award for “Pension Fund of the Year” at a ceremony in London organised by *Local Government Chronicle*. In a two stage process, 10 finalist Funds from throughout the Local Government Pension Scheme were initially selected, followed by a shortlist which saw Essex joined by the larger Greater Manchester Fund and Strathclyde (the biggest Fund in the country). It was particularly pleasing that the judges recognised Essex’s achievements against other Funds across the following criteria:

1. the Fund’s annual report and other communications with its members and employing authorities;
2. the degree to which the Fund had met all its objectives, including performance objectives; and
3. innovations introduced during the year which improved the service provided to pensioners and/or contributors.

In February the Fund was named as the “Defined Benefit Pension Scheme of the Year” at a prestigious awards event organised by the publication “Pensions Age”. This was the third major national award won by the Fund in the past 15 months.

7. Member Training

The Board has continued to demonstrate its commitment to training and development, with a view to ensuring that Members are able to fulfil their roles effectively.

Details of Members’ attendance at Essex Pension Fund Board and Investment Steering Committee meetings and training events (internal and external) are monitored throughout the year and reviewed annually at the Board’s July meeting.

Training sessions were held on 17 September and 10 December 2014 and 19 January and 4 March 2015.

The Board has agreed that future Member training be delivered within the Board meeting on a trial basis.

8. Three-Year Business Plan

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

AGENDA ITEM 16

Essex Pension Fund Board	EPB/16/15
date: 8 July 2015	

Annual Review of Member Attendance

Report by the Secretary to the Board

Enquiries to Ian Myers on 01245 430481 (ext 20481)

1. Purpose of the Report

- 1.1 To detail members' attendance at Board and Investment Steering Committee (ISC) meetings and training events for the period 1 July 2014 to 30 June 2015.

2. Recommendation.

- 2.1 That the attendance of members at Essex Pension Fund Board and ISC meetings and training events, as shown in the Annexes to this report, be noted.

Essex Pension Fund Board Attendance												
Event	Board meetings and internal training - 1 July 2014 to 30 June 2015									Attendance		
	09-Jul Training	09-Jul Board	17-Sep Training	17-Sep Board	10-Dec Training	10-Dec Board	19-Jan Training	19-Jan Board	04-Mar Board	Possible and/or Required	Actual	%
Training Event theme	Accounting & Audit Regulations		infoBOARD		Governance & Legislation		Governance & Legislation					
ECC												
R Bass		✓		✓				✓	✓	9	4	44%
N Hume		✓		✓	✓			✓		9	4	44%
S Barker	✓	✓	✓	✓		✓	✓	✓	✓	9	8	89%
K Clempner	✓	✓	✓	✓		✓	✓	✓	✓	9	8	89%
N LeGresley	✓	✓		✓		✓	✓	✓		9	6	67%
J Whitehouse	✓	✓		✓	✓	✓		✓	✓	9	7	78%
M Mackrory (sub)					✓					4	1	25%
J Spence (sub)										4	0	0%
K Bobbin (sub)	✓		✓	✓		✓	✓			7	5	71%
J Huntman (sub)										4	0	0%
District/Borough Councils												
J Archer	✓	✓		✓			✓	✓		9	5	56%
J Galley									✓	5	1	20%
Unitary Councils												
G Rice										7	0	0%
R Woodley						✓			✓	9	2	22%
Essex Police Authority												
C Garbett				✓		✓	✓	✓	✓	9	5	56%
Essex Fire Authority												
C Seagers			✓	✓		✓		✓	✓	7	5	71%
Smaller Employing Bodies												
J Moore	✓	✓	✓	✓		✓		✓	✓	9	7	78%
Scheme Members												
K Blackburn	✓	✓			✓	✓		✓	✓	9	6	67%

Attendance at Meetings of the Investment Steering Committee									
Meeting type Recommended Attendance	23-Jul-14	26-Nov-14	23-Feb-15	25-Mar-15	17-Jun-15	19-Jun-15	12 months Attendance		
	Strategy	Quarterly	Strategy	Quarterly	Quarterly	ASC	Possible	Actual	%
	All	All	All	All	All	ASC only			
Current ISC Members									
R Bass	✓	✓	✓	✓	apology	✓	6	5	83%
N Hume	✓	✓	apology	✓	✓	✓	6	5	83%
S Barker	✓	✓	✓	✓	✓		5	5	100%
S Canning (from May '15)							1	0	0%
K Clempner	✓	✓	✓	✓	✓		5	5	100%
J Whitehouse	✓	✓	✓	✓	✓		5	5	100%
N LeGresley	✓	apology	apology	apology	✓	✓	6	3	50%
Current ISC Substitutes									
J Spence							6	1	17%
K Bobbin	✓	✓		✓	✓		6	1	17%
M Mackrory							6	1	17%
J Huntman							3	1	33%
W. Archibald							1	1	100%
Observers									
J Archer (employers)		✓	✓	apology			4	2	50%
K Blackburn (employees)	apology	✓	✓	✓	✓		5	4	80%
Included in apologies									

