

# Essex Pension Fund Strategy Board

<b>14:00</b>	<b>Wednesday, 13 July 2016</b>	<b>Committee Room 2, County Hall, Chelmsford, Essex</b>
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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  
Ms S Child  
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](mailto: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)

	<b>Pages</b>
<b>1 Apologies for Absence</b>	
<b>2 Declarations of Interest</b> To note any declarations of interest to be made by Members in accordance with the Members' Code of Conduct	
<b>3 Reminder of schedule of meetings for remainder of municipal year</b> To confirm the dates of future meetings as follows: <ul style="list-style-type: none"><li>• 15 September 2016</li><li>• 13 December 2016</li><li>• 8 March 2017</li></ul>	
<b>4 Minutes</b> To approve as a correct record the minutes of the Board meeting held on 16 March 2016	<b>7 - 12</b>
<b>5 Local Government Pension Scheme Reform - Pooling</b> To receive a report by the Director of Essex Pension Fund	<b>13 - 16</b>
<b>6 Actuarial Valuation</b> To receive a report by the Director of Essex Pension Fund and the Head of Essex Pension Fund	<b>17 - 20</b>
<b>7 Pension Advisory Board</b>	
<b>7a Report from the Pension Advisory Board</b> To receive a joint report by the Chairman of the Pension Advisory Board and the Head of Essex Pension Fund	<b>21 - 24</b>
<b>7b Governance Policy and Compliance Statement</b> To approve a report from the Director of Essex Pension Fund and the Independent Governance & Administration Advisor	<b>25 - 54</b>
<b>7c Communications Policy</b> To receive a report by the Communications Manager	<b>55 - 66</b>

<b>8</b>	<b>Update on Pension Fund Activity</b> To note a report by the Director for Essex Pension Fund and the Head of Essex Pension Fund	<b>67 - 108</b>
	<ul style="list-style-type: none"> <li>• Business Plan</li> <li>• Three Year Business Plan</li> <li>• Risk Management</li> <li>• Scorecard</li> </ul>	
<b>9</b>	<b>Investment Steering Committee (ISC) Quarterly Report</b> To note a report by the Director for Essex Pension Fund	<b>109 - 114</b>
<b>10</b>	<b>External Audit programme of work and fees</b> To note a report by the external auditor	<b>115 - 130</b>
<b>11</b>	<b>Internal Audit annual report of pension fund reviews</b> To note a report by the Head of Internal Audit	<b>131 - 152</b>
<b>12</b>	<b>Draft Pension Fund Accounts</b> To note a report by the Executive Director for Corporate and Customer Services	<b>153 - 204</b>
<b>13</b>	<b>Essex Pension Fund Board - Annual Report</b> To note a report by the Secretary to the Board	<b>205 - 216</b>
<b>14</b>	<b>Annual Review of Member Attendance</b> To note a report by the Secretary to the Board	<b>217 - 220</b>
<b>15</b>	<b>Date of Next Meeting</b> To note that the next meeting will take place at 2.00pm on Thursday 15 September 2016	
<b>16</b>	<b>Urgent Business</b> 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.

**17 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.

**18 Cessation Payment Plan**

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

**19 Year End Returns**

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



**Minutes of a meeting of the Essex Pension Strategy Board held at 2.00 pm  
at County Hall, Chelmsford on 16 March 2016**

Present:

**Member  
Essex County Council**

Cllr R Bass (Chairman)  
Cllr S Barker  
Cllr K Clempner  
Cllr N LeGresley  
Cllr J Whitehouse

Also in attendance

Cllr J Spence  
Cllr K Bobbin

**District/Borough Councils in Essex**

Cllr C Riley

**Unitary Councils****Scheme Members**

S Child

**Smaller Employing  
Bodies**

J Moore

Also in attendance were the following Members of the Pension Advisory Board:

Nicola Mark (Independent Chairperson)  
Keith Flowers  
Paul Hewitt  
Jenny Hunt  
James Durrant  
Cllr Simon Walsh

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)
Ian Colvin	Independent Governance and Administration Adviser (IGAA) (Hymans Robertson LLP)
Graeme Muir	Fund Actuary, Barnett Waddingham
David Tucker	Employer Liaison Manager
Ian Myers	Secretary to the Board
Samantha Andrews	Investment Manager
Sara Maxey	Employer Relationship Manager

## **1. Apologies for Absence**

Apologies for absence were received from Councillor Norman Hume and Councillor Ron Woodley.

## **2. Declarations of Interest**

The Chairman requested Members declare any interests as appropriate.

## **3. Minutes**

### **Resolved:**

That the minutes of the Essex Pension Fund Board held on 16 December 2015 be approved as a correct record and signed by the Chairman.

## **4. Actuarial Valuation**

Members received a presentation from the Director for Essex Pension Fund and the Fund Actuary which detailed:

- How fund evaluations are carried out and the assumptions made
- Changes to asset values, discount rates and average LGPS funding levels
- Key issues from the 2016 valuation
  - Why funds need to be compared
  - The approach adopted
  - Key Performance Indicators
  - Section 13 valuation
  - Academy Pooling
  - Public Sector Exit Cap
  - Timeline and key deadlines

The Chairman thanked Graeme Muir for his contribution to the meeting.

### **Resolved:**

That the presentation be noted.

## **5. Investment Steering Committee (ISC) Quarterly Report**

Members received report EPB/02/16 from the Director for Essex Pension Fund which outlined ISC activity since the last Board meeting.

In addition Members received information on:

- The end of contracting out and NI changes from April 2016
- The appointment of the new Chairman of the Scheme Advisory Board
- Pooling criteria detailing scale, fee savings, governance and infrastructure

It was also noted that recommendation to Full Council to agree the proposed pooling group will be made July 2016.

**Resolved:**

That the report be noted.

## **6. Update on Pension Fund Activity**

Members received report EP/03/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund which provided an update on the progress with the 2015/16 business plan, three year business plan, risk management and scorecard. In addition the report provided Members with details of the proposed business plan for 2016/17

Members were updated on progress with specific objectives within the plan.

**Resolved:**

That the report be noted.

## **7. Training Plan**

Members received report EPB/04/16 from the Independent Governance & Administration Adviser which outlined details of the CIPFA framework modules for 2016/17 and 2017/18.

The Chairman informed Members this was the last meeting that Barry Mack would be attending. He thanked Barry for his support since his appointment as Independent Governance & Administration Advisor to the Board in 2012.

Ian Colvin was introduced to Members and welcomed to his first meeting. He outlined to Members details of the approach and delivery of the plan which will remain flexible to reflect both the business of the Board and cope with other external events.

**Resolved:**

That the report be noted.

## **8. Report from the Pension Advisory Board**

Members received report EPB/05/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund.

Nicola Mark, Chairman of the Advisory Board, also provided Members with a verbal update on PAB activity since the last Board meeting. There had been one meeting of the Board on 15 January 2016 at which Members:

- Received a presentation on pooling LPGS investments



- Considered the Fund's Governance Policy & Compliance Statement
- Considered the Communication Strategy
- Noted the Knowledge and Skills training Strategy
- Noted the requirement to produce an Annual Report on the work of the PAB following the publication of guidance by the DCLG

**Resolved:**

That the report be noted

At this point in the meeting the Chairman reported on the sad and untimely death of Keith Blackburn who had, until recently, been a member of the Pension Strategy Board and had served a four year term.

It was noted the Chairman of Essex County Council, Cllr Norman Hume, has written a letter of condolence to Keith's next of kin.

**9. Date of Next Meeting and rescheduling of Future Meetings**

Members noted the next meeting of the Board would be held at 2.00pm on Wednesday 13 July 2016. The revised dates for future meetings were also noted, Thursday 15 September 2016 and Tuesday 13 December 2016.

**10. Urgent Business**

There was no urgent business

**11. 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.

**12. Arrangements for the Independent Governance & Administration Adviser**

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

Members received report EPB/06/16 from the Director for Essex Pension Fund and Head of Essex Pension Fund.

**Resolved:**

It was agreed existing arrangements were to be continued and officers would monitor the transitional arrangements

That the report be noted.

There being no further business, the meeting closed at 3.45pm.

Chairman



<b>Essex Pension Fund Pension Strategy Board</b>	<b>EPB/07/16</b>
<b>date: 21 June 2016</b>	

**LGPS Reform – Asset Pooling**

Report by Director for Essex Pension Fund

Enquiries to Kevin McDonald 03330 138 488

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**1. Purpose of the Report**

- 1.1 To present to the Board an outline of the draft July submission to Government of the ACCESS pool.

**2. Recommendation**

- 2.1 That the Board agree that the Essex Pension Fund be a signatory to the July submission to Government of the ACCESS pool.

### 3. Background

- 3.1 In the July 2015 budget, the Chancellor announced that LGPS Funds would be invited to put forward proposals on asset pooling.
- 3.2 With the Autumn statement in November 2015, DCLG issued the following criteria for pooling:
- asset pools that achieve the benefits of **scale** (minimum size £25bn as at 31 March 2015 values)
  - strong **governance** & decision making
  - reduced **costs** and excellent value for money
  - improved capacity to invest in **infrastructure**
- 3.3 Initial proposals were required in February with detailed submissions to be submitted by 15 July 2016.

### 4. Essex & ACCESS

- 4.1 At the start of the year meetings took place firstly amongst officers, subsequently amongst Fund Chairmen, around the possibility of forming an asset pool consisting of Funds in East Anglia and the South East. This became known as ACCESS (A Collaboration of Central, Eastern & Southern Shires).
- 4.2 Draft papers on the ACCESS proposal were circulated to ISC, PSB & PAB Members in January and February. At its meeting on 22 February, the Investment Steering Committee agreed that the Fund be a joint signatory to the ACCESS initial proposal.

### 5. Milestones since the last Board

- 5.1 Meetings of the Chairmen of each ACCESS Fund have continued to take place on a monthly basis. These have enabled the Chairmen to:
- consider the Government's response to the February proposal, and an exchange of letters with the Minister took place in April; and
  - review progress and give direction to the work undertaken by officers from the ACCESS Funds.
- 5.2 Central to the focus of this work has been consideration of the form of structure that the ACCESS pool will adopt. Whilst the initial preference had been for a Regulated Investment Management Company, developments in May followed by discussions with legal advisers Eversheds, led to the Chairmen agreeing to the pursuing a Collective Investment Vehicle (CIV).
- 5.3 A briefing on LGPS investment pooling was held on Tuesday 7 June 2016. Invitations were extended to members of the ISC, PSB & PAB. The slides from this briefing were subsequently circulated to all ISC, PSB & PAB members.

- 5.4 Representatives of ACCESS presented to a Government panel on 9 June consisting of representatives from HM Treasury, Cabinet Office, DCLG, the Government Actuaries Department & an independent specialist.
- 5.5 The ISC met on 21 June and received a presentation which covered many of the aspects of the draft July submission. The ISC agreed that final consideration of the draft submission would take place at Board's 13 July meeting.
- 5.6 The draft July submission will be circulated separately, and a presentation on its contents will be given at the meeting.

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

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

## **7. Risk Implications**

- 7.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Statement of Investment Principles.
- 7.2 Officers and advisers will examine the potential risks associated with pooling once the structures and timescales for the migration of Fund assets are better understood. These will then be brought to a future meeting of the ISC for consideration.

## **8. Communication Implications**

- 8.1 The Fund was a signatory on the ACCESS proposal to Government in February.
- 8.2 The deadline for the detailed July submission to Government is 15 July 2016.

## **9. Finance and Resources Implications**

- 9.1 In addition to the work undertaken by Officers, it is anticipated that the costs of participating in ACCESS will be £25,000 per Fund for the period between February and July 2016.
- 9.2 Further costs, of a significant nature, will be incurred in the development and establishment of pools.

## **10. Background Papers**

- 10.1 Agenda & minutes of ISC meetings of 22 February 2016, 23 March 2016 & 21 June 2016..
- 10.2 PricewaterhouseCoopers report on establishing Collective Investment Vehicles
- 10.3 25 November 2015 publications released with the Chancellor's Autumn Statement documents :
  - (i) criteria for LGPS investment reform
  - (ii) a consultation on revised LGPS Investment Regulations and
  - (iii) Government's response to the May 2014 consultation on "*Opportunities for collaboration, cost saving and efficiencies*"
- 9.6 Findings of "Project Pool".
- 10.4 DCLG consultation "Opportunities for collaboration, cost saving and efficiencies" – May 2014
- 10.5 Fund response agreed 9 July 2014

<b>Essex Pension Fund Strategy Board</b>	<b>PSB/08/16</b>
<b>date: 13 July 2016</b>	

## **Actuarial Valuation**

Report by the Director for Essex Pension Fund and Head of the Essex Pension Fund  
Enquiries to Kevin McDonald on 033301 38488 and Jody Evans on 033301 38489

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

- 1.1 To update the Board on the 2015/16 year-end data submissions exercise.
- 1.2 To inform the Board of plans for the 2016 triennial valuation of the Fund.
- 1.3 To inform the Board of national and local developments concerning the treatment of Academies within the LGPS

### **2. Recommendations**

It is recommended that the Board agree to:

- 2.1 Note the update on the 2015/16 year-end data submissions exercise
- 2.2 Note the plans for the 2016 triennial valuation of the Fund.
- 2.3 Note the update on national and local developments concerning the treatment of Academies within the LGPS.



### **3. 2015/16 Year-end data submissions exercise**

- 3.1 The Fund's plans for the 2015/16 year-end data exercise were reported to the Board at its December 2015 meeting. In accordance with those plans;
- A letter was sent to all Fund employers on 18 December 2015. This was sent to Chief Executive/Director of Finance level to give them a heads up on the importance of this exercise;
  - The return spreadsheets and guidance were sent out to employers on 19 January 2015
  - 11 workshops were held for employers in February to provide information and guidance to assist in completing their returns. 300 delegates representing 241 employers attended the workshops;
  - A number of reminders and chasers were sent out in January, February and March and 96% of employers responded and/or attended a workshop.
  - Further communications (e-mails/phone calls/visits) continued throughout April, May and June targeting those employers which had not submitted a return or had failed to submit a correct return.
- 3.2 As of 30 June 2016, 98.2% of employer returns had been received. For comparison, at the same point last year only 85.0% of employer returns had been received.
- 3.3. In summary, the combination of improved and earlier engagement with employers and the introduction of more meaningful charges for late submission has resulted in a successful outcome.
- 3.4 Late submission charges have been incurred by 8 employers, 4 receiving the single charge and 8 the double charge for being over a month late. Details of these employers are included in a separate report elsewhere on this agenda.

### **4. 2016 Valuation update**

- 4.1 The Fund final membership and cashflow data will be submitted to the Actuary on or before 30 July. Cashflows for 2013/14 and 2014/15 were submitted to the Actuary January 2016 for initial review.
- 4.2 The Employer Risk Analysis is currently being updated by officers.
- 4.3 The Actuary will present the Fund level results to the board at its next meeting on 15 September 2016.

- 4.4 The first employer forum is scheduled for the Essex Finance Officers on 20<sup>th</sup> October.

## **5. Academies**

- 5.1 The last board took place on the same day as the Chancellor's March 2016 budget. The budget included the announcement of the mandatory Academisation of all schools.
- 5.2 As at 31 March 2016, in Essex (including Southend & Thurrock) there were 246 Academies and 416 schools (yet to convert to Academy status).
- 5.3 In early May a further announcement was made that good and outstanding schools would not be mandated to become Academies.

## **6. Background papers**

- 6.1 Agenda item 7, 16 December 2015 meeting, PSB/28/15; Year-end data submissions and Annual Benefit Statements.

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

- 7.1 Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters.
- 7.2 To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible.
- 7.3 Determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible.

## **8. Risk Implications**

- 8.1 The FSS contains a risk analysis which will be reviewed.
- 8.2 The Pension Fund Score Card also contains measures which relate directly to the funding strategy and are reported to each Board.

## **9. Communication Implications**

- 9.1 In due course, a consultation will take with participating employers and other interested parties and a subsequently a draft Funding Strategy Statement will be issued to them.

10. **Finance and Resource Implications**

- 10.1 There will be financial implications for Fund employers emerging from the 2016 Fund valuation.

<b>Essex Pension Fund Strategy Board</b>	<b>EPB/09/16</b>
date: 13 July 2016	

### **Pension Advisory Board (PAB) Report**

Report by the Director for Essex Pension Fund & Head of Essex Pension Fund  
Enquiries to Kevin McDonald on: 0333 0138 488

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

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

#### **2. Recommendations**

2.1 That the Board should note the report.

### **3. Background**

- 3.1 The Essex Pension Fund Advisory Board (PAB) has been established as the Local Pension Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the LGPS Regulations 2013.
- 3.2 Since the Board's last meeting the PAB has met once on 11 May 2016. In addition a training session was also held on 7 June 2016 for all members of the PSB Pension Strategy Board (PSB) and Investment Steering Committee (ISC) and the PAB on pooling and a representative of the PAB attended.

### **4. Report of the meeting of PAB on 11 May 2016**

- 4.1 The PAB received training on the calculation of scheme benefits given by the Communications Manager. This was the third part of training to focus on the relevant changes and complex nature of Final Salary and CARE arrangements.
- 4.2 The Director for Essex Pension Fund gave a progress report on LGPS asset pooling. This highlighted that since the ACCESS February proposal to Government there had been an exchange of letters with the Minister. Most of the activity was focused around the type of the structure the pool would adopt and discussions with lawyers were in progress.
- 4.3 Following the PSB's invitation, the Board further considered the draft Governance Policy & Compliance Statement (GP&CS). A number of presentational changes were suggested. Following discussion, it was also agreed that some additional wording be included in the "expenses & facility time" section of the Compliance Statement that deals specifically with the PAB.
- 4.4 The aim of the additional wording is to align arrangements for the PAB with that of ECC Members re: travel & subsistence, and the suggested wording is set out in full below:

*"All Employer and Scheme Member Representatives will be entitled to claim travel and subsistence allowances in accordance with the Essex County Council Members' Allowance Scheme as set out in the Council's constitution.*

*Expenses will only be payable in connection with PAB business including attendance at PAB, PSB or ISC meetings, training courses or conferences. Any external training courses, seminars or conferences require prior approval by the Director for Essex Pension Fund".*

- 4.5 **The full revised draft Governance Policy & Compliance Statement is set out in agenda item 7B, which recommends that the PSB agree the changes suggested by the PAB.**
- 4.6 The PAB also revisited the draft Communications Policy. The Communications Manager presented the strategy and background regarding the communications approach which the Fund has undertaken for the 2016 Year End Process. This was noted and it was agreed that communications will be made a standing item on the PAB agenda at future meetings.

- 4.7 The full Communications Policy is set out in agenda item 7C. Following the PAB's review, there are no changes to the version previously noted at the PSB in December 2105. **Item 7B recommends that the PSB agrees the Communications Policy.**
- 4.8 It was highlighted that the PAB was required to produce an annual report; however the DCLG had yet to publish guidance on its timing and content. The Chairman and officers draft a short annual report setting out the issues considered by the PAB and the training undertaken by members during its first year of operation. This would be circulated to members for comment in June 2016 and included with Essex Pension Fund's annual report. A copy of the final report would also be sent to the DCLG for information
- 4.9 At its March meeting, the ISC agreed that the Statement of Investment Principles (SIP), as amended be passed to the PAB for familiarisation and to note. Due to time constraints the PAB agreed to continue its discussions at its next meeting in September 2016.

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

- 5.1 Compliance with the Fund's governance arrangements.

## **6. Background Papers**

- 6.1 PAB agenda and minutes of 15 January 2016 meeting.
- 6.2 PAB agenda and minutes of 11 May 2016 meeting.



<b>Essex Pension Fund Strategy Board</b>	<b>EPB/10/16</b>
date: 13 July 2016	

## **Governance Policy and Compliance Statement**

Report by the Director for Essex Pension Fund & Head of Essex Pension Fund  
Enquiries to Kevin McDonald on: 0333 0138 488

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

To provide an update on PAB review of the Fund's Governance Policy and Compliance Statement since the last Board meeting.

### **2. Recommendations**

The PSB agreed the revised Governance and Compliance Statement as attached to this document.



### **3. Actions**

The PAB noted that it had first considered the draft Governance Policy and Compliance Statement (GP&CS) at the invitation of the Pension Strategy Board at its meeting on 15 January 2016. A number of suggestions had been made about its content and format and these had been incorporated into a revised draft for further consideration by the PAB on 11 May 2016.

- 3.1 Following discussion at the May meeting, it was also agreed that some additional wording be included in the “expenses & facility time” section of the Compliance Statement that deals specifically with the PAB.

- 3.2 The Board agreed the following wording:

*“All Employer and Scheme Member Representatives will be entitled to claim travel and subsistence allowances in accordance with the Essex County Council Members’ Allowance Scheme as set out in the Council’s constitution.*

*Expenses will only be payable in connection with PAB business including attendance at PAB, PSB or ISC meetings, training courses or conferences. Any external training courses, seminars or conferences require prior approval by the Director for Essex Pension Fund”.*

- 3.3 In finalising the suggested wording the Fund consulted with the Council & Member Support Manager.

### **4. Recommendations**

- 4.1 It is recommended that the PSB agree the revised Governance and Compliance Statement set out in Annex 1 of this report.

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

- 5.1 This paper has relevance to the following Fund objectives:

- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise.
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.
- Understand and monitor risk and compliance.

### **6 Risk Implications**

- 6.1 None.

## **7 Communication Implications**

- 7.1 The Policy will be published on the Fund's website and will appear in the 2015/16 Pension Fund Report and Accounts.

## **8 Finance and Resources Implications**

- 8.1 If agreed, this recommendation will form part of the PAB's 2016 business which in turn will require Officer support.

## **9 Background Papers**

- 9.1 The Public Services Pensions Act 2013
- 9.2 Local Government Pension Scheme Governance Regulations 2015
- 9.3 Scheme Advisory Board Guidance
- 9.4 The Pensions Regulator's Code of Practice No.14



# **Governance Policy and Compliance Statement**

as at 13 July 2016

DRAFT

## Introduction

This Policy and Compliance Statement outlines the governance arrangements for the Essex Pension Fund, maintained by Essex County Council, as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013 (“The Regulations”).

Under that provision all LGPS Funds in England and Wales are required to produce a Governance Compliance Statement, keep it under review, revise it following any material change in its delegation arrangements and publish it, following such consultation as it considers appropriate. The statement is required to set out:

- a. whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;
- b. if they do so
  - i. the terms, structure and operational procedures of the delegation;
  - ii. the frequency of any committee or sub-committee meetings;
  - iii. whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and if so, whether those representatives have voting rights;
- c. the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying;
- d. details of the terms, structure and operational procedures relating to the local pension board established under The Regulations.

Each administering authority is required to:

- a. keep the statement under review;
- b. make such revisions as are appropriate following a material change in respect of any of the matters mentioned in points a. to d., above; and
- c. if revisions are made, publish the statement as revised.

In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

This Policy and Statement was made and approved by the Essex Pension Fund Board on 16 December 2015. There have been some changes to the governance arrangements since the previous Policy and Statement.

In 2013 the Public Service Pensions Act required that each public sector scheme establish a Pension Board. The subsequent amendments to The Regulations specify the role of the Board for LGPS funds. The Regulations require the creation of a Local Board to assist the scheme manager (in Essex Pension Fund’s case, The Essex Pension Fund Strategy Board and the Essex Pension Fund Investment Steering Committee):

- to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS;
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- in such other matters as the LGPS regulations may specify.
- secure the effective and efficient governance and administration of the LGPS for the Essex Pension Fund;
- provide the Scheme Manager with such information as it requires in order to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

### **About The Essex Pension Fund**

Under the Local Government Pension Scheme Regulations 2013, Essex County Council is required to maintain a pension fund ("the Fund") for its employees and those of other Scheme Employers within its area.

Essex County Council therefore administers the Fund for its own employees and those of the 14 District/Borough/Unitary Councils and numerous other bodies. In total there are over 580 separate employing bodies in the Fund. The Fund excludes provision for teachers, fire-fighters and police officers, for whom separate arrangements exist but includes administrative and support staff for those organisations.

Benefits are prescribed by, and the Fund is invested in accordance with, the provisions of the following regulations under the Public Service Pensions Act 2013 (all as amended):

- Local Government Pension Scheme (LGPS) Transitional Provisions, Savings and Amendment Regulations 2014;
- Local Government Pension Scheme (LGPS) Regulations 2013;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

and other saved provisions from previous sets of LGPS regulations.

With effect from 1 April 2014 employee contributions have been banded according to employees' annual pensionable pay. The rates payable vary from 5.5% to 12.5% of annual pensionable pay.

Membership Summary as 31 March 2015	
Active Members	50,965
Pensioner/Dependants	35,455
Deferred Members	44,038
Total	130,458

\* Deferred pensioners are former active members who have chosen not to transfer their pension rights but retain their pension rights in the Essex Pension Fund until they are due for payment.

At the last triennial valuation of the Fund as at 31 March 2013 Fund assets were £3.958 billion, which represented 80% of the Fund's liabilities. Employers are responsible for paying employer contributions at rates determined by the fund actuary at each triennial valuation.

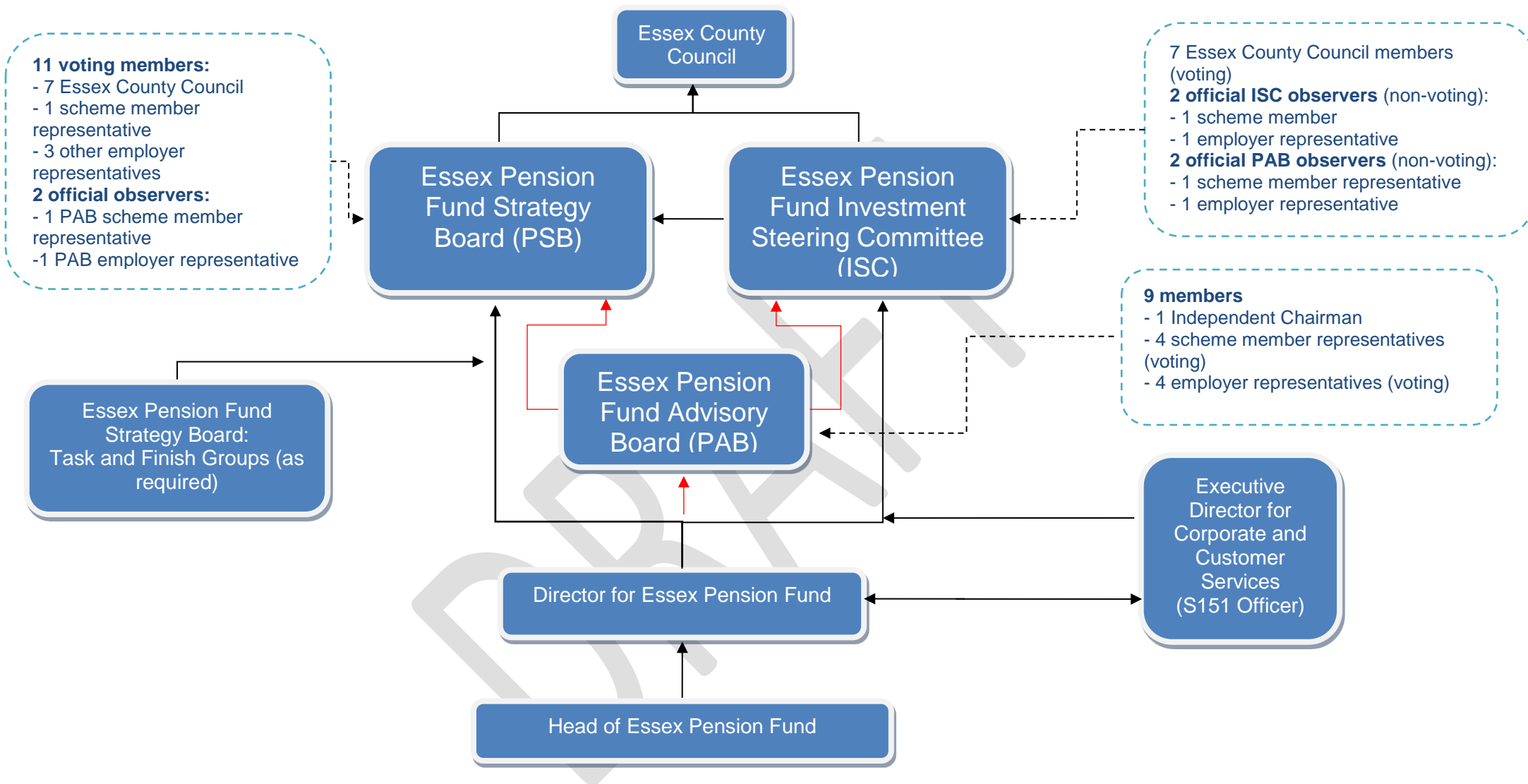
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## **Governance Structure**

The Essex Pension Fund governance structure is illustrated below. This structure relates to the administering authority responsibilities only. Essex County Council is also an employer within the Essex Pension Fund. A separate governance structure and Scheme of Delegation is in place in relation to Essex County Council's employer responsibilities:

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## **Scheme of delegations for the Essex Pension Fund**

Essex County Council (“the Council”) has delegated its functions in relation to the maintenance of the Essex Pension Fund as follows:

### **1. To the Essex Pension Fund Strategy Board (PSB) (formerly known as the Essex Pension Fund Board):**

- i. 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. The delegation will include the following specific functions:
  - a. To monitor and oversee the work of the Investment Steering Committee through its quarterly reports.
  - b. To monitor the administration of the Pension Scheme, including compliance with The Regulations, to oversee the day to day administration and payment of pensions including the Internal Disputes Resolution Procedures. To ensure the Fund delivers best value and complies with best practice guidance where considered appropriate.
  - c. To exercise Pension Fund discretions on behalf of the Administering Authority.
  - d. To determine Pension Fund policy in regard to employer admission arrangements.
  - e. To determine the Pension Fund's Funding Strategy and approve its Funding Strategy Statement.
  - f. To receive periodic actuarial valuation reports from the Actuary.
  - g. To coordinate Administering Authority responses to consultations by Central Government, professional and other bodies.
  - h. To consider any views expressed by employing organisations and staff representatives.

### **2. To the Essex Pension Fund Investment Steering Committee (ISC):**

- i. To approve and review annually the content of the Statement of Investment Principles.
- ii. To appoint and review Investment Managers, Custodian and Advisors.
- iii. To assess the quality and performance of each Investment Manager annually in conjunction with investment advisers and the Section 151 Officer.
- iv. To set the investment parameters within which the Investment Managers can operate and review these annually.
- v. To monitor compliance of the investment arrangements with the Statement of Investment Principles.
- vi. To assess the risks assumed by the Fund at a global level as well as on a manager by manager basis.

- vii. To approve and review the asset allocation benchmark for the Fund.
- viii. To submit quarterly reports on its activities to the Essex Pension Fund Board.
- ix. To approve the Fund's Treasury Management Strategy.

**3. To the Executive Director for Corporate and Customer Services (S151 Officer):**

- i. To act as the Council's officer appointed under section 151 of the Local Government Act 1972 and to make such decisions as are necessary for the proper administration of the Council's financial affairs.
- ii. To be the Proper Officer under Section 151 of the Local Government Act 1972.
- iii. To be responsible for all the Council's powers and duties with respect to pensions including the Essex Pension Fund and the Council's involvement with other pension schemes

*Note 1: The Executive Director for Corporate and Customer Services is not empowered to change the managers of the Pension Fund unless the Chief Executive agrees following a recommendation from the ISC.*

*Note 2: The operational procedures related to these functions are carried out by the Essex Pension Fund.*

**4. To the Director for Essex Legal Services:**

To act as the administering authority for the purposes of the pensions complaints procedure.

Under the Public Service Pensions Act 2013, the Essex Pension Fund's Local Pension Board is known as the Essex Pension Fund Advisory Board (PAB). The functions of the PAB are set out in its terms of reference and are summarised below:

**The Essex Pension Fund Advisory Board**

- i. To assist the Administering Authority:
  - a. to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
  - b. to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator (tPR).
- ii. To secure the effective and efficient governance and administration of the LGPS for the Essex Pension Fund ("EPF").
- iii. To help ensure that the EPF is managed and administered effectively and efficiently and complies with the tPR's Code of Practice (CoP –

“Governance and administration of public service pension schemes”)  
No. 14.

- iv. To assist the Scheme Manager in this case the Administering Authority with such matters as the scheme regulations may specify.
- v. To be a “critical friend” to the PSB and the ISC.
- vii. To provide oversight of decisions made by the PSB to ensure that due process has been followed.
- viii. The Board may review any decision made by or on behalf of the Scheme Manager.
- ix. The Board will adopt a policy statement on reporting breaches identified under viii.
- x. At the invitation of the PSB, the Board may also undertake other tasks.
- xi. Appoint Observers to attend meetings of the PSB and the ISC.

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## Board/Committee Representation

### The Essex Pension Fund Strategy Board (PSB)

The Essex Fund Pension Strategy Board is composed as follows:

Representing	No	Term of Office	Comments
Essex County Council	7	until 2017 County Council Elections	
District/Borough Councils in Essex	1	4 years (from May 2015 until 2019 District/Borough Council elections)	Nominated by Essex Borough and District Leaders"/Chief Executives" Meeting
Unitary Councils in Essex	1	4 years (from May 2015 until 2019 Unitary Authority elections)	One from either Southend-on-Sea and Thurrock Councils
Scheme Members	1	4 years from date of appointment	Nominated by UNISON
Smaller Employing Bodies	1	2 years, from Employer Forum 2015 until Employer Forum 2017	To be nominated following voting by either eligible employers attending the Employer Forum or election process
<b>Total</b>	<b>11</b>		
PAB Employer representative (observer)	1	A review of the PAB is due to commence by October 2016 with any changes implemented by May 2017.	PAB Nomination
PAB Employee representative (observer)	1		PAB Nomination

All members of the Board have equal voting rights.

The Strategy Board is supported in the execution of its responsibilities by staff from the Authority's Pension Fund function as well as an Independent Governance and Administration Adviser and other advisers as considered necessary (e.g. the Fund Actuary).

The Strategy Board meets five times a year with one of the meetings set aside for consideration of Pension Fund strategy matters. Additional Task and Finish Groups can meet as necessary to consider and report to the Board on matters that require further consideration.

The Strategy Board also has a dedicated training plan which includes specific internal training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

## The Essex Pension Fund Investment Steering Committee (ISC)

The Essex Pension Fund Investment Steering Committee is composed as follows:

Representing	No	Term of Office	Comments
Essex County Council (voting)	7	Until 2017 County Council Elections	
<b>Total</b>	<b>7</b>		
Employer representative (observer)	1	4 years (from May 2015 until 2019 District/Borough Council elections)	Nominated by Essex Borough and District Leaders"/Chief Executives" Meeting
Scheme Members (observer)	1	4 years from date of appointment	Nominated by UNISON,
PAB Employer representative (observer)	1	A review of the PAB is due to commence by October 2016 with any changes implemented by May 2017.	PAB Nomination
PAB Employee representative (observer)	1		PAB Nomination

The Investment Steering Committee is supported in the execution of its responsibilities by two investment advisers (one independent and one institutional) and staff from the Authority's Pension Fund function.

The Committee meets routinely on six occasions each year. Four of those meetings are primarily to meet with investment managers in order to review the performance of the investment managers against their benchmarks but two meetings each year in February and July are set aside for the consideration of ongoing investment strategy.

In addition special meetings of the Committee are held when required for the discharge of its functions in regard to such matters as the selection and appointment of investment managers.

## The Essex Pension Fund Advisory Board (PAB)

The Essex Pension Fund Advisory Board is composed as follows:

Representing	No	Term of Office	Comments
Independent Chair (non-voting)	1	A review of the PAB is due to commence by October 2016 with any changes implemented by May 2017	
Essex County Council	1		
District/Borough Councils in Essex	1		Nominated by Essex Borough and District Leaders"/Chief Executives" Meeting
Unitary Councils in Essex	1		One from either Southend-on-Sea and Thurrock Councils
Smaller Employing Bodies	1		Essex Fire Authority
Scheme Members	3		2 deferred and 1 active member
Scheme Member	1		Nominated by UNISON
<b>Total</b>	<b>9</b>		

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

The Essex Pension Fund Advisory Board has no delegated decision making ability, on behalf of Essex County Council.

With the exception of the Chair, who has no vote, all members of the Board have equal voting rights.

There are no substitute members.

The Pension Advisory Board is supported in the execution of its responsibilities by staff from the Authority's Pension Fund function as well as advisers to the fund such as the Independent Governance and Administration Adviser and other advisers as considered necessary (e.g. the Fund Actuary, institutional investment adviser).

The Pension Advisory Board meets at least twice per year.

The Pension Advisory Board will follow the dedicated EPF training plan which includes specific internal training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

The Pension Advisory Board reports its activities at the end of each financial year to the Authority and will be publicly disclosed.

## **Governance Compliance Statement: Section 101 Committees**

As can be seen, Essex Pension Fund governance arrangements in respect of the PSB and ISC are fully compliant with the latest guidance issued by the Secretary of State for Communities and Local Government (issued in 2008):

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Description of Principle	Essex Pension Fund's Position	Future Action
<b>A Structure</b> <p>(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</p> <p>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>The Essex Pension Fund Strategy Board was established as the Essex Pension Fund Board in 2008, changing its name on 1<sup>st</sup> April 2015 following the formation of the Essex Pension Fund Advisory Board. It is an overarching body to oversee the functions of the County Council as Administering Authority of the Fund, except where they have been specifically delegated to another committee or officers.</p> <p>Its functions include monitoring the administration of the Pension Scheme, exercising Pension Fund discretions and determining Pension Fund policy towards employer admission arrangements. Membership of the Pension Strategy Board is drawn from the County Council as well as other scheme employers and member representatives. All representatives have full voting rights and receive appropriate training and development.</p> <p>In addition to the Pension Strategy Board the Fund has also put in place an Investment Steering Committee (ISC). The role of the ISC is to oversee and approve all matters related to the Fund's investments. Their main role is to decide asset allocation, appoint investment managers and periodically review and monitor investment manager performance. All decisions of the ISC are ultimately ratified by the Pension Strategy Board.</p> <p>Membership of the ISC is drawn from the County Council representatives of the Pension Strategy Board, all of which have full voting rights as well as employer and member representatives from the Pension Strategy Board (who have observer status only).</p>	<p>The Fund has developed a rolling three year business plan, which includes the training, development and effectiveness of the Pension Strategy Board and ISC. This plan is reviewed quarterly.</p>

Description of Principle	Essex Pension Fund's Position	Future Action
<p><b>B Representation</b></p> <p>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <p>(i) employing authorities (including non-scheme employers, e.g. admitted bodies);</p> <p>(ii) scheme members (including deferred and pensioner scheme members);</p> <p>(iii) independent professional observers;</p> <p>(iv) expert advisers (on an ad hoc basis).</p> <p>(b) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>The terms of reference of both the Pension Strategy Board and the ISC set out the term of office for individual members. The terms of reference of the Pension Strategy Board also sets out the mechanism by which representatives from different sectors of scheme employers are able to volunteer for membership of the Pension Strategy Board. For example:</p> <ul style="list-style-type: none"> <li>• District and Borough Council representatives are nominated by the Leaders/Chief Executives of those organisations;</li> <li>• Member representatives are nominated by the individual unions; and</li> <li>• Small employing body representatives are nominated following voting by eligible employers attending the Pension Fund Employer Forum</li> </ul> <p>All members of the Pension Strategy Board and ISC are treated equally in terms of provision of meeting papers, opportunity to contribute (full voting rights on the Pension Strategy Board) and knowledge and skills training.</p> <p>In addition, the Pension Strategy Board has appointed an independent governance and administration adviser to assist the Pension Strategy Board and its officers.</p>	

Description of Principle	Essex Pension Fund's Position	Future Action
<p><b>C Selection and Role of Lay Members</b></p> <p>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>(b) that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>This is clearly set out in the terms of reference of both the Pension Strategy Board and ISC.</p>	<p>Continually monitor and review to ensure that the functions of the Pension Strategy Board and ISC remain appropriate.</p>
<p><b>D Voting</b></p> <p>(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>All members of the Pension Strategy Board have full voting rights. While voting rights of the ISC is limited to the County Council members only, this reflects the fact that ultimately it is the County Council that has the legal responsibility to pay all benefits from the Fund.</p> <p>The observer members of the ISC will of course have full voting rights as members of the PSB, when considering any decisions taken by the ISC that are subsequently referred to the PSB.</p>	<p>Continually monitor and review to ensure appropriate.</p>

Description of Principle	Essex Pension Fund's Position	Future Action
<p><b>E Training/ Facility Time/ Expenses</b></p> <p>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p> <p>(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p>	<p>The Fund has put in place a comprehensive knowledge and skills training strategy in place, which covers all aspects of the CIPFA knowledge and skills framework.</p> <p>The document sets out the strategy agreed by the Pension Strategy Board concerning the training and development of:</p> <ul style="list-style-type: none"> <li>• all the members of the Pension Strategy Board and the ISC; and</li> <li>• the officers of the Essex Pension Fund responsible for the management of the Fund.</li> </ul> <p>The training strategy was established to aid members of the Pension Strategy Board and the ISC in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the decision making responsibility put upon them.</p> <p>In addition the Pension Fund has developed a full training strategy and plan, which ensures the Pension Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise and that they act with integrity and accountability to all stakeholders and decisions, ensuring they are robust and well-based.</p> <p>Member Allowance Scheme is set out in the ECC Constitution for the members carrying out their Board/Committee decision making responsibilities. Allowances are limited to the County Council members only.</p> <p>All costs associated with the attendance of training/conferences away from County Hall for all Board/Committee members that are relevant and within the training strategy plan are met by the EPF.</p> <p>Participating employers are also encouraged to allow facilities' time where relevant.</p>	<p>A training plan has been formed and will be rolled out from 2016.</p>

Description of Principle	Essex Pension Fund's Position	Future Action
<p><b>F Meetings – Frequency</b></p> <p>(a) that an administering authority's main committee or committees meet at least quarterly.</p> <p>(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</p> <p>(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</p>	<p>The Pension Strategy Board and ISC meet a minimum of four times a year.</p> <p>Meetings of both the Pension Strategy Board and ISC are arranged so that outputs from the ISC are available to the Pensions Strategy Board in a timely manner.</p>	

Description of Principle	Essex Pension Fund's Position	Future Action
<p><b>G Access</b></p> <p>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p>All members of the Pension Strategy Board and ISC are provided access to all committee papers and documentation via the Pension Fund's on-line portal infoBOARD.</p>	
<p><b>H Scope</b></p> <p>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>	<p>The role of the Pension Strategy Board is to consider all aspects of the management and administration of the Essex Pension Fund. While certain day-to-day responsibilities have been delegated to officers and investment decisions to the ISC, via the County Council's scheme of delegation the Pension Strategy Board's remit includes monitoring the administration of the pension team, exercise of administering authority discretions and determining the Fund's policy in relation to the admission of new employers.</p>	
<p><b>I Publicity</b></p> <p>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</p>	<p>Full details of the governance arrangements of the Essex Pension Fund are contained within this Statement as well as additional detail being included within the Pension Fund Annual Report, which is available on the Fund's website <a href="http://www.essexpensionfund.co.uk">www.essexpensionfund.co.uk</a>.</p>	

## Governance Compliance Statement: Essex Pension Fund Advisory Board

At present the latest guidance issued by the Secretary of State for Communities and Local Government does not extend to the governance arrangements of the newly formed local Board, the Essex Pension Fund Advisory Board (PAB). The following table sets out how the PAB complies with the requirements applicable to local pension boards, as set out in the LGPS Regulations, Scheme Advisory Board Guidance and The Pensions Regulator's Code of Practice No. 14.

Requirement	Essex Pension Fund's Position	Future Action
<b>A - LGPS 2013 Regulations</b>		
Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.	The PAB has been set up as a separate, stand-alone Board. Essex County Council has not taken steps to seek Secretary of State approval for the setting up of a joint arrangement with the PSB.	The County Council will monitor, with interest, the success of any scheme manager that does receive Secretary of State approval to the setting up of a joint arrangement.
Where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities, those administering authorities may establish a joint local pension board if approval in writing has been obtained from the Secretary of State.	The Essex Pension Fund is solely managed by Essex County Council.	
Only employer and scheme member representatives shall be entitled to vote	Although the PAB has an independent Chair voting rights only extend to the employer and member representatives	

Requirement	Essex Pension Fund's Position	Future Action
<p>The administering authority has established a fair and transparent process for the appointment of local pension board members</p>	<p>The terms of reference of the PAB set out the term of office for individual members. The terms of reference of the PAB also sets out the mechanism by which representatives from different sectors of scheme employers are able to volunteer for membership of the PAB. For example:</p> <p>Employers Representatives</p> <ul style="list-style-type: none"> <li>• District and Borough Council representatives are nominated by the Leaders/Chief Executives of those organisations; and</li> <li>• Small employing body representatives are nominated following voting by eligible employers attending the Pension Fund Employer Forum.</li> </ul> <p>Member Representatives</p> <ul style="list-style-type: none"> <li>• Member representatives are nominated by the individual unions; and</li> <li>• by members individually.</li> </ul> <p>All members of the PAB are treated equally in terms of provision of meeting papers, opportunity to contribute (full voting rights) and knowledge and skills training.</p> <p>In addition, the Pension Strategy Board has appointed an independent governance and administration adviser to assist the both the PSB and its officers.</p>	



Requirement	Essex Pension Fund's Position	Future Action
The local pension board consists of at least 4 members of whom 2 are employer representatives and 2 scheme member representatives	<p>The PAB includes a membership of 4 employer and 4 member representatives and an independent Chair. Each of the 4 employer and 4 member representatives has equal voting rights. The independent Chair has no voting rights.</p> <p>The PAB has no decision making powers.</p>	
Employer and scheme member representatives have the capacity to represent their constituency.	<p>The Fund has put in place a comprehensive knowledge and skills training strategy in place, which covers all aspects of the CIPFA knowledge and skills framework.</p> <p>The document sets out the strategy agreed by the PAB concerning the training and development of its members.</p> <p>The training strategy was established to aid members of the PAB in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the responsibilities put upon them.</p> <p>In addition the Pension Fund has developed a full training strategy and plan, which ensures the Pension Fund, is managed, and its services delivered, by people who have the appropriate knowledge and expertise and that they act with integrity and accountability to all stakeholders and decisions, ensuring they are robust and well-based.</p>	A training plan has been formed and will be rolled out from 2016.

Requirement	Essex Pension Fund's Position	Future Action
<p>Where the local pension board is not a joint body also exercising delegated decision making powers;</p> <p>a) no officer or elected member of the administering authority who is also responsible for the discharge of functions under LGPS 2013 may be a member of the local pension board, and</p> <p>b) any elected member of the administering authority who is a member of the pension board must be an employer or scheme member representative.</p>	<p>No officer or elected member on the PAB has any responsibility for the discharge of function under the LGPS Regulations as part of their normal duties.</p>	
<p>No person to be appointed to the pension board may have a conflict of interest.</p>	<p>All members of the PAB are required to adopt and adhere to the County Council's published conflict of interest policy. Where any conflict or potential conflict is identified it must be declared and any remedial action taken to resolve the conflict or potential conflict must be carried out in accordance with the County Council's stated conflicts policy in place at that time</p>	
<p>No member of a pension board may have a conflict of interest.</p>	<p>All members of the PAB are required to adopt and adhere to the County Council's published conflict of interest policy. Where any conflict or potential conflict is identified it must be declared and any remedial action taken to resolve the conflict or potential conflict must be carried out in accordance with the County Council's stated conflicts policy in place at that time.</p>	

Requirement	Essex Pension Fund's Position	Future Action
<b>B – Training</b>		
<p>There is a clear policy on training which complies with the Pension Regulator's code of practice no. 14</p>	<p>The Fund has put in place a comprehensive knowledge and skills training strategy in place, which covers all aspects of the CIPFA knowledge and skills framework.</p> <p>The document sets out the strategy agreed by the PAB concerning the training and development of its members.</p> <p>The training strategy was established to aid members of the PAB in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the responsibilities put upon them.</p> <p>In addition the Pension Fund has developed a full training strategy and plan, which ensures the Pension Fund, is managed, and its services delivered, by people who have the appropriate knowledge and expertise and that they act with integrity and accountability to all stakeholders and decisions, ensuring they are robust and well-based.</p>	
<b>C - Expenses and facility time</b>		

Requirement	Essex Pension Fund's Position	Future Action
There is a clear policy on the reimbursement of expenses and use of facility time	<p>Provision has been made in the accounting procedures to identify the costs incurred in the establishment and operational costs of the local pension board. Participating employers are also encouraged to allow facilities' time where relevant.</p> <p>All Employer and Scheme Member Representatives will be entitled to claim travel and subsistence allowances in accordance with the Essex County Council Members' Allowance Scheme as set out in the Council's constitution.</p> <p>Expenses will only be payable in connection with PAB business including attendance at PAB, PSB or ISC meetings, training courses or conferences. Any external training courses, seminars or conferences require prior approval by the Director for Essex Pension Fund".</p>	
<b>D - Conduct of members</b>		
The members of a Local Pension Board should have regard to the 'Seven Principles of Public Life' ("the Nolan Principles")	All members of the PAB will have been made aware of the Seven Principles of Public Life as part of their initial induction and as part of regular reminders in ongoing training and development.	
<b>E - Reporting Breaches</b>		
There should be a policy in place for the reporting of breaches of the law.	It is the responsibility of all members of the PAB to understand their individual and collective responsibilities in this area and to familiarise themselves with the steps they should follow in the event a breach of the law is suspected.	

Requirement	Essex Pension Fund's Position	Future Action
<b>F - Internal reporting</b>		
There should be a clear mechanism for the Pension Board to report its requests, recommendations or concerns	This is covered within the PAB terms of reference	

<b>Essex Pension Fund Strategy Board</b>	<b>EPB/11/16</b>
<b>date: 13 July 2016</b>	

## **Communication Policy Report**

Report by the Communications Manager

Enquiries to Matt Mott on: 01245 431215

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

- 1.1 To provide an update on PAB review of the Fund's Communications Policy.

### **2. Recommendations**

- 2.1 The Board note the PAB have reviewed the Communications Policy and have not made any amendments.
- 2.2 The Board agree the Communications Policy attached as Annex A to this report.
- 2.3 The Board note Communications has been added to future PSB agendas as a standing item.

### **3. Review of Communications Policy**

- 3.1 The PSB invited the PAB to consider the draft Communications Policy and this was an agenda item at both the January 2016 and May 2016 meetings.
- 3.2 To highlight how the Communication Policy is implemented in practice, the Communications Manager gave a presentation which provided feedback from the annual survey of both scheme members and scheme employers (as reported in the quarterly scorecard). He also outlined the new approach taken to actively managing end of year returns from employers. This involved a series of employer workshops with follow-up email reminders which focused on the importance of timely and accurate returns in producing members' annual benefits statements. The proposed charging arrangements for late data submission were also noted.
- 3.3 Whilst the PAB did not have any suggested changes to put forward to the Communications Policy itself, it was agreed that communication was an area where they could have a very useful input and asked that members should have the opportunity to comment on Funds publications.

### **4. Recommendations**

- 4.1 The Board note the PAB have reviewed the Communications Policy and have not made any amendments.
- 4.2 The Board agree the Communications Policy attached as Annex A to this report.
- 4.3 The Board note Communications has been added to future PSB agendas as a standing item.

### **5. Links to the Essex Pension Fund Objectives**

- 5.1 This paper has relevance to the following Fund 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.

**6. Risk Implications**

6.1 None

**7. Communication Implications**

7.1 To ensure all stakeholders receive timely, legislative and regulatory correct information regarding the LGPS

**8. Finance and Resources Implications**

8.1 If agreed this recommendation will form part of the PAB's 2016 business plan, which in turn will require Officer support.

8.2 All costs associated with all forms of communication are met by the Fund.

**9. Background Papers**

9.1 Essex Pension fund Communication Policy 2015/2016





## COMMUNICATIONS POLICY

### *Introduction*

This Communication Policy has been prepared by the Essex Pension Fund (the Fund) and is effective from April 2016. The Communication Policy has been designed to meet the legislative requirements and in addition, meet the Funds objectives that are outlined within this Policy. This policy will be reviewed annually and updated as necessary following each review.

This Policy should be read in conjunction with the supporting 'Communication Calendar' which is detailed in Appendix 1 of this document.

### *Key Objectives*

To ensure that we are communicating with our audiences and we enhance the service we currently offer, we have set the following 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.

### *Measuring success*

To monitor our success against our objectives we will aim to:

- Achieve a year on year increase in the response rate to our Satisfaction Surveys to each of our audiences.
- Achieve to 95% of positive responses in our Satisfaction Surveys to each of our audiences.
- Have a supporting communications calendar that is adapted where necessary, to each of our audiences.

### *Achieving success*

Our principles when delivering our communication will be to:

#### **1. Improve member understanding and gain appreciation:**

To ensure that our communications support member understanding we will:

- Tailor our communication to the audience's needs.
- Make our messages clear, consistent and use the right language.
- Provide contact information for people to find out more information.

- Be consistent with our key messages throughout our communication.
- Use the most appropriate delivery methods to reach our audiences and make communications accessible to everyone.
- Provide good quality communications that meets the expectations of the audience.

## **2. Plan our communication and deliver by the most appropriate method:**

- We will use the most appropriate communication channel for the audience.
- We will adapt our communication where possible following feedback from our audiences.
- We will consider how to make the service available to all audiences and be accessible to everyone.
- We will actively promote our service through our existing communication channels where appropriate. For example, employer roadshows and meetings.

## **3. Give our communication a clear purpose**

- Each of the communications we send will have a clear purpose and fit into our overall communications plan. This will ensure each item is part of our overall policy and cost effective.
- We will continually review all of our communication to ensure that it is fit for purpose.

## **4. Give our communication impact through visual identity:**

Pension schemes with their own style and brand result in communications that are instantly recognisable as pension related. A visual identity will be developed alongside the Councils existing brand.

### ***Our key messages***

There are a number of key messages to each of our audiences but through all of our communication the messages to the majority of audiences will be:

- 1 Your pension is a valuable benefit
- 2 It is important that you understand how the LGPS works now and in the future
- 3 Make sure that you are saving enough for retirement

A summary of the key messages to each audience is below:

Audience	Key message
<b>Active members</b>	<ul style="list-style-type: none"> <li>• It is important that you understand the impact of any changes in legislation: Pension Reform, Automatic enrolment, Lifetime allowance /Automatic enrolment.</li> <li>• Your employer pays in to help you save for your retirement.</li> <li>• Remember you have other benefits with your pension.</li> </ul>
<b>New / potential joiners and opt outs</b>	<ul style="list-style-type: none"> <li>• It is important to understand the impact of any changes in legislation: Pension Reform and auto enrolment.</li> <li>• The LGPS pension is a good way to save for your retirement.</li> <li>• Remember you have other benefits with your pension.</li> </ul>
<b>Deferreds</b>	<ul style="list-style-type: none"> <li>• Keep your details up to date.</li> <li>• You need to understand how the fund worked when you left.</li> <li>• It is important to understand the impact of any changes in legislation</li> <li>• The pension will be different if you come back into the Scheme.</li> <li>• Understand the implications of transferring out of the Scheme.</li> <li>• We will tell you if anything changes.</li> </ul>
<b>Pensioners</b>	<ul style="list-style-type: none"> <li>• Keep your details up to date.</li> <li>• We are here to help with any questions you might have.</li> <li>• You will continue to get your pension no matter what changes happen.</li> <li>• Remember to phone the tax office with any tax queries you have.</li> <li>• Remember you have other benefits with your pension.</li> </ul>
<b>Employers</b>	<ul style="list-style-type: none"> <li>• You have a responsibility to provide employees with information about the LGPS.</li> <li>• You need to understand how the Scheme works and the effect of any changes in legislation.</li> <li>• The LGPS is a valuable benefit for members and you need to help educate members to understand the changes and the impact.</li> <li>• You have a responsibility to inform the Fund of any changes to scheme members circumstances.</li> </ul>

# Communication deliverables

## *Media, tools and channels of our communication*

The communication tools we will use will incorporate our existing communication channels for efficiency. The tools we use may adapt as we receive feedback from each of audiences. The tools we will use for each of our audiences are outlined below:

### **Scheme members** – Active, deferred and pensioner members

- **Internet** – The Fund has established an extensive website [essexpensionfund.co.uk](http://essexpensionfund.co.uk) containing Scheme details, leaflets, guides and forms etc. There are also news items and links to other organisations relevant to Scheme members
- **‘Prime’ newsletter** – We will issue a newsletter to members of the Fund at least once a year, the contents of which will cover current pension topics within the LGPS and the pensions industry in general plus important repeated messages
- **Deferred newsletter** – We may issue a newsletter to deferred members of the fund, where a current address is known. This will consist of the key messages, plus any topical issues such as changes affecting deferred members and will normally be sent with the annual benefit statement.
- **Benefit statements** – An annual benefit statement may be sent directly to the home address of all members who are contributing to the Fund at the previous financial year end. Benefit statements are sent direct to the home address of deferred members where a current address is known
- **Scheme literature** – A range of Scheme literature is produced by the Fund and is supplied to employing bodies and Scheme members directly. Copies of the Scheme literature will be available on the Fund’s website [essexpensionfund.co.uk](http://essexpensionfund.co.uk)
- **Pay advices** – The Fund issues pay advices to Scheme pensioners in April and May and if there is a change to the member’s net pension of more than £1.00. The pay advices are also used to convey important generic messages to Scheme pensioners.
- **Correspondence** –The Fund uses both surface mail and e-mail to receive and send correspondence.
- **Telephone helpline** – A dedicated telephone helpline is provided for Scheme members and is widely publicised in Scheme literature.
- **Pensions roadshow** – The Fund stages a number of pension roadshows where it visits the buildings of main employers in the Fund. Additionally, satellite roadshows and surgeries are held at outlying sites, particularly when there may be organisational changes occurring which have pensions implications
- **‘Your Time’** – The Fund issues an annual newsletter, ‘Your Time’ to its Pensioner members

## Scheme employers

To assist employers participating in the LGPS, the Fund has a range of communication materials and methods that aims to increase their understanding of pension issues and help them fulfil their responsibilities as Scheme Employers. By working together we are able to provide a better service to our members.

- **Employer website** – The Essex Pension Fund website has a section for Scheme Employers. This is used to distribute forms used by employers to notify the fund of certain material events and holds resources such as the Employers' guide, Scheme Employer newsletters and links to LGE circulars and bulletins. Employers are requested to download the forms as and when required to ensure up-to-date documentation is always used
- **Employer guide** – The Fund has produced and maintains an Employer guide to assist Scheme employers to understand their role. The guide is a key resource and explains the statutory requirements of the Employer with regards to the scheme. All Scheme employers have been sent a hard copy and electronic copy of the guide and the latest version is also made available on the Fund's website
- **Scheme employer newsletter** – The Fund produces a newsletter for Scheme employers covering current issues, scheme changes and administration issues. This is sent to employers electronically by Email
- **E-mail alerts** – The fund sends a number of e-mail alerts to employers throughout the year with important pension related news and information
- **Report and Accounts** – The Report and Accounts are produced annually and an electronic copy is sent to all Scheme employers. It is also made available on the Fund's website
- **Employer meetings or other ad hoc meetings** – The fund holds a number of employer meetings at the offices of main employers in the Fund to which all Fund Employers are invited. The Fund also attends meetings with employers either at the request of the employer or if it has identified a need. These are usually to keep Employers up-to-date with LGPS developments and to offer training and assistance to the employer to help them to carry out their pension obligations
- **An employer forum** – The Fund hold an employer forum each year which focuses on administrative aspects of the fund and any developments in the scheme including identifying the likely impact of scheme changes. Workshops will be held on specific relevant pension topics at least once a year. The Fund invites all Scheme employers to the forum
- **Employer Training** – The Fund offers training to all Scheme Employers on the LGPS and their role in administering the Scheme. Training covers the full range of administrative and Regulatory activities and is tailored to the needs of the particular employer



### Prospective Scheme members – Including opt-outs

- **Scheme information / guide** – All prospective Scheme Members must be given basic information about the LGPS. The Fund requires Employers to provide all employees information about the scheme and to provide either a hard copy of the short scheme guide or direct them to an electronic version, when they become eligible to join the scheme. The Fund's website has a section 'I am thinking of joining' which summarises the main benefits provided by the LGPS
- **Internet** – The Fund has established an extensive website [essexpensionfund.co.uk](http://essexpensionfund.co.uk) containing Scheme details, leaflets, guides and forms etc. There are also links to other organisations relevant to Scheme members
- **'Prime' newsletter**- We will issue a newsletter to members of the Fund at least once a year, the contents of which will cover current pension topics within the LGPS and the pensions industry in general. Employers are encouraged to make the newsletter available to all of their eligible staff regardless of whether they are currently contributing to the scheme
- **Pensions Roadshow** – The Fund stages a number of pension roadshows at the offices of main employers in the Fund to which the employees of all Fund employers are invited. These events are not just aimed at Scheme members but also at eligible employees who are not currently contributing to the scheme

### Prospective Scheme employers

The Fund provides information to prospective Employers to ensure they understand the LGPS Regulations, their implications and the role of a Scheme Employer. The Fund will provide information required to facilitate a smooth transition in respect of prospective Employers to which LGPS Members may TUPE transfer, such as contractors providing a service to a Scheme Employer.

## APPENDIX 1

# Communication Calendar

The following communication calendar outlines the communication to each of the key audiences and will be implemented to ensure that communication is regular and efficient. Each communication will include the key messages for each audience. The communication calendar will be reviewed annually, and updated as necessary.

<b>Act</b>	<b>Active members</b>	<b>Pen</b>	<b>Pensioners</b>	<b>Opt</b>	<b>Opt outs</b>
<b>Emp</b>	<b>Employers</b>	<b>Def</b>	<b>Deferreds</b>		

Month		Activity	Media/purpose
<b>April</b>	<b>Pen</b>	Pay advices	
	<b>Pen</b>	Pensions Increase letters	
	<b>Emp</b>	Employer Presentation/Meeting	
<b>May</b>	<b>Pen</b>	Pay advices/P60s	
	<b>Def</b>	Annual Benefit Statements	
<b>June</b>	<b>Emp</b>	Employer Presentation/Meeting	
<b>July</b>	<b>Emp</b>	Employer Guide update	
	<b>Emp</b>	Report and Accounts	Electronic only
	<b>Emp</b>	Employer Presentations/Meetings	
<b>August</b>	<b>Act</b>	Annual Benefit Statements	
	<b>Act</b>	'Prime' newsletter	To be sent with Annual Benefit Statements
<b>September</b>	<b>Opt</b>		
	<b>Act</b>	Employee Roadshows	Drop-in session
	<b>Opt</b>		
	<b>Emp</b>	Employer Presentations/Meetings	
	<b>Pen</b>	Payslips (full payroll run)	For National Fraud Initiative (NFI)
<b>October</b>	<b>Pen</b>	'Your time' newsletter	E-newsletter



	Act	Employee Roadshows	Drop-in session
	Opt		
	Emp	Employer Presentations/Meetings	
	Emp	'Scheme Employer' newsletter	E-newsletter
	Emp	Contributions newsletter	
	Emp	Employer Forums	If valuation results out
	Def	Deferred newsletter	

November	Act	Employee Roadshows	Drop-in session
	Opt		
	Emp	Employer Presentations/Meetings	
	Emp	Employer Forums	If valuation results out

December	Emp	Employer Forums	If valuation results out
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January	Act	Review Scheme literature	
	Act	Employee Roadshows	Drop-in session
	Opt		

February	Act	Employee Roadshows	Drop-in session
	Opt		
	Act	Review Scheme Literature	
	Emp	Employer Training EOY & Valuation	

March	Act	Employee Roadshows	Drop-in session
	Opt		
	Emp	Employer Presentations/Meetings	
	Emp	'Scheme Employer' newsletter	E-newsletter
	Emp	Employer Forum	

<b>Essex Pension Fund Strategy Board</b>	<b>EPB/12/16</b>
<b>Date: 13 July 2016</b>	

## **Update on Pension Fund Activity**

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

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

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

- 2016/17 business plan
- three year business plan
- risk management
- scorecard

### **2. Recommendations**

2.1 That the Board notes:

- progress against the 2016/17 business plan
- the 3 year business plan
- the current risks with a residual score of six or above
- the latest scorecard measures

### **3. Background**

3.1 The following documents accompany this report:

- an update on the 2016/17 business plan at Annex A(i);
- the 3 year business plan at Annex A(ii);
- risks with a residual score of six or above are detailed at Annex B;
- 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:

- LGPS asset pooling
- Actuarial valuation
- Report from Investment Steering Committee
- Report from the Pension Advisory Board
- Internal audit reports

### **5. Business Plan 2016/17**

5.1 Progress is on track with the business plan shown at Annex A (i). Of the 23 actions for 2016/17:

- 2 (9%) have been completed;
- 15 (65%) are in progress; and
- 6 (26%) are scheduled to commence later in the year.

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

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

### **7. Risk Register**

7.1 There are currently 83 risks in the Fund's risk register of which 14 have a residual score of six or more and are shown at Annex B. There are no changes since the last meeting.

### **8. Scorecard**

8.1 The scorecard is set out in Annex C and matters of particular note are highlighted below:

8.2 Measure **1.4.4** covers representation on the Pension Advisory Board. Following the local elections in May, the Secretary to the Board has received notification

from Thurrock Council Cllr Shaun Hebb will be their representative on the PAB. Cllr Hebb succeeds Mr Barry Johnson.

- 8.3 Measure **1.5.2** covers internal audit recommendations. There are a total of three recommendations arising from the Pension Investment and Pension Administration audits (both of which received good assurance). These reports are the subject of separate items on this agenda.
- 8.4 Measures under 2.1 cover investment performance. **2.1.1** highlights that the Fund had the highest investment return in 2015//16 of its geographical peer group.
- 8.5 Measure **3.6** covers potentially unrecoverable deficit. This matter is subject to a separate report elsewhere on the Board's July agenda.
- 8.6 Annual Benefits Statements were issued to all of the Fund's deferred members prior to the 30 June 2016 deadline. This is reflected within measure **4.1.11**.

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

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

## **10. Risk Implications**

- 10.1 Key risks are identified at Annex B

## **11. Communication Implications**

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

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

- 12.1 The business plan for 2016/17 is challenging and will require significant input by officers and advisers to bring some of the actions to conclusion. The staffing structure review is ongoing.

## **13. Background Papers**

- 13.1 None.



## **Essex Pension Fund Business Plan 2016/17**

### **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

<b>Action</b>	<b>How will this be achieved?</b>	<b>Officer managing action*</b>	<b>Progress as at July 2016</b>
1. Annual business plan will be put in place.	Proposed business plan actions will be presented to 16 March 2016 Board for approval	DfEPF & HoEPF	Complete
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2016/17.  Specific provision will be made for any new Board Members.	IGAA	Training & training needs assessments will continue in 2016/17

Action	How will this be achieved?	Officer managing action*	Progress as at July 2016
3. Board members' knowledge centre	A web based facility for Members is in place.	HoEPF	Further infoBOARD training will take place during 2016/17
4. Annual review of governance policy	Review governance policy to ensure it is relevant and up to date, including the governance compliance statement.	DfEPF, HoEPF & IGAA	In progress. A separate report on this matter appears elsewhere on the 13 July 2016 agenda.
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it	GTM and IGAA	A review is planned for 2016/17 to coincide with the review of the PAB

# 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

Action	How will this be achieved?	Officer managing action*	Progress as at July 2016
6. Review of asset allocation	Review of asset allocation as part of the strategy & structure deliberations at the ISC strategy meetings.	DfEPF	In progress. A strategy review took place in June 2016. A strategy & structure review is scheduled for February 2017.
7. Implement any review of investment allocation arrangement.	Implement the decisions taken at the July 2015 ISC strategy meeting.	DfEPF	Any asset allocation decisions made by the ISC will be implemented as required.
8. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.	DfEPF	A review will take place at the February 2017 ISC strategy meeting



Action	How will this be achieved?	Officer managing action*	Progress as at July 2016
9. Review the Statement of Investment Principles (SIP)/Investment Strategy Statement (ISS)	An annual review will take place.  The SIP is expected to be replaced by an ISS during 2016/2017, with a 1 April 2017 deadline expect for the publication of the first ISS.	DfEPF	The Fund's first ISS will be considered by the ISC later in 2016/17.
10. Procurement of Institutional Investment Consultants(IIC)	The current arrangement ceases in December 2016. The ISC will consider its approach to this matter in 2016		Scheduled to commence in late 2016
11. Respond to the requirements of LGPS structural reform process	Developments in relation to LGPS structural reform will be monitored	DfEPF	In progress – A separate report on this matter appears elsewhere on the 13 July 2016 agenda
12. Review of Global Custodian	A review of the global custody arrangements has been commissioned.	DfEPF	Complete. This matter was considered by the ISC at its meeting on 21 June 2016.

# 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

Action	How will this be achieved?	Officer managing action*	Progress as at July 2016
13. Actuarial Valuation as at 31 March 2016	A triennial valuation will be commissioned from the Fund Actuary.	DfEPF and HoEPF	In progress. A separate report on this matter appears elsewhere on the 13 July 2016 agenda.
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	In progress. A separate report on this matter appears elsewhere on the 13 July 2016 agenda.
15. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis.	DfEPF and HoEPF	Employer participation will be reviewed in line with the 2016 triennial valuation.

## 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

Action	How will this be achieved	Officer managing action*	Progress as at July 2016
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 elsewhere on the 13 July 2016 agenda.
17. Administration Strategy	The Administration Strategy will be monitored during 2015/16	HoEPF	The Administration Strategy will continue to be monitored during 2016/17.
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 2017)	HoEPF	Auto- enrolment will continue to be monitored during 2016/17.

Action	How will this be achieved	Officer managing action*	Progress as at July 2016
19. Implementation of new administration system	The second phase including “ <i>employer online</i> ” is scheduled to commence in 2015/16	HoEPF	Phase 2 modules implemented during this year are the newly required GMP module, barcoding to enable streamlined scanning of documents and bulk data importing.  <i>Employer online</i> is currently live at two employer test sites.
20. Review of staffing structure	A review is scheduled to finalise during 2015/16.		The review will finalise during 2016/2017
21. Confirmation of GMP entitlement	Confirming the GMP (Guaranteed Minimum Pension) element of all scheme members’ entitlement is required to be completed by 2017/18	HoEPF	This project will continue throughout 2016/17.  The current deadline for the completion of this project is 31 March 2018.

## 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

Action	How will this be achieved?	Officer managing action*	Progress as at July 2016
22. Monitor Communications Policy	The communications policy will be monitored during 2014/2015	HoEPF & CM	In progress:  A separate item on this matter appears elsewhere on the agenda.
23. Communication GMP entitlement	A communication will be sent to all affected scheme members confirming the GMP (Guaranteed Minimum Pension) element of their Pension entitlement.	HoEPF & CM	In progress:  The current deadline for the completion of this project is 31 March 2018.

Key:

DfEPF: Director for Essex Pension Fund

HoEPF: Head of Essex Pension Fund

GTM: Governance Team Manager

IGAA: Independent Governance & Administration Adviser

CM: Communications Manager

# Essex Pension Fund

## 3 Year Business Plan

### April 2016 to March 2019

Area of activity	2016/17	2017/18	2018/19
<b>Governance</b>			
Business plan	March for the following year	March for the following year	March for the following year
Members' knowledge and understanding <ul style="list-style-type: none"> <li>Prepare &amp; implement training strategy</li> <li>Training needs assessment (TNA)</li> </ul>	September Ongoing	September Ongoing	September Ongoing
Governance review	September (onwards)	September	September
Annual Statement of Accounts	July (draft) September (Final)	July (draft) September (Final)	July (draft) September (Final)
Employer Forum(s)	October (onwards)	May / June	May / June
Review scorecard & risk register	Quarterly	Quarterly	Quarterly
Administering Authority discretions and delegations review		September (review)	
Employing Authority discretions and delegations review		September (review)	
Communications policy review	July	December	December
<b>Investment</b>			
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	February	February	February
Individual manager review	Quarterly	Quarterly	Quarterly

Area of activity	2016/17	2017/18	2018/19
<b>Funding</b>			
Funding Strategy Statement review	July - March	September	September
Actuarial Valuation 2016	April - March	Implementation	Preparation
Interim funding review		September	September
Admission/employer participation/bulk transfer policy		Ongoing	Ongoing
<b>Administration</b>			
LGPS reform – planning for administration changes	Ongoing	Ongoing	Ongoing
Review/Procurement of IT System	Ongoing (Phased installation)	Ongoing (Phased installation)	Review of effectiveness & development
End of year data exercise	April – August	April – August	April – August
Auto-enrolment / workbased pensions	Rolling Employer staging dates	Rolling Employer staging dates	Rolling Employer staging dates
<b>Communications</b>			
LGPS reform	Ongoing	Ongoing	Ongoing
Implement communications policy	Ongoing	Ongoing	Ongoing
infoBOARD and usage	Ongoing	Ongoing	Ongoing

# ANNEX B

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 appropriate knowledge and skills in depth.
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 is underway.
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.
Investments	To ensure the Fund is properly managed	I16	The implementation of MiFiD II leads to the Fund being categorised by some / all of its service providers as a 'retail client' - the result of which could reduce the range of sub asset classes in which the Fund is able to invest, and may even require divestment from the current portfolio.	4	2	8	8	Kevin McDonald	1. Representations at national level aimed towards LGPS retaining professional client status. 2. Fund Officers working with Fund Managers & Investment Advisers aimed towards the Essex Fund retaining professional client status. Feb 2016 update: Likely implementation of MiFiD II delayed 12 months until January 2018 June 2016 update: developments post EU referendum will be monitored.
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.



**ANNEX B**

Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous Risk Score	Risk Owner	Comments, Actions and Recommendations
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	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. Positive dialogue with employers with a view to strengthening employer covenants wherever possible. Same mitigations for both risks F19 & F20
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	
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 alternative assets.
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 (owing to IT system issues)	3	3	9	9	Kevin McDonald / Jody Evans	Phase one of the new UPM Civica system was implemented in January 2015 and monitoring continues. Phase two is anticipated later in 2016. A General Ledger package migration is scheduled for later in 2016. A Pension Fund project team has been established to liaise with colleagues working on ECC's TCS project. Testing & training continues.

## ANNEX B

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	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 is underway.
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.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A18	Unable to meet Actuarial Valuation deadlines or produce Annual Benefit Statements for active Scheme Members in line with Regulatory deadlines due to lack or late provision of data from employers	4	2	8	8	Jody Evans	For 2015/16 exercise communicate timetable and requirements to employers in advance, and encourage employers to engage with Fund Officers.
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	6	Kevin McDonald /Jody Evans	Whilst the volume of phone enquiries stemming from the April 2015 introduction of Freedoms & Flexibilities (for DC schemes) has now reduced, a number of detailed discussions on individual cases remain and represent a significant workload.



## Essex Pension Fund Scorecard - 13 July 2016

### 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

3

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

4

1.5 - Understand and monitor risk and compliance

1

4

### 2. INVESTMENTS

2.1 - Maximise returns from investments within reasonable risk parameters

5

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

2

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

1

1

### 4. ADMINISTRATION

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

1

4

17

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

2

4.3 - Ensure proper administration of financial affairs

1

1

4.4 - Compliance with Fund's governance arrangements

3

### 5. COMMUNICATIONS

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

1

3

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

2

5

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

**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 (Dec)
1.1.2 Number of scheme member complaints	0		G	G	5 or under	20 or under	Low	Quarterly
1.1.3 Number of scheme member compliments	16		G	G	15 or more	60 or more	High	Quarterly
1.1.4 Scheme member survey - % of positive answers	97.8%	%	G	G	95%	95%	High	Annual (Dec)
1.1.5 Employer survey - % of positive answers	95.2%	%	G	G	95%	95%	High	Annual (Dec)

## Rationale for performance status and trend

- 1.1.1. Cost per member was £16.61 in 2014/15 (£17.81 in 2013/14) compared to the CIPFA Benchmarking average of £19.17 (£20.75 in 2013/14). This Fund remains in the second quartile.
- 1.1.2. The number of complaints received in the 3 months to 31 March 2016 was 0.
- 1.1.3. The number of compliments received in the 3 months to 31 March 2016 was 16.
- 1.1.4. 500 scheme members (employees) were invited to participate in a five question survey conducted in October 2015. 119 members returned completed survey's resulting in a total of 896 answers, of which 20 were negative responses. The remaining 876 (97.8%) were positive. The previous survey has a 96.4% positive responses.
- 1.1.5. 378 employers were invited to participate in a 10 question survey conducted in October 2015. Of 147 responses 7 were negative which resulted in a 95.2% positive response rate. The previous survey has a 97.3% positive response.

# 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/Ian Colvin

Status		Value	Units	Previous Status	Current Status	Target	Annual target	Polarity	Frequency
1.2.1	Members training	Target exceeded		G	G	90%	90%	High	Quarterly
1.2.2	Board Member attendance at Board meetings	81%	%	G	G	80%	80%	High	Quarterly
1.2.3	Officer training plans and Supporting Success objectives in place	100%	%	G	G	100%	100%	High	Ongoing

## Rationale for performance status and trend

- 1.2.1 In the measurement period Board Members' training credits exceeded the 90% target.
- 1.2.2 This represents attendance at Board meetings over the last twelve months.
- 1.2.3. Supporting Success objectives are in place for all staff working on the Essex Pension Fund.

### 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	9% Complete 65% in progress	A	A	15% Complete, 30% in progress	100% complete	High	Quarterly

#### Rationale for performance status and trend

1.3.1 Against a total of 23 actions or projects for the year:

- 2 (9%) complete
- 15 (65%) in progress
- 6 (26%) scheduled to commence later in the year

The business plan is detailed in Annex A of this report.

## 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		G	G	Yes	High	Quarterly

### Rationale for performance status and trend

**1.4.1** Reflects performance over the previous 12 months as at 31 March 2016

**1.4.2** Reflects performance over the previous 12 months as at 31 March 2016

**1.4.3** Appointments to the PSB were finalised in In January 2016..  
Yes = green; No = red.

**1.4.4** In June 2016 Cllr Shaun Hebb succeeded Cllr Barry Johnson on the PAB.  
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	3		G	A	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	17	%	G	G	<20%	<20%	High	Quarterly
1.5.4 Percentage of risks on the risk register with a residual score that is classified as red	0	%	G	G	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 2015/16 internal audit reports for both Pensions Administration and Pensions Investment received good assurance.

**1.5.2** The 2015/16 internal audit reports for Pensions Investment and Pensions Administration contained one moderate recommendation and two low recommendations respectively. These are separate items on the Board's July 2016 agenda. All recommendations have agreed deadlines for completion.

**1.5.3** The Fund currently has 83 risks in its register, of which 14 have a residual score that is classified as amber. (14 in December). 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 83 risks in its register, none of which has a proposed residual score that is classified as red. (0 in December). Measurement: 0% = green; above 0% = red

**1.5.5** There are no significant recommendations for Members to note in the 2014/15 Annual Results Report from EY.

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

Data as at: 31 March 2015

**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	G	1st	1st	High
2.1.2 Annual Return compared to Benchmark	2.2	%	G	G	-0.1%	-0.1%	High
2.1.3 Five year (annualised) return compared to Benchmark	8.0	%	G	G	6.5%	6.5%	High
2.1.4 Five year (annualised) return compared to central expected return of current investment strategy	8.0	%	G	G	6.4%	6.4%	High
2.1.5 Five year (annualised) return compared to central expected return of current investment strategy including manager outperformance	8.0	%	G	G	7.2%	7.2%	High

### Rationale for performance status and trend

2.1.1. Based on the Local Authority performance data released by State Street in June 2016, the Essex Pension Fund with 2.2% had the highest annual return of the peer group which consists of Kent, Suffolk, Norfolk, Cambridgeshire & Bedfordshire. The lowest return within the group was -2.4%. Essex also had the highest return of this group of Funds in 2015/16.

2.1.2 The annual return of 2.2% was above the benchmark.

2.1.3 The five year return of 8.0% was above the benchmark.

2.1.4 The five year return of 8.0% was above the central expected return of the current investment strategy.

2.1.5 The five year return of 8.0% 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 & Ian Colvin

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
2.2.1 ISC Member attendance at ISC meetings	80	%	A	G	80%	80%	High	Quarterly
2.2.2 ISC Members training	Target exceeded		G	G	90%	90%	High	Quarterly

### Rationale for performance status and trend

2.2.1 . This represents attendance at ISC over the last 12 months.

2.2.2 In the measurement period, ISC Members' training credits exceeded the 90% target.

.

## 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
<b>2.3.1</b> % of ISC agendas sent out 5 working days before meetings	100	%	G	G	100%	High	Quarterly
<b>2.3.2</b> % of ISC committee items sent out 5 working days before meetings	100	%	G	G	100%	High	Quarterly
<b>2.3.3</b> % of draft ISC minutes sent out 7 working days after meetings	100	%	G	G	100%	High	Quarterly
<b>2.3.4</b> % of draft ISC minutes uploaded to internet 12 working days after meetings	100	%	G	G	100%	High	Quarterly
<b>2.3.5</b> 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

Measures **2.3.1 - 2.3.2** cover the quarter ending 31 December 2015, during which all arrangements in respect of the sole ISC on 25 November met the target. Arrangements for the ISC on 22 February 2016 will be included when the March quarter's arrangements are reported in the next scorecard.

**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
- 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

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%

The 2016 Valuation is currently underway

## 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

The 2016 Valuation is currently underway

## 3.3 - Consistency between the Investment and Funding strategies

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

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

**Measure Owner:** Kevin McDonald

**Data leads:** Samantha Andrews

Status	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
<b>3.3.1</b> Expected return of investment strategy	6.4	%	G	G	5.8%	5.8%	High	Annual
<b>3.3.2</b> 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.

The 2016 Valuation is currently underway

### 3.4 - Manage employers’ liabilities effectively

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

**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	Previous status	Current status	Target	Annual target	Polarity	Frequency
3.5.1 Sufficient investment income is available to supplement contribution income to meet benefit payments.	Yes	G	G	Yes	Yes	High	Ongoing

### Rationale for performance status and trend

**3.5.1**  
This new measure was agreed by the ISC at its meeting on 22 July 2015, and an update review was included within the 22 February 2016 ISC agenda. The Fund continues to use a combination of rental income and UK equity dividends from the passive portfolio to supplement contributions.

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

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

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

**Measure Owner:** Kevin McDonald

**Data leads:** Sara Maxey

#### Status

	Value	Units	Previous status	Current status	Target	Annual target	Polarity	Frequency
<b>3.6.1</b> Potentially unrecoverable deficit due to employers leaving scheme (as a percentage of Total Fund deficit)	0.040	%	G	R	0.00%	0.00%	Low	Quarterly
<b>3.6.2</b> Deficit unrecoverable due to employers leaving scheme (as a proportion of Total Fund deficit)	0.000	%	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

A report on this red measure is included on part 2 of the 13 July 2016 Strategy Board meeting.

**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 AXISe	Value UPM	Previous status	Current status	AXISe Apr - Dec 2014	UPM Jan - Mar 2015	Target	CIPFA Average
4.1.1 Letter detailing transfer in quote issued within 10 working days (202 AXISe cases & 44 UPM cases) (375 2013/14 cases)	96.0%	86.0%	G		G	A	95.0%	89.6%
4.1.2 Letter detailing transfer out quote issued within 10 working days (558 AXISe cases & 107 UPM) (494 2013/14 cases)	96.5%	88.8%	G		G	A	95.0%	88.3%
4.1.3 Letter detailing process of refund and payment made within 5 working days (524 AXISe cases & 150 UPM) (237 2013/14 cases)	94.9%	95.3%	G		A	G	95.0%	91.5%
4.1.4 Letter notifying estimated retirement benefit amount within 10 working days (3,313 AXISe cases & 1,792 UPM) (2,760 2013/14 cases)	96.7%	97.9%	G		G	G	95.0%	89.2%
4.1.5 Letter notifying actual retirement benefits and payment made of lump sum retirement grant within 5 working days (2,314 AXISe case & 731 UPM) (1,887 2013/14 cases)	97.1%	99.3%	G		G	G	95.0%	90.5%
4.1.6 Letter acknowledging death of active /deferred / pensioner member within 5 working days (1,138 AXISe cases & 515 UPM) (962	99.6%	98.8%	G		G	G	95.0%	94.1%
4.1.7 Letter notifying the amount of dependent's benefits within 5 working days (1,138 AXISe cases & 515 UPM) (962 2013/14 cases)	95.9%	95.3%	G		G	G	95.0%	86.7%
4.1.8 Calculate and notify deferred benefits within 10 working days (1,571 AXISe cases & 310 UPM) (5,860 2013/14 cases)	97.2%	36.1%	G		G	R	95.0%	75.8%
4.1.9 Annual benefit statements issued to active members by 31 August.	93.0%		G	A			95.0%	95.0%
4.1.10 Annual benefit statements issued to deferred members by 30 June.	Yes		G	G			Yes	N/A
4.1.11 New IDRPs appeals during the year (per one thousand members)	0.02		G	G			Below CIPFA average	0.12
4.1.12 IDRPs appeals - number of lost cases	0.00		G	G			Below CIPFA average	0.04

**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. These are updated annually in September 16.

The release of the 2014/15 data by CIPFA has been delayed, and will therefore now feature in the December 2015 scorecard.

**4.1.9** As highlighted in the cover report to this item, Annual Benefit Statements were issued to 93% of active members by 31 August 2015.

**4.1.10** The last dispatch of these statements to Deferred members was in June 2016. The previous dispatch was in June 2015.

**4.1.11** The CIPFA benchmarking statistics disclose the average number of stage 1 IDRPs appeals per one thousand LGPS members. With one completed, and one in progress appeal the Fund was below the average for 2014/15. The Fund had no stage 2 IDRPs appeals.

**4.1.12** The CIPFA benchmarking statistics disclose the average successful stage 1 IDRPs appeals per one thousand LGPS members. With no successful appeals the Fund remained below the average for 2014/15.

# 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.	0		G	G	0	N/A	High	Quarterly

<p><b>4.1.13</b> This 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 = &lt;9; Amber = &lt;16, Red = &gt;16.</p> <p><b>4.1.14</b> Details of the payment of death grants are set out below:</p>
--

Payment of Death Grants detailed analysis	Dec '15 quarter	Mar '16 quarter
A: Notifications of Scheme Member deaths received	34	58
B: Number within A with death grant nomination	18	34
C: Number within B paid in line with nomination held	16	29
D: Number within A paid to next of kin (in instances of predeceased nominee)	1	3
E: Number within A paid to the Estate (in instances of predeceased nominee)	1	2
F: Number within A without death grant nomination	16	24
G: Number within D paid to next of kin	16	24
H: Other	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><b>4.2.1</b> There were no data breaches in the quarter.</p> <p>Green = 0 breaches Amber = 1 or more medium or minor breaches Red = 1 or more major or critical breaches</p>
<p><b>4.2.2</b> No actions were required 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
<b>4.3.1</b> % of monthly reconciliations of equity and bond investment mandates which are timely	100	%	A	G	100%	100%	High	Quarterly
<b>4.3.2</b> % of contributing employers submitting timely payments	97.4	%	A	A	100%	100%	High	Quarterly

### Rationale for performance status and trend

**4.3.1** In the quarter up to March 2016 **100%** of reconciliations were completed on time compared to the target of 100%.

**4.3.2** For the quarter ending March 2016 **97.4%** of employers submitted timely payments. In cash terms this equated to **99.9%** of a total employer contribution of £31.3m.

## 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	0	%	G	R	100%	100%	High	Quarterly
4.4.4 % of Board minutes uploaded to internet 12 working days after meetings	0	%	G	R	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

4.4.3 & 4.4.4 These red measures are due to delays in the drafting and uploading of the minutes of the March 2016 Board meeting.

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

- Pension Fund Business Plan in place and renewed at the beginning of the financial year
- 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 (Dec)
5.1.2. % of positive responses from the Employer Survey. - <i>Expertise of Pensions Teams.</i>	99.3	%	G	G	95%	95%	High	Annual (Dec)
5.1.3. % of positive responses from the Employer Survey. - <i>Pensions Teams are friendly and Informative.</i>	98.6	%	G	G	95%	95%	High	Annual (Dec)
5.1.4. A Communication Policy is in place for the current year.	In progress		A	A	Yes	Yes	High	Annual (Dec)

Rationale for performance status and trend
<p>5.1.1 In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 116 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. The previous survey result for this question was also 99.1%.</p>
<p>5.1.2 In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 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 <b>99.3%</b> positive response. The previous survey result for this question was 99.1% positive.</p>
<p>5.1.3 In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received to the question to ‘How would you rate Essex Pension Fund staff on being friendly and informative?’. Two negative responses were received resulting in a <b>98.6%</b> positive response. The previous survey result for this question was 100% positive.</p>
<p>5.1.4 An update on the Communications Policy forms part of the 13 July 2016 PSB agenda.</p>



## 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
<b>5.2.1.</b> % of positive responses from the Scheme member Survey - <i>Clarity of website information.</i>	93.7%	%	G	A	95.0%	95.0%	High	Annual (Dec)
<b>5.2.2.</b> % of positive responses from the Scheme Member Survey - <i>Understandable Annual Benefit Statements.</i>	92.0%	%	A	A	95.0%	95.0%	High	Annual (Dec)
<b>5.2.3.</b> % of positive responses from the Scheme Member Survey - <i>Communications that suit needs, easy to understand and relevant.</i>	99.2%	%	G	G	95.0%	95.0%	High	Annual (Dec)
<b>5.2.4.</b> % of positive responses from the Employer Survey - <i>Clarity of Website information.</i>	95.2%	%	A	G	95.0%	95.0%	High	Annual (Dec)
<b>5.2.5.</b> Increase in response of the Scheme Member Survey compared to last year.	0.8%	%	G	G	Increase	Increase	High	Annual (Dec)
<b>5.2.6.</b> Increase in response rate of the Employer Survey compared to last year.	24.6%	%	G	G	Increase	Increase	High	Annual (Dec)
<b>5.2.7</b> Employer survey - feedback on training and educational materials - % of positive responses	96.6%	%	G	G	95.0%	95.0%	Low	Annual (Dec)

**5.2.1** - In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 95 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Seven negative response were received resulting in a 93.7% positive response. The response to this question in the previous survey was 97.1%.

**5.2.2** - In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 113 responses were received to the question to 'How easy was the information in your annual benefit statement to understand?'. 9 negative response was received resulting in a 92% positive response. The response to this question in the previous survey was 82% positive.

**5.2.3** - In October 2015 a scheme member survey was issued, 500 scheme members were invited to participate and 122 responses were received. Only one negative response was received resulting in a 99.2% positive response. The response to this question in the previous survey was 99.1%.

**5.2.4** - In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Seven negative responses was received resulting in a **95.2%** positive response. The previous survey result for this question was 92.4% positive.

**5.2.5** - In October 2015 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 119 responses were received. In 2013 118 responses were received. This is an increase in respondents of 1 (0.8%). The previous survey result for this question was an increase of 43.9%.

**5.2.6** - In October 2015 an employer survey was issued, 378 scheme members were invited to participate and 147 responses were received. In the previous survey 118 in 2013 responses were received. This is an increase in respondents of 29 (**24.6%**). The 2012 survey had a response from 43 employers.

**5.2.7** - In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received. When asked about feedback on training materials and educational materials five negative responses were received resulting in a **96.6%** positive response. The previous survey result for this question was 99.1% positive.

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 and employers  
**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	3 yearly
5.3.2. % of positive responses from the Employer Survey - <i>Information available is helpful in employers understanding their responsibilities</i>	100.0%	%	G	G	95%	95%		Annual (Dec)

Rationale for performance status and trend

5.3.1 This measure will be reviewed in light of the 2016 Valuation data..

5.3.2 In October 2015 an employer survey was issued, 378 employers were invited to participate and 147 responses were received. When asked about feedback on information available is helpful to employers understanding their responsibilities no negative response were received resulting in a **100.0%** positive response. In the previous survey the response to this question 97.3%.



<b>Essex Pension Fund Strategy Board</b>	<b>EPB/13/16</b>
date: 13 July 2016	

## **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 Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on two occasions on 23 March 2016 and on 21 June 2016. In addition a ISC briefing was also held on 7 June 2016.

### **4. Report of the meeting of ISC on 23 March 2016**

- 4.1 Kevin McDonald, Director for Essex Pension Fund provided an update on the implications to the Pension Fund arising from the 2016 Budget. In particular clarity on the statement in respect of public service pensions Superannuation Contribution Adjusted for Past Service Experience (SCAPE) and the impact of the increase in Stamp Duty Land Tax (SDLT) on the Fund's property portfolio.
- 4.2 The Committee received an update outlining the latest developments in respect of the structural reform of the LGPS. Kevin McDonald highlighted, as agreed at the 22 February meeting, the Essex Pension Fund as part of the ACCESS participating group, formally responded to the Government's consultation on 23 February 2016. As at the meeting date no formal response to the ACCESS submission on the consultation had been issued by DCLG.
- 4.3 The Committee reviewed the draft Statement of Investment Principles (SIP) and agreed in light of no material changes to the principles and in view of the pending Investment Strategy Statement (ISS) the SIP be passed to the Pension Advisory Board (PAB) for familiarisation and to note and that it be approved and published.
- 4.4 The Committee reviewed the draft Treasury Management Strategy 2016/17. It was agreed that the Fund's cash flow situation be kept under review and it be approved.
- 4.5 The Committee received an update informing them that Officers had commissioned a review to be undertaken by Hymans Robertson of the Fund's global custody arrangements carried out by the Northern Trust Company and that findings and a recommendation would be brought back to the next meeting.
- 4.6 A report on the Q3 December 2015 Investments Tables, which detailed investment manager performance, was discussed. It was noted that the Fund's value had risen from £4,724.6bn as at 30 September 2015 to £4,963.3bn as at 31 December 2015.
- 4.7 The Committee noted the traffic light report on investment managers.
- 4.8 Presentations were received from Goldman Sachs Asset Management (GSAM) and Hamilton Lane on the on the bond portfolio and private equity portfolio respectively. The Committee agreed to a further commitment of £50m to new private equity opportunities during 2016/17.

## 5. Report of the meeting of ISC on 21 June 2016

- 5.1 The main focus of the meeting's business was the developments in respect of the structural reform of the LGPS and the six monthly review of strategy.
- 5.2 Kevin McDonald, Director for Essex Pension Fund gave a presentation outlining the latest developments in respect of structural reform of the LGPS. This presentation highlighted progress since the last meeting of the Committee, and summarised many of the areas of detail covered at the pooling briefing on 7 June. Specific attention was drawn to the regular meetings of ACCESS Chairman, the exchange of letters with the Minister and developments around legal structures. An outline was also given of the key elements of the emerging draft July submission.
- 5.3 Regular dialogue between Government and ACCESS has continued. On 9 June, Cllr Andrew Reid (Chairman of the Suffolk Pension Fund) led a delegation of ACCESS officers (from Funds including Essex) to present to a Government panel consisting of HM Treasury, Cabinet Office, DCLG, the Government Actuaries Department & an independent specialist.
- 5.4 It was highlighted that Cllr Bass will present the Fund's annual report to Essex County Council on 12 July. This will make reference to pooling developments and highlight to full Council that a decision to formalise Essex's membership of the finalised ACCESS structure will be required later this year.
- 5.5 The Committee were subsequently taken through the strategy review undertaken by officers and advisers.

The Committee noted:

- that the overall structure of the Fund remains appropriate but some ongoing management was required to bring the Fund in line with target; and
- that following GSAM's presentation at the last ISC meeting GSAM be invited to the next Officer and Adviser meeting to follow up on aspects of their use of derivatives in the management of the Fund's portfolio.

The Committee **agreed**:

- that the additional £25m earmarked for property, but yet to be drawdown be redirected to an Alcentra direct lending fund, subject to due diligence;
- that the Fund's current equity overweight position be trimmed and that c£35m be redirected to an Alcentra direct lending fund, subject to due diligence;
- that Officers and Advisers investigate Stafford's next fund offering (SIT VIII);
- that further due diligence by Officers and Advisers be undertaken to look at alternative options for the 2% allocation into Infrastructure;

- that a report be brought back to a future meeting on the concept of ‘active tilting’; and
- that further investigation be undertaken by Officers and Advisers regarding the impact of new collateral requirements on the currency overlay mandate.

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

### **6.1 Investments**

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

## **7. Risk Implications**

- 7.1 The current investment risks associated with the Fund’s investment strategy are those detailed in the Statement of Investment Principles.
- 7.2 Officers and advisers will examine the potential risks associated with pooling once the structures and timescales for the migration of Fund assets are better understood. These will then be brought to a future meeting of the ISC for consideration.

## **8. Communication Implications**

- 8.1 The Fund was a signatory on the ACCESS proposal to Government in February. A further submission is required in July 2016.

## **9. Finance and Resources Implications**

- 9.1 In addition to the work undertaken by Officers, it is anticipated that the costs of participating in ACCESS will be £25,000 per Fund for the period between February and July 2016.
- 9.2 Further costs, of a significant nature, will be incurred in the development and establishment of pools.

## **10. Background Papers**

- 10.1 ISC meetings of 23 March 2016 and 21 June 2016 – agenda and draft minutes.
- 10.2 DCLG consultation “Opportunities for collaboration, cost saving and efficiencies” – May 2014
- 10.3 Fund response agreed 9 July 2014
- 10.4 PricewaterhouseCoopers report on establishing Collective Investment Vehicles

10.5 25 November 2015 publications released with the Chancellor's Autumn Statement documents :

- (i) criteria for LGPS investment reform
- (ii) a consultation on revised LGPS Investment Regulations and
- (iii) Government's response to the May 2014 consultation on *"Opportunities for collaboration, cost saving and efficiencies"*

10.6 Findings of "Project Pool"

10.7 23 February 2016 ACCESS group submission

10.8 24 March 2016 Minister's letter of response to February submission

10.9 7 April 2016 ACCESS Chairmen's letter to Minister

10.10 20 April 2016 Minister's letter of reply

10.11 29 April 2016 ACCESS Chairmen's letter of Minister

10.12 Government Panel meeting 9 June 2016





<b>Essex Pension Fund Strategy Board</b>	<b>EPB/14/16</b>
<b>date: 13 July 2016</b>	

**External Audit 2015/16: Audit Plan**

Report by Andrew Crewer, Partner Ernst & Young LLP

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Enquiries to Dan Cooke on 07867 152506

**1. Purpose of the Report**

For External Audit to outline the Audit Plan in relation to the 2015/16 financial statements of the Essex Pension Fund.

**2. Recommendation.**

That the Board should note the report.

### **3. External Audit Plan**

Andrew Crewer, 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 2015/16 Essex Pension Fund Accounts.

This Audit Plan was reported to Essex County Council's Audit Committee on 21 March 2016.

### **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 (no change from 2014/15).

### **8. Background Papers**

8.1 None.

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# Essex Pension Fund

Year ending 31 March 2016

Audit Plan

March 2016

Ernst & Young LLP



Building a better  
working world

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

4 March 2016

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 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, 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 the Pension Fund and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you on 21 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Clewer  
Partner  
*For and behalf of Ernst & Young LLP*  
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit 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 Pension Fund (the Pension Fund) give a true and fair view of the financial position as at 31 March 2016 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 two 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 three.

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 on 19 September 2016.

## 2. 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
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>At EY, we identify that the risk of fraud in revenue recognition at a pension fund is applicable to contribution income and investment income. Our audit approach has therefore been split between these two forms of revenue.</p>	<p><b>Contributions</b></p> <p>We will:</p> <ul style="list-style-type: none"> <li>▶ perform a detailed analytical review of contributions received compared to our expectations based upon member numbers for each employer and contribution rates, which are provided by the actuary;</li> <li>▶ review the ratio of member to employer contributions on a monthly basis to ensure there are no unexplained variances; and</li> <li>▶ review the timeliness of the payment of contributions to the scheme, including ensuring that contributions relate to the correct financial year.</li> </ul> <p><b>Investment Income</b></p> <p>We will:</p> <ul style="list-style-type: none"> <li>▶ obtain third party confirmations and agree all investment income to the confirmations received; and</li> <li>▶ review and test investment reconciliations performed between investment manager and custodian reports.</li> </ul>
<b>Risk of management override of controls</b>	
<p>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>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ reviewing accounting estimates for evidence of management bias; and</li> <li>▶ evaluating the business rationale for significant unusual transactions.</li> </ul>



### Valuation of unquoted pooled investments and direct property investments

The Fund's investments include unquoted pooled investment vehicles (such as private equity, infrastructure, timber and illiquid debt) and direct property investments.

Judgements are taken when valuing those investments whose prices are not publically available. The material nature of investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

As these investments are more complex to value, we have identified the Fund's investments in property and unquoted pooled investment vehicles as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.

Our approach will focus on:

- ▶ reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- ▶ assessing the competence of management experts; and
- ▶ performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

Where necessary our internal valuation specialists will support our work in this area

### 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.

## 3. Our audit process and strategy

### 3.1 Objective and scope of our audit

Under the 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.

### 3.2 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 receivable

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; and
- ▶ 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 specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Investment valuation	The Pension Fund's custodian and fund managers
Pensions liability	EY Pensions Advisory, PwC (Consulting Actuary to the PSAA) and Barnet Waddingham (Essex Pension Fund actuary)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

### 3.3 Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section two, 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.

### 3.4 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 £49.3 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £2.5 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.

### 3.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Essex Pension Fund is £31,266 (£31,266 2014-15).

### 3.6 Your audit team

Andrew Clewer is the Partner leading our overall engagement with Essex County Council and our relationship with the Audit Committee.

In keeping with our audit approach last year, the Pension Fund engagement team will be led by a member of our specialist pensions team. The member of the specialist pensions team will be supported by Gary Belcher (Audit Manager) and Dan Cooke (Assistant Manager). Dan is responsible for the day-to-day direction of audit work, and is the key point of contact for your finance and pension teams.

### 3.7 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 2015/16. These dates are determined to ensure our alignment with PSAA'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 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 Pension Fund and external stakeholders, including members of the public.

Audit phase	Timetable	Deliverables
Risk assessment and setting of scopes	February – March	Audit Plan
Testing routine processes and controls	March	Progress report (if needed)
Year-end audit and completion of audit	June - August	Report to those charged with governance via the Audit Results Report Audit report, including our opinion on the financial statements Audit completion certificate Audit report on our opinion on the consistency of the financial statements within the pension fund annual report with the pension fund financial statements.
Conclusion of reporting	November	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.

## 4. Independence

### 4.1 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"> <li>▶ 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;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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.

### 4.2 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 PSAA Terms of Appointment.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

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 Andrew Clewer, the audit engagement Partner, and the audit engagement team have not been compromised.

### 4.3 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 June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Total Audit Fee – Code work	31,266	31,266	31,266	No change from 2014-15

*All fees exclude VAT.*

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

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ the level of risk in relation to the audit of accounts in consistent with that in the prior year;
- ▶ 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 the Pension Fund 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"> <li>► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>► Significant difficulties, if any, encountered during the audit</li> <li>► Significant matters, if any, arising from the audit that were discussed with management</li> <li>► Written representations that we are seeking</li> <li>► Expected modifications to the audit report</li> <li>► Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	► Report to those charged with governance
Misstatements <ul style="list-style-type: none"> <li>► Uncorrected misstatements and their effect on our audit opinion</li> <li>► The effect of uncorrected misstatements related to prior periods</li> <li>► A request that any uncorrected misstatement be corrected</li> <li>► In writing, corrected misstatements that are significant</li> </ul>	► Report to those charged with governance
Fraud <ul style="list-style-type: none"> <li>► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>► A discussion of any other matters related to fraud</li> </ul>	► 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"> <li>► Non-disclosure by management</li> <li>► Inappropriate authorisation and approval of transactions</li> <li>► Disagreement over disclosures</li> <li>► Non-compliance with laws and regulations</li> <li>► Difficulty in identifying the party that ultimately controls the entity</li> </ul>	► Report to those charged with governance
External confirmations <ul style="list-style-type: none"> <li>► Management's refusal for us to request confirmations</li> <li>► Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	► Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> <li>► 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</li> <li>► 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</li> </ul>	► 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> </ul>
<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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p>Fee Information</p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>

<b>Essex Pension Fund Strategy Board</b>	<b>EPB/15/16</b>
<b>Date: 13 July 2016</b>	

## **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 2015/16 activity in relation to the pension fund and proposals for 2016/17.

### **2. Recommendations**

- 2.1 Pension Board Members are requested to note the outcomes of the 2015/16 plan.
- 2.2 Pension Board members are requested to note the outcomes of the 2015/16 National Fraud Initiative.
- 2.3 Pension Board members are requested to note the planned audits of the Pension Fund for 2016/17.

### **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.

### **4. 2015/16 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 NFI is the matching of electronically-held data between public and private sector bodies to prevent and detect fraud and error. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.
- 5.2 Responsibility for NFI has passed from the Audit Commission to the Cabinet Office. Data for the next NFI is due to be submitted in October 2016 with matches due to be released in January 2017.
- 5.3 A supplementary NFI data matching exercise of specifically pensions-related data in December 2015 identified further overpayments of £5,012 with an annual equivalent of £16,162. There are also a number of cases being reviewed.
- 6. 2016/17 Internal Audit Coverage**
- 6.1 On 21 March 2016, the ECC Audit Committee approved the Internal Audit plan for 2016/17. The plan contains the following activity relating to Pensions:
- KFS 08 Pension Investment
  - KFS 09 Pensions Administration
  - CF03 National Fraud Initiative
- 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

- to 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 2016/17 will be £22,500.


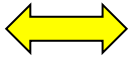
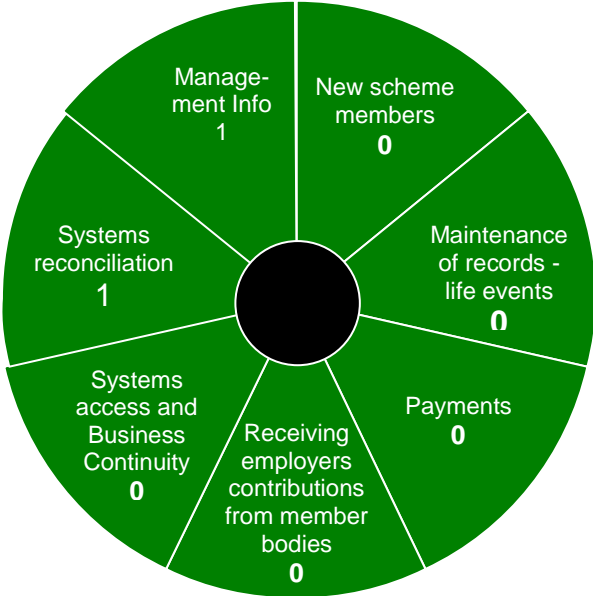




## **11. Background Papers**







11.1 None.



# Final Internal Audit Report 2015/16 – Pensions Services & Administration (KFS10)

## 1. Executive Summary

<p><b>Function:</b> Corporate and Customer Services</p> <p><b>Audit Sponsor:</b> Kevin McDonald, Director for Essex Pension Fund</p> <p><b>Distribution List:</b> Margaret Lee, Executive Director for Corporate and Customer Services; Kevin McDonald, Jody Evans, Pensions Services Manager; Joel Ellner, Team Manager; Daniel Chessell, Team Manager, Pensions; Cllr Rodney Bass, Chairman of Essex Pension Fund; Gary Belcher, Ernst &amp; Young (External Audit).</p> <p><b>Final Report Issued:</b> 02 June 2016</p> <p><b>Date of last review:</b> May 2015</p>	<p><b>Overall Opinion</b></p> <p><b>GOOD ASSURANCE</b> </p> <hr/> <p><b>Direction of Travel</b></p> <p>Control environment has not changed since our prior audit </p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>2 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p><b>Number of Recommendations</b></p> <p>2 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>N/A Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>This audit reviewed the maintenance of pension member scheme records; payroll and lump sum payments; systems access; business continuity; system reconciliations and management information.</p> <p>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 (KFS09).</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>There are no critical or major recommendations.</p>	<p><b>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:</b></p>  <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul>			





<b>Auditors: Anita Goold &amp; Simon Martin</b>		<b>Issues raised and officers responsible for implementation:</b>						
<b>Fieldwork Completed: 1 February 2016</b>		Name	Critical	Major	Moderate	Low	Total	Agreed
<b>Draft Report Issued: 30 March 2016</b>		Jody Evans – Head of Essex Pension Fund	0	0	0	2	0	1
<b>Management Comments Expected: 20 April 2016</b>		<b>Releasing Internal Audit Reports:</b> 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.						
<b>Management Comments Received: 25 April 2016, 03 May 2016 and 02 June 2016</b>								
<b>Final Report: 02 June 2016</b>		<b>Risk Management:</b> 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.						
<b>Risk Ref</b>	<b>Risk</b>					<b>Risk Already Identified</b>	<b>Risk Managed</b>	
<b>Registered Risks Reviewed</b>								
EPFD0016	<b>Systems Access and Business Continuity:</b> The Pensions Fund is not managed and its services delivered by people who have the appropriate knowledge and expertise.					Yes		
<b>Unregistered Risks Identified &amp; Audited</b>								
N/A	<b>New Scheme Members:</b> New scheme members (including transfers in) added to the pension system are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules.					N/A		
N/A	<b>Maintenance of Records - life events:</b> Updates to scheme members' pension system records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules which could result in incorrect pension calculations.					N/A		
N/A	<b>Pension Payments:</b> New pensioners added to the pension system are not supported by appropriate, authorised supporting evidence, processed completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made.  The pension system is not completely, accurately and promptly updated with notifications of deaths which could lead to overpayments of pensions and the potential for fraudulent payments.  Amendments to pensioners' data (including changes to bank account details) on the payroll system are not supported by appropriate, authorised supporting evidence and processed completely and accurately which could result in incorrect or fraudulent payments.  Lump sum payments to pensioners made through the pension system are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.  Refunds of contributions to those leaving the pension fund are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.  Overpayments or duplicate payments are not identified and or their recovery actively pursued which could result in financial loss.  The timeliness and accuracy of processing of pension-related instructions and pension payments is not measured and actively reviewed by Payroll management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage.					N/A		
N/A	<b>Receiving employer's contributions from member bodies:</b> Contributions from member bodies are not completely or accurately received or in a timely manner which could result in cash flow issues for the fund and or reduced investment income.					N/A		
N/A	<b>Systems Access and Business Continuity:</b> Access to pensions system is not controlled and restricted to relevant staff, which could result in systems and data being amended and/or fraudulently manipulated by unauthorised people. Pension fund data is not held securely resulting in loss or theft of data.					N/A		

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N/A	<p><b>Systems Reconciliation:</b> The general ledger system does not completely or accurately reflect pension payments made or the assets and liabilities of the pension fund which could result in inaccurate financial reporting.</p> <p>Repaid overpayments are not properly recorded, managed and reconciled resulting in failure to account for such monies and detect any errors.</p>	N/A	●
N/A	<p><b>Management Information:</b> The timeliness and accuracy of processing pension-related instructions is not measured and actively reviewed by Pensions management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage</p>	N/A	●



## 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"> <li>▪ Significant financial loss (through fraud, error, poor value for money)</li> <li>▪ Serious safeguarding breach</li> <li>▪ Life threatening or multiple serious injuries</li> <li>▪ Catastrophic loss of service</li> <li>▪ Failure of major projects</li> <li>▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral</li> <li>▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage.</li> <li>▪ Possible criminal, or high profile, civil action against the Council, Members or officers.</li> <li>▪ Intervention by external agencies</li> </ul> <p><b>Remedial action must be taken immediately</b></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"> <li>▪ High financial loss (through fraud, error, poor value for money)</li> <li>▪ Safeguarding breach</li> <li>▪ Serious injuries or stressful experience requiring medical treatment, many work days lost.</li> <li>▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties)</li> <li>▪ Major Information loss leading to internal investigation</li> <li>▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion.</li> <li>▪ Scrutiny required by external agencies</li> </ul> <p><b>Remedial action must be taken urgently</b></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"> <li>▪ Medium financial loss (through fraud, error or poor value for money)</li> <li>▪ Significant short-term disruption of non-core activities</li> <li>▪ Scrutiny required by internal committees.</li> <li>▪ Injuries or stress level requiring some medical treatment, potentially some work days lost</li> <li>▪ Reputational damage – Probable limited unfavourable media coverage.</li> </ul> <p><b>Prompt specific action should be taken</b></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"> <li>▪ Low financial loss (through error or poor value for money)</li> <li>▪ 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.</li> <li>▪ Reputational damage – Internal review, unlikely to have a wider impact.</li> </ul> <p><b>Remedial action is required</b></p>
Assurance Level	Description
<b>Good</b>	<b>Good assurance</b> – 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.
<b>Adequate</b>	<b>Adequate assurance</b> – 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.
<b>Limited</b>	<b>Limited assurance</b> – 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.
<b>No</b>	<b>No assurance</b> – 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
Control Design – Management information					
1.	<p>The Essex Pension Fund scorecard reported to board covers a balanced, comprehensive suite of performance measures. This provides periodic oversight of performance and outcomes achieved to date.</p> <p>The pension system (Civica UPM) is capable of producing a wide range of management information that could further support the existing performance information by providing assurance of compliance with required processes and help forward planning.</p> <p>Currently, management information reports are produced (such as on missing data, aborted processes) but on an as and when basis and relies on the significant experience and knowledge of current staff.</p> <p>In 2016/17, the Essex Pensions Service are planning to further develop the suite of management information produced from the pension system so it is routinely produced and provides real time information directly from the system (i.e. requires no or minimal secondary processing to be useable).</p>	<p>The timeliness and accuracy of processing pension-related instructions is not measured and actively reviewed by Pensions management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage.</p>	<p>Develop further the suite of management information routinely produced directly from the pension system.</p> <p>This management information should provide further oversight of key issues such as compliance with required processes and where possible identify potential anomalies.</p>	<p>● Low</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b></p> <p><b>Additional Resources Required for Implementation:</b> No</p> <p><b>Responsible Officer:</b> Jody Evans – Head of Essex Pension Fund</p> <p><b>Target Date:</b> 31 December 2016</p>

Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Control design – reconciliation between the pensions system and general ledger				
2	<p>Staff procedure notes on how to perform the reconciliations between the pension system and the general ledger are not up to date.</p> <p>It is acknowledged there has been consistency in the staff undertaking the reconciliation and the reconciliations are completed satisfactorily. It is also acknowledged the procedures are best updated when the new general ledger system has been implemented.</p>	<p>The general ledger system does not completely or accurately reflect pension payments made</p> <p>or the assets and liabilities of the pension fund which could result in inaccurate financial reporting.</p>	<p>Update the staff procedure notes on how to reconcile the pension system to the general ledger.</p>	<p>● Low</p> <p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> As per recommendation</p> <p><b>Additional Resources Required for Implementation:</b> [Yes / No]</p> <p><b>Responsible Officer:</b> Jody Evans – Head of Essex Pension Fund</p> <p><b>Target Date:</b> 31 October 2016</p>

## 4. Controls Assessment Schedule

### New scheme members risks:

New members (including transfers in from other pension schemes) added to the pension system (Civica UPM) are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules.

Control	Control In Place?	Action Plan Ref.
New member instructions received from admitted bodies are checked prior to input into the pension system to confirm whether all required data have been received.	Yes	
The pension system has in-built process maps to enforce required actions to process new members.	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing new member instructions and a senior officer authorising them to take effect on the system.	Yes	
The pension system logs actions taken, by whom and when including the processing and authorising of new members.	Yes	
New scheme members are sent notification of membership in a timely manner.	Yes	

### Maintenance of records - life events risks:

Amendments and updates to current members' pension system records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules which could result in incorrect pension calculations.

Control	Control In Place?	Action Plan Ref.
The pension system has in-built process maps to enforce required actions to process amendments and updates to current members' records.	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing amendments and updates to current members' records and a senior officer authorising them to take effect on the system.	Yes	
The pension system logs actions taken, by whom and when including the processing and authorising of amendments and updates to current members' records.	Yes	

### Payments risks:

New pensioners added to the pensioner payroll are not supported by appropriate, authorised supporting evidence, processed completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made.

The pension system is not completely, accurately and promptly updated with notifications of deaths which could lead to overpayments of pensions and the potential for fraudulent payments.

Amendments to pensioners' data (including changes to bank account details) on the pension payroll system are not supported by appropriate, authorised supporting evidence and processed completely and accurately which could result in incorrect or fraudulent payments.

Lump sum payments to pensioners made through the pensioner payroll are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.

Refunds of contributions to those leaving the pension fund are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.

Overpayments or duplicate payments are not identified and or their recovery actively pursued which could result in financial loss to the Essex Pension Fund.

The timeliness and accuracy of processing of pension-related instructions and pension payments is not measured and actively reviewed by management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage.

Control	Control In Place?	Action Plan Ref.
The pension system has in-built process maps to enforce required actions to process actions with a direct financial outcome (e.g. death notifications, lump sums and refunds, etc.).	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing actions with a direct financial outcome and a senior officer authorising them.	Yes	
Amendments to pensioner payroll data must be received in writing. Pensioners are advised in writing when their bank account details have been changed.	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing updates to pensioner payment data and a senior officer authorising them	Yes	
Proposed payments are produced, checked and issues resolved before the payment file is separately authorised via workflow for payment. The number and value of payments actually made are checked to ensure the authorised payment file has been executed completely and accurately.	Yes	
Any overpayments are identified through the checks of proposed payments.	Yes	

### Receiving employers' contributions from member bodies risks:

Contributions from member bodies are not completely or accurately received or in a timely manner which could result in cash flow issues for the fund and or reduced investment income.

Control	Control In Place?	Action Plan Ref.
Checks are completed to ensure that all employers' monthly contributions are received, are complete, accurate and accounted for correctly.	Yes	
There is an annual reconciliation of employers' contributions to ensure accuracy and completeness.	Yes	
Contributions are amended in line with actuarial valuations.	Yes	

### Systems access and Business Continuity risks:

The Pensions Fund is not managed and its services delivered by people who have the appropriate knowledge and expertise.

Access to pensions system is not controlled and restricted to relevant staff, which could result in systems and data being amended and/or fraudulently manipulated by unauthorised people. Pension fund data is not held securely resulting in loss or theft of data.

Control	Control In Place?	Action Plan Ref.
The numbers of Essex Pension Service staff having training plans in place and Supporting Success objectives set is measured and reported as part of the Pension Fund Scorecard reported to the board.	Yes	
Access permissions and restrictions are in line with business need and there is appropriate separations of duties throughout enforced via workflows.	Yes	
Regular back-up of core data is undertaken and tested to ensure adequate recovery processes are in place [tested through IS audit ref. IS 11]	Yes	
Business continuity / disaster recovery plans are in place if critical systems are unavailable and these are tested regularly. [tested through IS audit ref. IS 11]	Yes	

### Systems reconciliation risks:

The general ledger system does not completely or accurately reflect payments made through the payroll system or the assets and liabilities of the pension fund system which could result in inaccurate financial reporting.

Repaid overpayments 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	
The pension system is regularly reconciled to the general ledger. Investigation is undertaken if there are any discrepancies. Appropriate management sign-off is evidenced.	Yes	
Procedure notes describing how to undertake the reconciliations are in place and communicated to key staff.	Partially	2

### Management Information Risks:



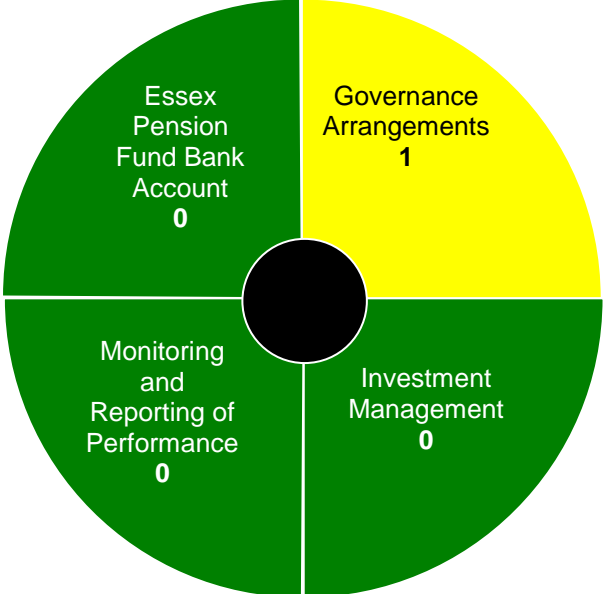




The timeliness and accuracy of processing pension-related instructions is not measured and actively reviewed by Pensions management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage

Control	Control In Place?	Action Plan Ref.
Service standards measuring whether the Essex Pension Service delivers a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers as part of the Pension Fund Scorecard reported to the board.	Yes	
Numbers and outcomes of complaints are measure and reported as part of the Pension Fund Scorecard report to the board.	Yes	
Management information generated directly from the pension system is regularly produced and reviewed to identify exceptions or otherwise provide assurance of compliance with required processes and timescales and manage workloads.	Partially	1





# Final Internal Audit Report 2015/16 – Pension Investments (KFS09)

## 1. Executive Summary

<p><b>Function:</b> Corporate and Customer Services</p> <p><b>Audit Sponsor:</b> Kevin McDonald, Director for Essex Pension Fund</p> <p><b>Distribution List:</b> Kevin McDonald; Jody Evans, Head of Essex Pension Fund; Margaret Lee, Executive Director for Corporate and Customer Services; Rodney Bass, Chairman of the Essex Pension Fund Board; Gary Belcher, EY (External Audit).</p> <p><b>Final Report Issued:</b> 10 May 2016</p> <p><b>Date of last review:</b> April 2015</p>	<p><b>Overall Opinion</b></p> <p><b>GOOD ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>Control environment has not changed since our prior audit </p>	<p><b>Number of Control Design Issues Identified</b></p> <p><b>0</b> Critical</p> <p><b>0</b> Major</p> <p><b>1</b> Moderate</p> <p><b>0</b> Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p><b>0</b> Critical</p> <p><b>0</b> Major</p> <p><b>0</b> Moderate</p> <p><b>0</b> Low</p>	<p><b>Number of Recommendations</b></p> <p><b>1</b> Made</p> <p><b>0</b> Rejected</p> <p><b>N/A</b> Critical Rejected</p> <p><b>N/A</b> Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The audit examined the extent to which the risks relating to potential non-compliance with governance arrangements, investment management, monitoring and reporting of performance and the Essex Pension Fund bank account were being addressed, controlled and managed. There were no limitations of scope. A separate Pensions Administration audit has been carried out under assignment reference KFS10.</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>There were no critical and major findings and recommendations.</p>	<p><b>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:</b></p>  <p><b>Essex Pension Fund Bank Account 0</b></p> <p><b>Governance Arrangements 1</b></p> <p><b>Monitoring and Reporting of Performance 0</b></p> <p><b>Investment Management 0</b></p> <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul>			







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<b>Auditor: Simon Martin</b>		<b>Issues raised and officers responsible for implementation:</b>						
<b>Fieldwork Completed: 12 February 2016</b>		Name	Critical	Major	Moderate	Low	Total	Agreed
<b>Draft Report Issued: 09 March 2016</b>		Ian Myers/Richenda Greenhill, Senior Committee Officers	0	0	1	0	0	1
<b>Management Comments Expected: 23 March 2016</b>								
<b>Management Comments Received: 22 March 2016 and 03 May 2016</b>		<b>Releasing Internal Audit Reports:</b> All distributed draft and final reports remain the property of the respective Director and the Executive Director for Corporate and Customer 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.						
<b>Final Report: 02 June May 2016</b>		<b>Risk Management:</b> 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.						
Risk Ref	Risk					Risk Already Identified		Risk Managed
<b>Registered Risks Reviewed</b>								
	None							
<b>Unregistered Risks Identified &amp; Audited</b>								
EPFD0015	<b>Governance Arrangements:</b> There is a lack of knowledge and expertise amongst those managing the Pension Fund and its services. This may lead to not applying the pension regulations and a failure to effectively undertake the following leading to loss of reputation, qualification of the accounts or legal reprimand: <ul style="list-style-type: none"><li>• preparing, publishing and maintaining the Statement of Investment Principles, Statement of Compliance, Funding Strategy and Annual Report;</li><li>• obtaining actuarial valuations and certificates; and</li><li>• providing copies of these documents to stakeholders;</li></ul>					Yes		
N/A	There is a failure to operate robust governance arrangements, which may lead to a lack of effective oversight, scrutiny and clear decision making. This may lead to inappropriate, inconsistent or ineffective actions leading to failure to comply with regulations, loss of money, loss of reputation and employer and employee confidence.					N/A		
EPFD0017 EPFD0018	<b>Investment Management:</b> There is poor strategic planning and management of risk. This may lead to a failure of the Funding Strategy, potentially resulting in a forecasted inability to pay benefits and a consequent need to raise contributions.					Yes		
EPFD0016	There is a lack of clear guidelines on allowed investment vehicles, which may result in inappropriate investment decisions. This could result in a loss of income and capital, potentially resulting in poor value for money for the Pension Fund.					Yes		
N/A	There is a lack of reconciliations between Council and Custodian records, which may lead to discrepancies between the two remaining undetected and potential errors in the accounts, potentially resulting in qualification of the accounts, misrepresentation of fund value and loss of reputation.					N/A		
N/A	Where investment decisions are not made in accordance with delegated authority, it may lead to an unauthorised transaction, potentially resulting in a breach of policy and procedures and or financial loss.					N/A		
N/A	Where income from maturing investments is not received/not received on time, it may lead to a loss of income and capital, potentially resulting in loss to the Pension Fund and/or Essex County Council.					N/A		

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N/A	<b>Monitoring and Reporting of Performance:</b> There is insufficient performance, forecasting and risk management information provided to those managing and charged with governance of the Pension Fund. This may result in poor decision making, potentially resulting in poor value for money for the Pension Fund.	N/A	●
N/A	<b>Essex Pension Fund Bank Account:</b> There is a lack of reconciliation of the Essex Pension Fund bank account, which may lead to erroneous entries remaining undetected (e.g. pension income./ expenditure posted to ECC, incorrect amounts posted), potentially resulting in loss to the Pension Fund and/or Essex County Council.	N/A	●

## 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"> <li>▪ Significant financial loss (through fraud, error, poor value for money)</li> <li>▪ Serious safeguarding breach</li> <li>▪ Life threatening or multiple serious injuries</li> <li>▪ Catastrophic loss of service</li> <li>▪ Failure of major projects</li> <li>▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral</li> <li>▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage.</li> <li>▪ Possible criminal, or high profile, civil action against the Council, Members or officers.</li> <li>▪ Intervention by external agencies</li> </ul> <p><b>Remedial action must be taken immediately</b></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"> <li>▪ High financial loss (through fraud, error, poor value for money)</li> <li>▪ Safeguarding breach</li> <li>▪ Serious injuries or stressful experience requiring medical treatment, many work days lost.</li> <li>▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties)</li> <li>▪ Major Information loss leading to internal investigation</li> <li>▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion.</li> <li>▪ Scrutiny required by external agencies</li> </ul> <p><b>Remedial action must be taken urgently</b></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"> <li>▪ Medium financial loss (through fraud, error or poor value for money)</li> <li>▪ Significant short-term disruption of non-core activities</li> <li>▪ Scrutiny required by internal committees.</li> <li>▪ Injuries or stress level requiring some medical treatment, potentially some work days lost</li> <li>▪ Reputational damage – Probable limited unfavourable media coverage.</li> </ul> <p><b>Prompt specific action should be taken</b></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"> <li>▪ Low financial loss (through error or poor value for money)</li> <li>▪ 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.</li> <li>▪ Reputational damage – Internal review, unlikely to have a wider impact.</li> </ul> <p><b>Remedial action is required</b></p>
Assurance Level	Description
<b>Good</b>	<b>Good assurance</b> – 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.
<b>Adequate</b>	<b>Adequate assurance</b> – 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.
<b>Limited</b>	<b>Limited assurance</b> – 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.
<b>No</b>	<b>No assurance</b> – 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 or irregularities corrected. 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
Control design – Declarations of interest					
1.	<p>The interests of Essex County Council (ECC) members of the Advisory Board and Strategy Board are published on the ECC website.</p> <p>However, the interests of non-ECC members (either other local authority councillors or other appointees) are not published.</p>	<p><b>Governance arrangements</b></p> <p>There is a failure to operate and or demonstrate robust governance arrangements which may lead to a lack of effective oversight, scrutiny and clear decision making.</p>	Obtain declarations of interest from all non-ECC Advisory Board and Strategy Board members and publish on the ECC website.	<p>●</p> <p>Moderate</p>	<p><b>Agreed:</b> Yes (in part)</p> <p><b>Action to be taken:</b> Non ECC Members of both Pension Boards will be requested to complete a declaration of interest form, with the exception of elected Members of other Authorities (declarations are available on that Authority website)</p> <p>These forms will not be published on the ECC website (CMIS) but filed centrally</p> <p><b>Additional Resources Required for Implementation:</b> None</p> <p><b>Responsible Officers:</b></p> <p>Ian Myers/Richenda Greenhill – Senior Committee Officers for Pensions Boards</p> <p><b>Target Date:</b> 30 June 2016</p>

## 4. Controls Assessment Schedule

### Governance Arrangements Risks:

There is a lack of knowledge and expertise amongst those managing the Pension Fund and its services. This may lead to not applying the pension regulations and a failure to effectively undertake the following, leading to loss of reputation, qualification of the accounts or legal reprimand:

- Preparing, publishing and maintaining the Statement of Investment Principles, Statement of Compliance, Funding Strategy and Annual Report
- Obtaining actuarial valuations and certificates
- Providing copies of these documents to stakeholders

There is a failure to operate robust governance arrangements, which may lead to a lack of effective oversight, scrutiny and clear decision making. This may lead to inappropriate, inconsistent or ineffective actions leading to failure to comply with regulations, loss of money, loss of reputation and employer and employee confidence.

Control	Control In Place?	Action Plan Ref.
The Pension Fund has governance policy, it has been published and it has been subject to independent review.	Yes	
Those charged with governance of the Fund and the scheme are being equipped with appropriate knowledge and expertise.	Yes	
Formal reports and documentation have been made available to key stakeholders.	Yes	
An actuarial valuation has been completed and received.	Yes	
Declarations of interest are made by Board Member and they are published where appropriate.	Partially	1.

### Investment Management Risks:

There is poor strategic planning and management of risk. This may lead to a failure of the Funding Strategy, potentially resulting in a forecasted inability to pay benefits and a consequent need to raise contributions.

There is a lack of clear guidelines on allowed investment vehicles, which may result in inappropriate investment decisions. This could result in a loss of income and capital, potentially resulting in poor value for money for the Pension Fund.

There is a lack of reconciliations between Council and Custodian records, which may lead to discrepancies between the two remaining undetected and potential errors in the accounts, potentially resulting in qualification of the accounts, misrepresentation of fund value and loss of reputation.

Where investment decisions are not made in accordance with delegated authority, it may lead to an unauthorised transaction, potentially resulting in a breach of policy and procedures and or financial loss.

Where income from maturing investments is not received/not received on time, it may lead to a loss of income and capital, potentially resulting in loss to the Pension Fund and/or ECC.

Control	Control In Place?	Action Plan Ref.
There are clear guidelines on allowed investment vehicles and the Fund has been invested in accordance with the Statement of Investment Principles.	Yes	

Control	Control In Place?	Action Plan Ref.
There are reconciliations between the records of the ECC, Fund Managers and or Custodians.	Yes	
There are strategic planning arrangements in place for managing the Pension Fund and the Pension Fund has risk management arrangements in place. There are oversight arrangements in both cases.	Yes	
There is a scheme of delegation in place and investment decisions have been made in accordance with delegated authority.	Yes	

### Monitoring and Reporting of Performance Risks:

There is insufficient performance, forecasting and risk management information provided to those managing and charged with governance of the Pension Fund. This may result in poor decision making, potentially resulting in poor value for money for the Pension Fund.

Control	Control In Place?	Action Plan Ref.
Investment management and performance have been regularly monitored. Benchmarking has been undertaken.	Yes	
There has been oversight of investment strategy and structure.	Yes	

### Essex Pension Fund Bank Account Risks:

There is a lack of reconciliation of the Essex Pension Fund bank account, which may lead to erroneous entries remaining undetected (e.g. pension income./ expenditure posted to ECC, incorrect amounts posted), potentially resulting in loss to the Pension Fund and/or ECC.

Control	Control In Place?	Action Plan Ref.
The Essex Pension Fund bank account has been subject to reconciliation on a regular basis. Miscoding has been promptly identified and amended.	Yes	

## AGENDA ITEM 12

<b>Essex Pension Fund Strategy Board</b>	<b>EPB/16/16</b>
date: 13 July 2016	

### **Essex Pension Fund Draft Accounts 2015/16**

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 2015/16; 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 2015/16**

- 3.1 The draft County Council Accounts for 2015/16 (incorporating draft Pension Fund financial statements) have been prepared and were submitted to the Audit Committee on 27 June 2016.
- 3.2 Colleagues from EY are due to commence the external audit on 11 July 2016.
- 3.3 The final draft accounts will be brought to the next meeting of the Board on 15 September 2016 ahead of the meeting of Essex CC's Audit Committee on 19 September 2016 and the formal conclusion of the audit on 30 September 2016.
- 3.4 A copy of the Pension Fund's draft financial statements for 2015/16 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 2016.
- 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 2015/16 Contents**

### **Introduction & Overview**

- Chairman's Foreword
- Introduction
- Fund Trends and Financial Summary
- Essex Pension Fund Advisory Board Report

### **Section 1: Introduction & Overview**

- Who manages and runs the Essex Pension Fund
- Management Structure
- Business Plan 2015/16 and 2016/17

### **Section 2: Investments**

- Investment Strategy Overview
- Investment Decisions
- Investment Performance 2015/16

### **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



# Statement of Accounts - Pension Fund Accounts

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## Introduction

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

	Page
<b>Fund Account</b>	<b>136</b>
<b>Net Assets Statement</b>	<b>137</b>
<b>Notes to the Pension Fund Accounts</b>	<b>138</b>

# Statement of Accounts - Pension Fund Accounts

## Pension Fund Accounts

Fund Account for the year ended 31 March 2016

2014/15	Note		2015/16	
£000			£000	£000
<b>Dealing with members and others directly involved in the Fund</b>				
<b>Income</b>				
		Contributions receivable		
(52,676)	8	Member contributions	(53,964)	
(188,654)	8	Employers' contributions	(168,443)	
(8,181)	8	Transfers in from other Pension Funds	(7,936)	
(149)		Other income	(295)	
(249,660)		<b>Total income</b>		(230,638)
<b>Expenditure</b>				
		Benefits payable		
170,900	8	Pensions	177,467	
31,876		Commutation of pensions & lump sum retirement benefits	31,935	
4,440		Lump sum death benefits	6,344	
		Payments to and on account of Leavers		
183		Refunds of contributions	544	
91		State scheme premiums	321	
64,563	8	Transfers out to other schemes	5,288	
28,779	10	Management expenses	31,816	
300,832		<b>Total expenditure</b>		253,715
51,172		<b>Net additions from dealings with members</b>		23,077
		Returns on investments		
(75,727)	9	Investment income	(87,752)	
(573,424)	11	Profit and losses on disposal of investments and changes in market value of investments	(43,640)	
2,730	14	Taxes on income	3,834	
(646,421)		<b>Net returns on investments</b>		(127,558)
(595,249)		<b>Net (increase)/decrease in the assets available for benefits during the year</b>		(104,481)
(4,337,374)		<b>Net assets as at 1 April</b>		(4,932,623)
(4,932,623)		<b>Net assets as at 31 March</b>		(5,037,104)

# Statement of Accounts - Pension Fund Accounts

## Pension Fund Accounts

Net Assets Statement as at 31 March 2016

31 March 2015 £000	Note		31 March 2016 £000	£000
	<b>11</b>	<b>Investments at market value</b>		
		Investment assets		
232,568		Fixed interest securities	235,486	
3,065,508		Equities	3,124,105	
216,532		Index linked securities	144,369	
322,135		Property	358,780	
217,452		Property unit trusts	215,089	
237,979		Private Equity	247,281	
158,975		Infrastructure	162,085	
49,057		Timber	77,675	
63,329		Illiquid Debt	76,705	
253,665		Other managed funds	248,358	
22,902		Derivative contracts	17,300	
109,810		Cash/deposits	116,692	
6,434		Other investment balances	7,632	
4,956,346				5,031,557
		Investment liabilities		
(48,206)		Derivative contracts	(35,744)	
(1,987)		Other investment balances	(353)	
(50,193)				(36,097)
4,906,153		Total Investments		4,995,460
		<b>Long term assets</b>		
6,456		Contributions due from employers		5,196
	<b>13</b>	<b>Current assets and liabilities</b>		
		Current Assets		
13,967		Cash		26,311
16,144		Contributions due from employers and other current assets		17,669
4,942,720				5,044,636
		Current liabilities		
(10,097)		Unpaid benefits and other current liabilities		(7,532)
4,932,623		Net assets of the scheme available to fund benefits		5,037,104

# Statement of Accounts - Pension Fund Accounts

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## 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 Strategy Board and Investment Steering Committee (ISC). 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 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](http://www.essexpensionfund.co.uk)).

# Statement of Accounts - Pension Fund Accounts

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## 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 **640** 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 2016. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time, an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31 March 2013**. Details can be found on the website [www.essexpensionfund.co.uk](http://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](http://www.essexpensionfund.co.uk).



# Statement of Accounts - Pension Fund Accounts

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## 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 2015/16 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 2015/16 (SORP). 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](http://www.essexpensionfund.co.uk).

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2015/16 financial year and its position as at 31 March 2016. 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 2016 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 2015/16 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,

# Statement of Accounts - 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](http://www.essexpensionfund.co.uk).

The main financial assumptions used were as follows:

	<b>Past and Future liabilities</b> <i>Rate per annum</i>
Rate of discount	<b>5.80%</b>
Retail Price Index (RPI)	<b>3.50%</b>
Consumer Price Index (CPI)	<b>2.70%</b>
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	<b>2.70%</b>
Short term pay increase	<b>In line with CPI assumptions for 2 years to 31 March 2016</b>
Long term pay increase	<b>4.50%</b>

The assets were assessed at market value.

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

## 3.2 Actuarial present value of promised retirement benefits

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

# Statement of Accounts - Pension Fund Accounts

## 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 2016 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 2016 is 18 years which in turn means a discount rate of **3.6%** per annum (31 March 2015: 3.3%). The value of the Fund's promised retirement benefits as at 31 March 2016 was **£7,438m** (31 March 2015: £7,517m).

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 2013, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of **4.3%** per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£6,585m**.

## 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.

# Statement of Accounts - Pension Fund Accounts

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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 151).

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 151).

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 166).

### ▪ 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

# Statement of Accounts - Pension Fund Accounts

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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'.

# Statement of Accounts - Pension Fund Accounts

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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 2015/16 this totalled **£1.065m** (£1.272m in 2014/15).

## 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 2015/16, this totalled **£1.073m** (£1.306m in 2014/15).

## 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. For the investment managers who manage the main asset classes of the Fund these are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. With the investment managers who manage the alternative assets the fees are generally calculated on a commitment basis.

No performance related fees were payable in 2015/16 (none in 2014/15).

Some of the Fund's investments are via pooled vehicles. In the majority of cases the investment manager deducts its management fees directly i.e. the Fund are not invoiced for these costs.

The Fund in 2015/16 has changed its policy in the treatment of these fees in accordance with CIPFA's guidance.

In prior years management fees were grossed up and offset via investment income. The gross up of management fees are now offset through the change in market value of these investments. The change in policy has a net nil effect.

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 2015/16, **£3.037m** of fees is based on such estimates (2014/15: £2.957m). 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.

# Statement of Accounts - Pension Fund Accounts

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

## 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 31<sup>st</sup> 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 2015/16, these are mainly valued as at 31 December 2015, 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 2016 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 added to the Fund, net of applicable withholding tax.

# Statement of Accounts - Pension Fund Accounts

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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 2016, 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.



# Statement of Accounts - Pension Fund Accounts

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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.

# Statement of Accounts - Pension Fund Accounts

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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 2016 was **£247.3m** (31 March 2015: £238m).

- **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 MandG 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 2016 was **£162.1m** (31 March 2015: £159.0m).

- **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 2016 was **£77.7m** (31 March 2015: £49.1m).

- **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.

# Statement of Accounts - Pension Fund Accounts

## 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 2016 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 <b>0.5%</b> decrease in the discount rate assumption would result in an increase in the pension liability of <b>£415m</b>.</p> <p>An increase of the CPI assumption by <b>0.5%</b> per annum increases the value of liabilities by approximately <b>£354m</b>.</p> <p>A <b>0.5%</b> increase in the long-term rate of salary increase would increase the value of liabilities by approximately <b>£46m</b>.</p> <p>Increasing the long-term rate of improvement used in the mortality projection from <b>1.5%</b> to <b>1.75%</b> per annum would increase the liability by approximately <b>£45m</b>.</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 <b>£563.7m</b>. There is a risk that this investment may be under or overstated in the accounts.</p>

# Statement of Accounts - Pension Fund Accounts

## 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 2015		31 March 2016 <i>Provisional</i>
50,965	Contributors	61,543
44,038	Deferred pensioners	47,041
35,455	Pensioners	37,666

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

# Statement of Accounts - Pension Fund Accounts

## 8.2 Pension benefits payable

2014/15 £000		2015/16 £000
63,322	Administering Authority	65,215
89,588	Scheduled Bodies	91,145
8,035	Admitted Bodies	8,085
4,587	Community Admission Bodies	7,123
4,849	Transferee Admission Bodies	5,375
519	Resolution Bodies	524
<u>170,900</u>		<u>177,467</u>

## 8.3 Contributions receivable

### 8.3.1 By category

Contributions receivable from employers are set out below:

2014/15 £000		2015/16	
		£000	£000
52,676	Employee's normal contributions		53,964
	Employers' normal contributions		
113,458	Normal contributions	114,743	
71,706	Employers' deficit recovery contributions	48,247	
3,490	Employers' augmentation	5,453	
<u>188,654</u>			<u>168,443</u>
<u>241,330</u>			<u>222,407</u>

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

The change in employer deficit from 2014/15 is associated to Valuation 2013 where fourteen employer choice to pay a triennial payment. Ten of these were paid in April 2015 amounting to **£26,709m**.

In 2014/15 Colchester Women's Refuge entered into a three year cessation plan, paying the second instalment of **£21,000** in 2015/16. One final payment of **£21,000** is due in 2016/17.

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In 2015/16 Essex County Scout Council entered into a five year cessation plan paying the first instalment of **£28,000** in 2015/16. Four further payments of **£30,000** are due in 2016/17, 2017/18, 2018/19 and 2019/20.

In 2015/16 final termination amounts were received from Home Group **£23,000**.

## 8.3.2 By type

2014/15			2015/16		
Member £000	Employer £000		Member £000	Employer £000	
16,457	50,185	Administering Authority	16,741	50,956	
31,284	121,559	Scheduled Bodies	32,540	101,047	
949	5,179	Admitted Bodies	949	5,499	
1,342	4,747	Community Admission Bodies	1,286	4,526	
2,389	6,259	Transferee Admission Bodies	2,177	5,611	
255	725	Resolution Bodies	271	804	
<b>52,676</b>	<b>188,654</b>		<b>53,964</b>	<b>168,443</b>	

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

2014/15			2015/16		
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000	
-	58,484	Group transfers	-	-	
8,181	6,079	Individual transfers	7,936	5,288	
<b>8,181</b>	<b>64,563</b>	<b>Total</b>	<b>7,936</b>	<b>5,288</b>	

No amounts were payable in respect of group transfers to other schemes during 2015/16. In 2014/15, a group transfer to Greater Manchester Pension Fund was paid in respect of Probation Services.

# Statement of Accounts - Pension Fund Accounts

## 9. Investment Income

### 9.1 By Type

2014/15 <i>Restated</i> £000		2015/16 £000
24,767	Dividends from equities	25,865
2,009	Income from index linked securities	1,016
6,722	Private Equity income	4,855
8,349	Infrastructure / timberland income	15,748
7,219	Managed fund income	11,978
6,268	Income from pooled property investments	6,739
17,325	Net rent from properties	19,443
488	Interest from cash deposits	458
875	Other	1,056
<b>74,022</b>	<b>Total investment income showing net property rent</b>	<b>87,158</b>
	Add back:	
1,705	Property operating expenses	594
<b>75,727</b>	<b>Total investment income showing gross property rent</b>	<b>87,752</b>

For 2015/16 the breakout of investment income has been expanded. The 2014/15 dividend income figure has been restated. Some of the dividend income has been re-categorised to the new categories, private equity income, infrastructure/timberland income and managed funds income. This has resulted in a net nil effect to the bottom line.

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

2014/15 £000		2015/16 £000
17,056	Rental Income from investment property	19,486
(1,696)	Direct operating expenses arising from investment property	(290)
<b>15,360</b>	<b>Total</b>	<b>19,196</b>

# Statement of Accounts - Pension Fund Accounts

## 9.3 Contractual rental receivable

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

2014/15 £000		2015/16 £000
16,861	Within one year	17,445
53,752	Between one and five years	51,547
45,024	Beyond five years	41,141
<b>115,637</b>	<b>Total</b>	<b>110,133</b>

## 9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
<b>Fair value at 1 April 2014</b>	<b>174,330</b>	<b>62,970</b>	<b>237,300</b>
Additions	44,827	13,604	58,431
Disposals	-	-	-
Net gain/loss on fair value	21,588	4,816	26,404
<b>Fair value at 31 March 2015</b>	<b>240,745</b>	<b>81,390</b>	<b>322,135</b>
Additions	33,166	24	33,190
Disposals	(9,349)	(9,855)	(19,204)
Net gain/loss on fair value	20,008	2,651	22,659
<b>Fair value at 31 March 2016</b>	<b>284,570</b>	<b>74,210</b>	<b>358,780</b>

## 10. Management expenses

### 10.1 By type

2014/15 £000		2015/16 £000
1,272	Administration costs	1,065
26,201	Investment management expenses	29,678
1,306	Oversight and governance	1,073
<b>28,779</b>	<b>Total</b>	<b>31,816</b>



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The direct running costs recharged back to the Fund are apportioned out as per the CIPFA guidance on LGPS Management Costs. Investment transaction costs incurred during the year are included within Investment Management expenses. These were **£768,000** for 2015/16 (2014/15: £791,000).

## 10.2 Investment management expenses

2014/15 £000		2015/16 £000
25,909	Management fees	29,384
292	Custody fees	294
<b>26,201</b>	<b>Total</b>	<b>29,678</b>

## 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:

2015			2016		
£m	%		£m	%	
64	1.3	Alcentra Ltd	79	1.6	
586	11.9	Aviva Investors	619	12.4	
489	10.0	Baillie Gifford and Co	398	8.0	
250	5.1	Stewart Investors (formerly First State)	243	4.9	
233	4.7	Goldman Sachs Asset Management International	235	4.7	
247	5.0	Hamilton Lane	257	5.1	
1,551	31.6	Legal and General Investment Management	1,558	31.2	
(26)	-0.5	Legal and General Investment Management (Currency)	(18)	-0.4	
370	7.6	Longview Partners	384	7.7	
379	7.7	Marathon Asset Management Ltd	393	7.9	
299	6.1	M&G Investments	347	6.9	
238	4.9	M&G Investments Alpha Opportunities	238	4.8	
84	1.7	M&G Investments Infracapital	61	1.2	
12	0.2	M&G Investments Financing Fund	9	0.2	
75	1.5	Partners Group Management II S.à r.l	107	2.1	
3	0.1	RWC Specialist UK Focus Fund (formerly Hermes)	1	-	
49	1.0	Stafford Timberland Limited	78	1.6	
3	0.1	Other	6	0.1	
<b>4,906</b>	<b>100.0</b>		<b>4,995</b>	<b>100.0</b>	

# Statement of Accounts - Pension Fund Accounts

## 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:

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
<b>Fixed interest securities</b>							
UK quoted	186,598	50,000	-	-	(4,030)	-	232,568
<b>Equities</b>							
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
<b>Index linked securities (UK public sector quoted)</b>	<b>344,996</b>	<b>21,762</b>	<b>78</b>	<b>(200,833)</b>	<b>50,529</b>	<b>-</b>	<b>216,532</b>
<b>Property</b>							
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
<b>Private equity</b>							
UK unquoted	422	54	-	(17)	(295)	-	164
Overseas unquoted	211,611	50,386	-	(51,924)	27,742	-	237,815
<b>Infrastructure</b>							
UK unquoted	67,760	1,314	-	(284)	15,290	-	84,080
overseas unquoted	59,476	21,117	-	(4,711)	(987)	-	74,895
<b>Timber (Overseas unquoted)</b>	<b>34,705</b>	<b>12,767</b>	<b>-</b>	<b>(521)</b>	<b>2,106</b>	<b>-</b>	<b>49,057</b>
<b>Illiquid Debt</b>							
UK unquoted	-	24,000	-	-	442	-	24,442
Overseas unquoted	-	54,424	-	(11,419)	(4,118)	-	38,887
<b>Active currency (UK unquoted)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other managed funds</b>							
UK unquoted	185,029	74,799	-	(3,174)	(2,989)	-	253,665
Overseas unquoted	-	-	-	-	-	-	-
<b>Cash</b>							
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
	<b>4,297,363</b>	<b>640,080</b>	<b>(58,632)</b>	<b>(535,888)</b>	<b>567,785</b>	<b>16,302</b>	<b>4,927,010</b>
<b>Adjustments for</b>							
Transaction costs	-	(488)	-	(303)	791	-	-
Capitalised alternative asset management fees	-	(4,848)	-	-	4,848	-	-
	<b>4,297,363</b>	<b>634,744</b>	<b>(58,632)</b>	<b>(536,191)</b>	<b>573,424</b>	<b>16,302</b>	<b>4,927,010</b>
<b>Other investment balances</b>							
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)
<b>Derivative pending foreign currency contracts</b>							
Assets	4,282						22,902
Liabilities	(390)						(48,206)
	<b>4,310,238</b>						<b>4,906,153</b>

# Statement of Accounts - Pension Fund Accounts

2015/16	Value at 1 April 2015	2015/16 Movement					Value at 31 March 2016
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
<b>Fixed interest securities</b>							
UK quoted	232,568	-	-	-	2,918	-	235,486
<b>Equities</b>							
UK quoted	153,973	9,641	(1,694)	(36,200)	(5,693)	-	120,027
Overseas quoted	1,278,488	254,675	(98,301)	(209,200)	18,182	-	1,243,844
UK unit trusts	243,770	37,379	(3,388)	(9,603)	(4,344)	-	263,814
Overseas unit trusts	780,132	137,901	26,087	(142,342)	(7,756)	-	794,022
Global unit trusts	609,145	20,826	77,296	(3,281)	(1,588)	-	702,398
<b>Index linked securities (UK public sector quoted)</b>	216,532	45,558	111	(119,397)	1,565	-	144,369
<b>Property</b>							
UK properties (freehold)	240,745	33,166	-	(9,349)	20,008	-	284,570
UK properties (leasehold)	81,390	24	-	(9,855)	2,651	-	74,210
Property unit trusts	217,452	6,452	5,608	(25,845)	11,422	-	215,089
<b>Private equity</b>							
UK unquoted	164	-	-	(125)	-	-	39
Overseas unquoted	237,815	46,354	-	(69,855)	32,928	-	247,242
<b>Infrastructure</b>							
UK unquoted	84,080	1,330	-	(38,671)	13,985	-	60,724
overseas unquoted	74,895	23,204	-	(10,439)	13,701	-	101,361
<b>Timber (Overseas unquoted)</b>	49,057	19,134	-	(1,074)	10,558	-	77,675
<b>Illiquid Debt</b>							
UK unquoted	24,442	-	-	(69)	921	-	25,294
Overseas unquoted	38,887	12,564	-	(3,784)	3,744	-	51,411
<b>Active currency (UK unquoted)</b>	-	-	-	-	-	-	-
<b>Other managed funds</b>							
UK unquoted	253,665	5,648	-	(4,081)	(6,874)	-	248,358
Overseas unquoted	-	-	-	-	-	-	-
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	71,342	-	-	-	-	5,201	76,543
Foreign currency	38,468	-	-	62,688	(62,688)	1,681	40,149
	4,927,010	653,856	5,719	(630,482)	43,640	6,882	5,006,625
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	1,232						1,720
Investment income due	5,202						5,912
Liabilities							
Amounts payable for purchase of investments	(1,873)						(203)
Investment withholding tax payable	(114)						(150)
<b>Derivative pending foreign currency contracts</b>							
Assets	22,902						17,300
Liabilities	(48,206)						(35,744)
	4,906,153						4,995,460

# Statement of Accounts - Pension Fund Accounts

31 March 2015 £000		31 March 2016 £000
	<b>Fixed interest securities</b>	
232,568	UK quoted	235,486
	<b>Equities</b>	
153,973	UK quoted	120,027
1,278,488	Overseas quoted	1,243,844
243,770	UK unit trusts	263,814
780,132	Overseas unit trusts	794,022
609,145	Global Unit trusts	702,398
216,532	<b>Index linked securities:</b> UK public sector quoted	144,369
	<b>Property</b>	
240,745	UK properties (freehold)	284,570
81,390	UK properties (leasehold)	74,210
217,452	Property unit trusts	215,089
	<b>Private equity</b>	
164	UK unquoted	39
237,815	Overseas unquoted	247,242
	<b>Infrastructure</b>	
84,080	UK unquoted	60,724
74,895	Overseas unquoted	101,361
49,057	<b>Timber:</b> Overseas unquoted	77,675
	<b>Illiquid Debt</b>	
24,442	UK unquoted	25,294
38,887	Overseas unquoted	51,411
253,665	<b>Other managed funds:</b> UK unquoted	248,358
	<b>Derivative contracts</b>	
22,902	<b>Assets:</b> Derivative pending foreign currency contracts	17,300
(48,206)	<b>Liabilities:</b> Derivative pending foreign currency contracts	(35,744)
	<b>Cash deposits</b>	
	<b>Cash deposits held at custodian/other</b>	
71,342	Sterling	76,543
38,468	Foreign currency	40,149
4,901,706		4,988,181
	<b>Other investment balances</b>	
	<b>Assets</b>	
1,232	Amounts receivable for sales of investments	1,720
5,202	Investment income due	5,912
	<b>Liabilities</b>	
(1,873)	Amounts payable for purchase of investments	(203)
(114)	Investment withholding tax payable	(150)
4,906,153	<b>Value at 31 March</b>	4,995,460

# Statement of Accounts - Pension Fund Accounts

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

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

31 March 2015			31 March 2016		
£000	%		£000	%	
309,953	6.3	Legal & General FTSE RAFI AW 3000 Index	355,774	7.1%	
299,192	6.1	M&G Global Dividend Fund	346,624	6.9%	
342,702	6.9	Legal & General North America Equity Index	344,396	6.8%	
248,438	5.0	Legal & General Europe (Ex UK) Equity Index	257,839	5.1%	

## 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 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
UK QUOTED EQUITIES				
18,194	11.8%	Unilever plc Ord GBP0.031	20,188	16.8%
16,197	10.5%	WPP Plc Ord GBP0.10	16,255	13.5%
13,580	8.8%	Compass Group Ord GBP0.10	14,038	11.7%
12,829	8.3%	Lloyds Banking GP Ord GBP0.1	13,263	11.1%
7,169	4.7%	Sabmiller plc Ord050.10	7,592	6.3%
9,821	6.4%	Arm Holdings Ord GBP0.0005	7,224	6.0%
6,243	4.1%	Reckitt Benck GBP Ord GBP0.10	6,020	5.0%
12,650	8.2%	Imperial Tobacco GBP0.10	-	-
12,229	7.9%	Pearson Ord GBP0.25	-	-
8,186	5.3%	Burberry Group Ord GBP0.0005	-	-
UK INDEX LINKED BONDS				
11,088	5.1%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	5,782	4.0%
PROPERTY				
23,950	7.4%	Canning Town Business Park, London	26,900	7.5%
20,000	6.2%	48-49 Chancery Lane, London	21,950	6.1%

# Statement of Accounts - Pension Fund Accounts

31 March 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
34,217	15.7%	Aviva Investors Property Fund	34,388	16.0%
16,034	7.4%	Industrial Property Investment Fund	19,616	9.1%
17,791	8.2%	Blackrock UK Property Fund	18,846	8.8%
14,754	6.8%	Standard Life Property Fund Closed	16,174	7.5%
8,291	3.8%	Airport Industrial Fund	14,756	6.9%
14,708	6.8%	Lothbury Property Fund	14,726	6.8%
13,559	6.2%	Standard Life UK Shopping Centre	13,986	6.5%
12,187	5.6%	Unite UK Student Accomodation Fund	13,679	6.4%
11,734	5.4%	Henderson UK Retail Warehouse Fund	12,020	5.6%
INFRASTRUCTURE				
84,080	52.9%	Infracapital Partners	60,724	37.5%
46,182	29.1%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	50,068	30.9%
18,634	11.7%	Partners Group Global Infrastructure 2012 LP	31,948	19.7%
10,079	6.3%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	14,513	9.0%
TIMBER				
38,814	79.1%	Stafford International Timberland VI Fund LP	47,405	61.0%
10,243	20.9%	Stafford International Timberland VII Fund (No 2) LP	30,270	39.0%
ILLIQUID DEBT				
38,887	61.4%	Clareant (formerly Alcentra) European DLF Investor Feeder (No.2)	51,412	67.0%
24,443	38.6%	Alcentra Global Multi-Credit Solutions Class IV A GBP	25,294	33.0%
OTHER MANAGED FUNDS				
238,436	94.0%	M&G Alpha Opportunities Fund	237,654	95.7%
CASH				
44,256	40.3%	BNP Paribas Investment Partners GBP	36,360	31.2%
24,347	22.2%	Northern Trust Liquidity Fund GBP	29,730	25.5%
25,934	23.6%	Northern Trust Liquidity Fund US\$	22,334	19.1%
6,355	5.8%	BNP Paribas Investment Partners EURO	-	-

## 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.

# Statement of Accounts - Pension Fund Accounts

## 11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2016 and 31 March 2015.

## 11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **63.9%** of the Fund's NAS is in overseas assets as at 31 March 2016 (31 March 2015: 62.2%).

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	28,380	GBP	15,073	116	-	116
Up to one month	CAD	24,175	GBP	12,880	123	-	123
Up to one month	CHF	28,689	GBP	20,793	50	-	50
Up to one month	EUR	81,608	GBP	64,460	242	-	242
Up to one month	GBP	13,491	AUD	28,388	-	(1,702)	(1,702)
Up to one month	GBP	11,605	CAD	24,175	-	(1,398)	(1,398)
Up to one month	GBP	19,408	CHF	28,689	-	(1,435)	(1,435)
Up to one month	GBP	76,654	EUR	104,265	-	(6,018)	(6,018)
Up to one month	GBP	33,840	JPY	6,104,120	-	(3,946)	(3,946)
Up to one month	GBP	6,075	SEK	77,074	-	(540)	(540)
Up to one month	GBP	282,414	USD	421,526	-	(10,863)	(10,863)
Up to one month	GBP	-	ZAR	9	-	-	-
Up to one month	JPY	6,104,120	GBP	38,380	-	(594)	(594)
Up to one month	SEK	77,074	GBP	6,568	47	-	47
Up to one month	USD	421,526	GBP	298,081	-	(4,805)	(4,805)
							-
One to six months	GBP	39,775	AUD	77,717	-	(1,684)	(1,684)
One to six months	GBP	34,466	CAD	66,568	-	(1,335)	(1,335)
One to six months	GBP	53,427	CHF	74,174	-	(615)	(615)
One to six months	GBP	203,578	EUR	260,131	-	(3,028)	(3,028)
One to six months	GBP	142,753	JPY	22,848,727	1,081	-	1,081
One to six months	GBP	21,505	SEK	256,012	-	(512)	(512)
One to six months	GBP	902,202	USD	1,270,596	18,372		18,372
<b>Open forward currency contracts at 31 March 2016</b>					<b>20,031</b>	<b>(38,475)</b>	<b>(18,444)</b>
<b>Open forward currency contracts at 31 March 2015</b>					<b>11,970</b>	<b>(37,274)</b>	<b>(25,304)</b>

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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.

### 12.1 Reconciliation of movements in AVC investments

2014/15 £000		2015/16 £000
5,655	Value of AVC fund at beginning of year	6,178
662	Employees contributions	655
592	Investment income and change in market value	(27)
(731)	Benefits paid and transfers out	(969)
<u>6,178</u>		<u>5,837</u>

### 12.2 Analysis of AVC investments by Provider

2014/15 £000		2015/16 £000
160	Equitable Life	131
389	Prudential	718
5,629	Standard Life	4,988
<u>6,178</u>		<u>5,837</u>



# Statement of Accounts - Pension Fund Accounts

## 13. Current assets and liabilities

### 13.1 Analysis of current assets

31 March 2015 £000		31 March 2016 £000      £000	
<b>Cash Balances</b>			
2,457	Cash at bank	788	
11,510	Cash on short term deposits within 3 months	25,523	
13,967			26,311
<b>Debtors and payments in advance</b>			
3,774	Contributions due – employees	3,784	
11,823	Contributions due – employers	13,398	
547	Sundry debtors	487	
16,144			17,669
30,111	<b>Total</b>		43,980

### 13.2 Analysis of debtors

31 March 2015			31 March 2016		
Short term £000	Long term £000		Short term £000	Long term £000	
3,243	6,309	Central Government	3,505	5,058	
11,274	77	Other Local Authorities	11,412	24	
42	-	NHS Bodies	29	-	
860	70	Public Funded Bodies	2,033	114	
725	-	Other	690	-	
16,144	6,456	<b>Total</b>	17,669	5,196	

### 13.3 Analysis of long term debtors

31 March 2015		31 March 2016
£000		£000
157	Financial strain instalments due	83
6,299	Other employer contributions due	5,113
6,456	<b>Total</b>	5,196

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## 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 2015 £000		31 March 2016 £000
	<b>Unpaid benefits and other current liabilities</b>	
(715)	Contributions due – employers	(193)
(3,168)	Investment manager fees payable	(3,037)
(4,572)	Benefits payable	(4,091)
(1,642)	Other	(211)
<u>(10,097)</u>	<b>Total</b>	<u>(7,532)</u>

## 13.6 Analysis of creditors

31 March 2015 £000		31 March 2016 £000
	<b>Creditors and receipts in advance</b>	
(261)	Central Government	(111)
(3,932)	Other Local Authorities	(1,399)
(109)	NHS Bodies	(2)
(590)	Public Funded Bodies	(851)
(5,205)	Other	(5,169)
<u>(10,097)</u>	<b>Total</b>	<u>(7,532)</u>

## 13.7 Contingent liabilities and contractual commitments

As at 31 March 2016, the Fund had a commitment to contribute a further **£479.2m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2015: £300.7m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

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## 14. Taxes on income

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

2014/15 £000		2015/16 £000
551	UK withholding tax	560
2,077	Overseas withholding tax	3,157
102	Payment to HMRC in respect of returned contributions	117
<u>2,730</u>		<u>3,834</u>

## 15. Related party transactions

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

### 15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.214m** in 2015/16 (2014/15: £1.702m) 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 **£50.956m** to the Fund in 2015/16 (2014/15: **£50.185m**). 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 Strategy Board on **23 March 2016**. This service is provided to the Fund at a cost of **£26,000** (2014/15: £26,000).

During the year to 31 March 2016, the Pension Fund had an average investment balance of **£27.089m** (2014/15: £20.096m) earning **£143,000** interest (2014/15: £108,000).

### 15.2 Governance

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

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

## 15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under 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 2015/16, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ S. Child	▪ Cllr N. J. Hume
Representative of scheme employers	▪ Cllr S. Barker
▪ C. Riley	▪ Cllr J. Whitehouse *
Representatives of small employing bodies	▪ Cllr K. Bobbin *
▪ J. Moore	▪ Cllr M. Mackrory *

*\* Membership relates to non councillor service.*

From 1 April 2015 pension funds were required to establish a local Pensions Board under section 5 of the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations 2013. Members of this Board, (Essex Pension Fund Advisory Board) who, during 2015/16, were also members of the LGPS are listed below:

Representative of scheme employers	Representative of scheme members
▪ J. Durrant	▪ K. Flowers
▪ Cllr B. Johnson	▪ P. Hewitt
▪ Cllr S. Walsh	▪ J. Hunt
	▪ M. Paget

As at 31 March 2016 Keith Neale, independent investment adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year. Keith Neale ceased his role as independent investment adviser at the end of July 2015.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2015/16 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2015/16 approximately **2%** (2014/15: 2%) of the Executive Director for Corporate and Customer Services time was spent on the Pension Fund. Other officers spending 100% of their time in

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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 2015/16 was **£164,000** (2014/15: £161,000). The 2015/16 current service cost in respect of these personnel was **£75,000** (2014/15: £63,000). 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. Agency Services

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

The sums are disclosed below:

2014/15 £000		2015/16 £000
1,604	Administering Authority	1,554
5,616	Scheduled Bodies	5,509
-	Admitted Bodies	-
150	Community Admission Bodies	152
1	Transferree Admission Bodies	1
2	Resolution Bodies	2
29	Former employers	22
<b>7,402</b>	<b>Total</b>	<b>7,240</b>

## 17. Financial Instruments

### 17.1 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.

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31 March 2015			31 March 2016			
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Asset type	Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets						
232,568	-	-	Fixed interest securities	235,486	-	-
3,065,508	-	-	Equities	3,124,105	-	-
216,532	-	-	Index linked securities	144,369	-	-
217,452	-	-	Pooled unit trusts	215,089	-	-
237,979	-	-	Private equity	247,281	-	-
148,896	-	-	Infrastructure	143,049	-	-
49,057	-	-	Timber	77,675	-	-
24,442	-	-	Illiquid debt	25,293	-	-
253,665	-	-	Other managed funds	248,358	-	-
22,902	-	-	Derivative contracts	17,300	-	-
-	123,777	-	Cash deposits	-	143,003	-
6,434	-	-	Other investment balances	7,632	-	-
-	-	-	Debtors	-	-	-
4,475,435	123,777	-		4,485,637	143,003	-
Financial liabilities						
(48,206)	-	-	Derivative contracts	(35,744)	-	-
(1,987)	-	-	Other investments balances	(353)	-	-
-	-	(3,168)	Creditors	-	-	(3,037)
(50,193)	-	(3,168)		(36,097)	-	(3,037)
4,425,242	123,777	(3,168)	Balance at the end of the year	4,449,540	143,003	(3,037)
4,545,851			Total	4,589,506		

## 17.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2015 £000		Asset value as at 31 Mar 2016 £000
	<b>Financial assets</b>	
576,632	Fair value through profit and loss	75,863
(25,006)	Loans and receivables	(62,688)
<hr/> 551,626	<b>Total</b>	<hr/> 13,175

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## 17.3 Fair value of financial instruments and liabilities

31 March 2015		31 March 2016	
Carry value	Fair value	Carry value	Fair value
£000	£000	£000	£000
		<b>Financial assets</b>	
4,475,435	4,475,435	4,485,637	4,485,637
123,777	123,777	143,003	143,003
4,599,212	4,599,212	4,628,640	4,628,640
		<b>Financial liabilities</b>	
(50,193)	(50,193)	(36,097)	(36,097)
(3,168)	(3,168)	(3,037)	(3,037)
(53,361)	(53,361)	(39,134)	(39,134)
4,545,851	4,545,851	4,589,506	4,589,506
<b>Total net financial assets</b>			

## 17.4 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.
- **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.

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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 2015				Values as at 31 March 2016			
Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Quoted	Using	Significant		Quoted	Using	Significant	
market	observable	unobservable		market	observable	unobservable	
prices	inputs	inputs		prices	inputs	inputs	
£000	£000	£000		£000	£000	£000	
<b>Financial assets</b>							
3,543,944	471,117	460,374	Fair value through profit and loss	3,528,892	463,447	493,298	
123,777	-	-	Loans and receivables	143,003	-	-	
3,667,721	471,117	460,374		3,671,895	463,447	493,298	
<b>Financial liabilities</b>							
(50,193)	-	-	Fair value through profit and loss	(36,097)	-	-	
(3,168)	-	-	Financial liabilities measured at amortised cost	(3,037)	-	-	
(53,361)	-	-		(39,134)	-	-	
3,614,360	471,117	460,374	<b>Total net assets per level</b>	3,632,761	463,447	493,298	
		4,545,851	<b>Total Net Assets</b>			4,589,506	

## 18. Nature and extent of risks arising

### 18.1 Risk and risk management

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

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



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## 18.2 Market risk

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

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

## 18.3 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.

## 18.4 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 2015/16.

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.

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31st March 2015 Potential Market movement %	Asset type	31st March 2016 Potential Market movement %
9.2%	UK bonds	9.2%
17.0%	UK equities	18.0%
21.0%	Overseas equities	21.0%
7.0%	UK index linked bonds	7.0%
15.0%	Pooled property unit trusts	15.0%
29.0%	Private equity	29.0%
15.0%	Infrastructure funds	15.0%
15.0%	Timber	15.0%
14.0%	Illiquid debt	14.0%
15.0%	Property	15.0%
1.0%	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 2015 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2016 £000	Percentage change %	Value increase £000	Value decrease £000
109,810	1.0%	110,908	108,712	Cash and equivalents	116,692	1.0%	117,859	115,525
				Investment portfolio assets				
232,568	9.2%	253,964	211,172	UK bonds	235,486	9.2%	257,151	213,821
153,973	17.0%	180,148	127,798	UK equities	120,027	18.0%	141,632	98,422
1,278,488	21.0%	1,546,970	1,010,006	Overseas equities	1,243,844	21.0%	1,505,051	982,637
243,770	17.0%	285,211	202,329	UK equities unit trusts	263,814	18.0%	311,301	216,327
780,132	21.0%	943,960	616,304	Overseas equities unit trusts	794,022	21.0%	960,767	627,277
609,145	21.0%	737,065	481,225	Global unit trusts	702,398	21.0%	849,902	554,894
216,532	7.0%	231,689	201,375	UK index linked bonds	144,369	7.0%	154,475	134,263
217,452	15.0%	250,070	184,834	Pooled property unit trusts	215,089	15.0%	247,352	182,826
237,979	29.0%	306,993	168,965	Private equity	247,281	29.0%	318,992	175,570
158,975	15.0%	182,821	135,129	Infrastructure	162,085	15.0%	186,398	137,772
49,057	15.0%	56,416	41,698	Timber	77,675	15.0%	89,326	66,024
63,329	14.0%	72,195	54,463	Illiquid Debt	76,705	14.0%	87,444	65,966
253,665	15.0%	291,715	215,615	Other managed funds	248,358	15.0%	285,612	211,104
322,135	15.0%	370,455	273,815	Property	358,780	15.0%	412,597	304,963
(25,304)	-	(25,304)	(25,304)	Net derivative assets	(18,444)	-	(18,444)	(18,444)
5,202	-	5,202	5,202	Investment income due	5,912	-	5,912	5,912
(114)	-	(114)	(114)	WHT payable	(150)	-	(150)	(150)
1,232	-	1,232	1,232	Amounts receivable for sales	1,720	-	1,720	1,720
(1,873)	-	(1,873)	(1,873)	Amounts payable for purchases	(203)	-	(203)	(203)
4,906,153		5,799,723	4,012,583	Total assets available to pay benefits	4,995,460		5,914,694	4,076,226

## 18.5 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.

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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.

## 18.6 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 and General and bond mandates with MandG Investments (MandG) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. During 2015/16, 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 2015 £000	Asset type	Asset value as at 31 Mar 2016 £000
109,810	Cash and cash equivalents	116,692
13,967	Cash balances	26,311
232,568	Fixed interest securities	235,486
216,532	Index-linked securities	144,369
63,329	Illiquid debt	76,705
636,206	<b>Total assets</b>	<b>599,563</b>

## 18.7 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.

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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 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
109,810	1,098	(1,098)	Cash and cash equivalents	116,692	1,167	(1,167)
13,967	140	(140)	Cash balances	26,311	263	(263)
232,568	2,326	(2,326)	Fixed interest securities	235,486	2,355	(2,355)
216,532	2,165	(2,165)	Index-linked securities	144,369	1,444	(1,444)
63,329	633	(633)	Illiquid debt	76,705	767	(767)
636,206	6,362	(6,362)	<b>Total change in assets available</b>	599,563	5,996	(5,996)

## 18.8 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.

The following table summarises the Fund's currency exposure as at 31 March 2016 and prior year:

31 Mar 2015 £000	Asset type	31 Mar 2016 £000
1,278,488	Overseas equities quoted	1,243,844
780,132	Overseas unit trusts	794,022
609,145	Global unit trusts	702,398
237,815	Overseas private equity	247,242
74,895	Overseas infrastructure	101,361
49,057	Overseas timber	77,675
38,887	Overseas illiquid debt	51,411
<b>3,068,419</b>	<b>Total overseas assets</b>	<b>3,217,953</b>

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## 18.9 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%** (2014/15: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2014/15: 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 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,278,488	1,444,691	1,112,285	Overseas equities quoted	1,243,844	1,405,544	1,082,144
780,132	881,549	678,715	Overseas unit trusts	794,022	897,245	690,799
609,145	688,334	529,956	Global unit trusts	702,398	793,710	611,086
237,815	268,731	206,899	Overseas private equity	247,242	279,383	215,101
74,895	84,631	65,159	Overseas infrastructure	101,361	114,538	88,184
49,057	55,434	42,680	Overseas timber	77,675	87,773	67,577
38,887	43,942	33,832	Overseas illiquid debt	51,411	58,094	44,728
<b>3,068,419</b>	<b>3,467,312</b>	<b>2,669,526</b>	<b>Total change in assets available</b>	<b>3,217,953</b>	<b>3,636,287</b>	<b>2,799,619</b>

## 18.10 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.

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.

## 18.11 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.

# Statement of Accounts - Pension Fund Accounts

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 2016 is provided in Note 13.

## 18.12 Forward currency contracts

Forward currency contracts are undertaken by Legal and 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 2016 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 and Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

Exposure at 31 March 2015		Counterparty	Exposure at 31 March 2016	
£000	%		£000	%
30,230	1.3%	Barclays Capital	-	-
-	-	BNP Paribas Capital Markets	40,156	1.8%
269,359	11.6%	Citigroup	123,342	5.4%
42,407	1.8%	Australian Commonwealth Bank	-	-
81,717	3.5%	Deutsche Bank AG	136,249	6.0%
273,907	11.8%	HSBC	301,887	13.2%
177,445	7.6%	J P Morgan Securities	137,876	6.1%
118,496	5.1%	Lloyds	406,036	17.8%
203,107	8.7%	Merrill Lynch	177,099	7.8%
258,906	11.2%	Morgan Stanley	128,820	5.6%
100,383	4.3%	RBC Europe	844	0.0%
203,380	8.8%	RBS	168,668	7.4%
26,538	1.1%	SEB	-	-
273,547	11.8%	SG Securities	-	-
12,769	0.6%	Standard Chartered	259,625	11.4%
120,580	5.2%	UBS	137,649	6.0%
129,012	5.6%	Westpac Bank Corp	261,879	11.5%
2,321,783	100.0%	<b>Total</b>	<b>2,280,130</b>	<b>100.0%</b>

# Statement of Accounts - Pension Fund Accounts

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## 18.13 Futures

There were no open future contracts as at 31<sup>st</sup> March 2015 or 31st March 2016.

## 18.14 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 and General, the Fund has two active bond managers MandG and GSAM. The former also manage a financing fund.

Both MandG and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2016, the average credit quality of the MandG bond mandate was **BBB+** rated (**A-** rated as at 31 March 2015). 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 2016 (**BB+** rated as at 31 March 2015), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2016 had an average credit quality of **AA+** (**A-** rated as at 31 March 2015) and has suffered five defaults since inception, three occurring in 2015/16 and two occurring 2011/12.

## 18.15 Cash held on deposit and current accounts

**Cash managed internally** – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (**A** in 2014/15) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the 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 2016 **£26.311m** (31 March 2015: £13.967m) 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 2016, the total balance held in the Sterling and US dollar AAA money market funds was **£88.424m** with a smaller balance of **£28.268m** held in the custodian current account (31 March 2015: £103.584m and £6.226m respectively). The use of a money market fund provides an underlying

# Statement of Accounts - Pension Fund Accounts

diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

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

31 March 2015			31 March 2016		
Rating	£000		Rating	£000	
		<b>Cash managed externally</b>			
		Cash held on deposit (GLF)			
AAA	53,303	BNP Paribas	AAA	36,360	
AAA	50,281	Northern Trust	AAA	52,064	
		Cash held in Current Account			
AA-	6,226	Northern Trust	AA-	28,268	
	109,810	<b>Total cash managed externally</b>		116,692	
		<b>Cash managed internally</b>			
		Cash held on deposit			
AAA	-	Blackrock	AAA	3,002	
AA-	7,508	HSBC	AA-	7,508	
AAA	2	Standard Life (formerly IGNIS)	AAA	10,004	
AA-	4,000	Svenska Handelsbanken	AA-	5,009	
		Cash held in Current Account			
A	2,457	Lloyds Bank plc	A	788	
	13,967	<b>Total cash managed internally</b>		26,311	
	123,777	<b>Total</b>		143,003	



# Statement of Accounts - Pension Fund Accounts

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

31 March 2015		31 March 2016	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
<b>Cash managed externally</b>					
Deposit with bank and other financial institutions					
103,584	AAA Rated	88,424	80,000	0.0370%	33
6,226	AA Rated	28,268	N/A	0.0320%	9
109,810	<b>Total cash managed externally</b>	116,692			42
<b>Cash managed internally</b>					
Deposit with bank and other financial institutions					
2	AAA Rated	13,006	10,000	0.0370%	5
11,508	AA Rated	12,517	7,500	0.0320%	4
2,457	A Rated	788	5,000	0.0810%	1
13,967	<b>Total cash managed internally</b>	26,311			10
123,777	<b>Total cash</b>	143,003			52

## 18.16 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 **22 February 2016, 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 2016 had immediate access to its pension fund cash holdings held internally and externally of **£143.003m** (31 March 2015: £123.777m). These monies are primarily invested on an overnight basis on the money market.

# Statement of Accounts - Pension Fund Accounts

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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.

## 18.17 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.

## 18.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2016 Northern Trust had **\$6.20 trillion** of assets under custody (31 March 2015: \$6.09 trillion) and had a credit rating of **AA-** (31 March 2015: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

## 18.19 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.

## 19. Further information

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

Director for Essex Pension Fund  
County Hall  
Chelmsford  
CM1 1LX

Telephone 03330 138501

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



<b>Essex Pension Fund Board</b>	<b>EPB/15/15</b>
<b>date: 13 July 2016</b>	

## **Essex Pension Fund Board Annual Report**

Report by Secretary to the Board

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Enquiries to Ian Myers, 01245 430481, ext 20481

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

- 1.1 To note the Board's 2015/16 Annual Report (attached as Appendix A) which is due to be considered by the Council on 12 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 2015/16 be noted.



# **Essex Pension Fund Board**

# **Annual Report 2015/16**

**July 2016**

## **1. Introduction**

This is the seventh Annual Report of the Essex Pension Fund Board(s), covering the period from 1 April 2015 until 31 March 2016.

On 28 January 2015, new regulations were laid before Parliament which required the Council to establish a Local Pension Advisory Board by 1 April 2015. A statutory body, the Essex Pension Fund Advisory Board does not have decision-making powers. The Board does not replace the existing decision-making structure of the Essex Pension Fund. Management of the Essex Pension Fund is delegated to two bodies:

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

A Pension Advisory Board (PAB) with stakeholder representation was one of the recommendations of Lord Hutton's 2011 report of the Independent Public Services Pension Commission. This was followed by the Public Service Pension Act 2013 and the LGPS Regulations laid at the end of January 2015.

## **2. Roles and Functions**

### **Essex Pension Fund Strategy Board**

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 four times during the period covered by this report: on 8 July, 16 September and 16 December 2015 and 16 March 2016.

## **Membership**

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

The membership of the Board as at 31 March 2016 was as follows:

### **Essex County Council (7)**

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

### **District/City/Borough Councils in Essex (1)**

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

Councillor Ronald Woodley	Southend-on-Sea
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### **Scheme Members (nominated by UNISON) (1)**

Mrs S Child

### **Smaller Employing Bodies (1)**

Mrs Jenny Moore



## **Essex Pension Fund Advisory Board**

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

The Board has the following remit:

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

## **Membership**

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

The membership of the Advisory Board as at 31 March 2016 was as follows:

### **Employer Representatives (4)**

Keith Flowers	Chelmsford City Council
Paul Hewitt	Deferred Member
Jenny Hunt	Deferred member
Mark Paget	Essex County Council

#### **Scheme Representatives (4)**

James Durrant	Essex Fire Authority
Cllr John Galley	Chelmsford City Council
Cllr Barry Johnson	Thurrock Council
Cllr Simon Walsh	Essex County Council

#### **Independent Chairman (1)**

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

Based on the draft accounts, as at 31 March 2016 the value of the Fund's assets was £5.037 billion.

The total value of pensions paid during 2015/16 was £177.5m, together with other benefits totalling £38.3m.

The total number of beneficiaries are as follows:

	<b>2015</b>	<b>2016*</b>
Contributors	50,965	61,543
Deferred Pensioners	44,038	47,041
Pensioners	35,455	37,666
Total	130,458	146,250

\*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 640 separate Employing Bodies, including:

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

### **4. LGPS Asset Pooling Arrangements**

A significant amount of work has been undertaken in relation to the Government's pooling agenda. The key milestones reached, and the major stages later in 2016 are set out in the paragraphs below.

In the July 2015 budget the Chancellor announced the following:

*2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.*

During the autumn, Fund officers were involved in a collaboration (known as Project POOL) which involved over 30 LGPS Funds. Regular updates were given to the Investment Steering Committee and Pension Strategy Board, and the final report was published in January 2016.

With the Autumn statement in November 2015, DCLG issued the following criteria for pooling:

- asset pools that achieve the benefits of **scale** (minimum size £25bn as at 31 march 2015 values)
- strong **governance** & decision making
- reduced **costs** and excellent value for money
- improved capacity to invest in **infrastructure**

Initial proposals were required in February with detailed submissions to be submitted by 15 July 2016.

At the start of the year meetings took place firstly amongst officers, subsequently amongst Fund Chairmen, around the possibility of forming an asset pool consisting of Funds in East Anglia and the South East. This became known as ACCESS (A Collaboration of Central, Eastern & Southern Shires). These meetings agreed a set of principles and involved the following Council's LGPS Funds (March 2015 values):

Authority	£b
Cambridgeshire County Council	2.27
East Sussex County Council	2.74
Essex County Council	4.91
Hampshire County Council	5.11
Hertfordshire County Council	3.53
Isle of Wight Council	0.48
Kent County Council	4.52
Norfolk County Council	2.93
Northamptonshire County Council	1.85
Suffolk County Council	2.19
West Sussex County Council	2.96
<b>Total</b>	<b>33.42</b>

At its meeting on 22 February, the Investment Steering Committee agreed that the Fund be a joint signatory to the ACCESS initial proposal. Meetings of the Chairmen of each ACCESS Fund have continued to take place on a monthly basis. These have enabled the Chairmen to:

- consider the Government's response to the February proposal, and an exchange of letters with the Minister took place in April; and
- review progress and give direction to the work undertaken by officers from the ACCESS Funds.

Central to the focus of this work has been consideration of the form of structure that the ACCESS pool will adopt. Whilst the initial preference had been for a Regulated Investment Management Company, developments in May followed by discussions with legal advisers Eversheds, led to the Chairmen agreeing to the pursuing a Collective Investment Vehicle (CIV).

A detailed submission to Government for the July deadline has been drafted and will be considered by the PSB at its meeting on 13 July 2016.

Further work on the Collective Investment Vehicle is planned over the summer, and proposals are expected to be presented to Funds in the autumn as details of the pool's structure are finalised.

It is the intention that decision to formalise Essex's participation in the finalised ACCESS structure is brought to a future meeting of Council.

## **5. Work of the Pension Strategy Board**

In addition The following major issues were considered by the Board between 1 April 2015 and 31 March 2016.

### **Interim Actuarial Review**

Every three years the Fund is required to commission a full actuarial Valuation by an Independent Actuary. The 2016/17 valuation is currently underway and revised employer contributions will apply from 1 April 2017.

In preparation for the forthcoming triennial Valuation, the Pension Strategy Board received interim reviews at meetings in September 2015 and March 2016.

The Board noted that since the publication of the 2013 Valuations, work had been undertaken by the Government Actuary's Department on behalf of the national Scheme Advisory Board to analyse all Valuations across each of the 89 LGPS Funds in England & Wales using a standard (as opposed to Fund specific) set of assumptions.

It was also noted that changes were announced in the Chancellor's March 2016 budget to the discount rate applicable to unfunded public sector schemes from 2019. Although the LGPS is a funded (as opposed to unfunded) scheme it is possible that the revised rate influences GAD's expectations of LGPS assumptions to be used later in 2016.

The Fund's investment performance in the three years 1 April 2013 – 31 March 2016 was 8.8% per annum. Whilst progress had been made on the 2013 funding level of 80%, it is acknowledged that the factors highlighted in the paragraphs above will form part of the likely background against which the 2016 Valuation unfolds.

The Pension Strategy Board expects to receive the overall Fund level indicative result in September 2016.

### **HM Treasury consultation on a proposed exit payment cap**

On 31 July 2015 the HM Treasury issued a consultation on a proposed £95,000 cap on payments to exiting public sector employees. The four week consultation period closed on 27 August 2015.

The key concern with the proposal centred on financial strain payments made by employers to LGPS Funds.

When an employer agrees to a retiring employee receiving early payment of their LGPS benefits, a financial strain (sometimes known as "actuarial strain") is payable to the Pension Fund. This most often occurs if an employee is made redundant or leaves on efficiency grounds and is age 55 or over, the LGPS regulations provide the member with immediate payment of their benefits. Financial strain is paid by the employer to the LGPS Fund. These are not payments to existing employees yet their inclusion within the cap's definition raises issues for both Pension Funds, and employers facing future restructuring exercises.

In the absence of a PSB meeting during the consultation period, the key theme of the response was discussed and agreed with both Councillor Bass, Chairman of the Strategy Board and Margaret Lee Section 151 Officer for both Essex County Council and the Essex Pension Fund

### **Year-end data submissions and Annual Benefit Statements**

The Board noted plans for the 2015/16 year-end data submissions and Annual Benefit Statements exercise and were asked to approve a charging policy for late 2015/16 year-end data return submissions.

At its December 2014 meeting the Board received a report on year-end data submissions, the issues caused by late submissions by employers given the requirement to send out annual benefit statements by 31 August and HMRC

annual allowance requirements. As a result the Board agreed a policy which enabled a charge of £250 to be issued to employers who neither provided the data on time nor engaged with the Fund.

At its July 2015 meeting the Board received a further report on the progress of the 2014/15 year-end data exercise and the anticipated impact on the issue of annual benefit statements to all active members by the statutory deadline of 31 August. Members agreed a target for 95% of active members to receive their annual benefit statements by the 31 August statutory deadline.

The 2014/15 year-end data exercise did not go as smoothly as had been hoped, despite the introduction of the £250 charge for employers not engaging with the Fund. Members agreed this had not been a sufficient deterrent for employers and a revised approach to this was needed for 2015/16. Therefore it was agreed charges would apply to returns up to one month late and thereafter doubled and further infringements would be reported to the Strategy Board. Any charges levied against the Fund by the Pension Regulator due to specific Employers non-compliance of provision of statutory data will be passed on.

### **Other Issues**

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

- Quarterly reports on the work of the Essex Pension Fund Investment Steering Committee
- The Essex Pension Fund Audit Plan which described the approach to be adopted for the external audit of the 2014/15 Essex Pension Fund Accounts
- Reports from Internal Audit regarding the control environment of the Pension Fund and Administration.
- A review of the Governance Policy & Compliance Statement.
- A review of the Communications Policy.

## **7. Member Training**

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

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

Member training is predominately delivered within the Board meetings.

## **8. Three-Year Business Plan**

The Strategy 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.

Cllr Rodney L Bass  
Chairman of the Essex Pension Strategy Board and of the ISC.

Cllr Rodney L Bass CC  
Cabinet Member for Infrastructure  
Essex County Council

**AGENDA ITEM 14**

<b>Essex Pension Fund Board</b>	<b>EPB/18/16</b>
<b>date: 13 July 2016</b>	

**Annual Review of Member Attendance**

Report by the Secretary to the Board

Enquiries to Ian Myers on 03330134575

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**1. Purpose of the Report**

- 1.1 To detail members' attendance at Board meetings for the period 1 July 2015 to 30 June 2016.

**2. Recommendation.**

- 2.1 That the attendance of members at Essex Pension Fund Strategy Board as shown in the Annexes to this report, be noted.





Essex Pension Fund Strategy Board Attendance							
Event	Board meetings and internal training - 1 July 2015 to 30 June 2016				Attendance		
	08-Jul Board	16-Sep Board	16-Dec Board	16-Mar Board	Possible and/or Required	Actual	%
<b>ECC</b>							
R Bass	✓	✓	✓	✓	4	4	100%
N Hume	✓	✓	✓		4	3	75%
S Barker	✓	✓	✓	✓	4	4	100%
S Canning	✓		✓		4	2	50%
K Clempner	✓	✓	✓	✓	4	4	100%
N LeGresley	✓	✓	✓	✓	4	4	100%
J Whitehouse	✓		✓	✓	4	3	75%
M Mackrory (sub)							
J Spence (sub)				✓	1	1	100%
K Bobbin (sub)	✓			✓	2	2	100%
J Huntman (sub)							
<b>District/Borough Councils</b>							
C Riley	✓	✓	✓	✓	4	4	100%
<b>Unitary Councils</b>							
R Woodley					4	0	0%
<b>Smaller Employing Bodies</b>							
J Moore	✓	✓	✓	✓	4	4	100%
<b>Scheme Members</b>							
<b>S Child</b>				✓	1	1	100%
K Blackburn	✓	✓			3	2	67%

