

# Essex Pension Fund Strategy Board

<b>14:00</b>	<b>Wednesday, 16 September 2015</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  
Mr K Blackburn  
Ms J Moore

**Representing**

Essex County Council (Chairman)  
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</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>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</b>	<b>Minutes</b>	<b>7 - 12</b>
<b>4</b>	<b>Membership of the Pension Advisory Board</b> To note a report from the Director for Essex Pension Fund	<b>13 - 14</b>
<b>5</b>	<b>LGPS Benefit Structure</b> To receive a presentation by the Communications Manager on the LGPS benefit structure	
<b>6</b>	<b>Interim Review: 31 March 2015</b> To consider a joint report by the Fund Actuary and the Director for Essex Pension Fund	<b>15 - 34</b>
<b>7</b>	<b>LGPS Reform</b> To note a report from the Director for Essex Pension Fund	<b>35 - 46</b>
<b>8</b>	<b>HM Treasury consultation on Exit Payment Cap</b> To note a report by the Director for Essex Pension Fund	<b>47 - 56</b>
<b>9</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>57 - 62</b>
<b>9A(i)</b>	<b>2015/16 Business Plan</b>	<b>63 - 70</b>
<b>9A(ii)</b>	<b>Three Year Business Plan</b>	<b>71 - 72</b>
<b>9B</b>	<b>Risk Management - Risk Register</b>	<b>73 - 74</b>

<b>9C</b>	<b>Measurement against Fund Objectives - Scorecard</b>	<b>75 - 98</b>
<b>10</b>	<b>Investment Steering Committee (ISC) Quarterly Report</b> To note a report by the Director for Essex Pension Fund	<b>99 - 102</b>
<b>11</b>	<b>Knowledge and Skills Training Strategy</b> To consider a report from the Independent Governance & Administration Adviser	<b>103 - 120</b>
<b>12</b>	<b>Essex Pension Fund 2014/15 Accounts</b> To note a report by the Executive Director for Corporate and Customer Services	<b>121 - 170</b>
<b>13</b>	<b>External Auditors Report</b> To note a report by EY, External Auditors of the Essex Pension Fund	<b>171 - 188</b>
<b>14</b>	<b>Date of Next Meeting</b> To note that the next meeting will be held at 2.00pm on Wednesday 9 December 2015 in Committee Room 2.	
<b>15</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.

**16**

**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.



**Minutes of a meeting of the Essex Pension Strategy Board held at 2.00 pm  
at County Hall, Chelmsford on 8 July 2015**

Present:

**Member**

**Essex County Council**

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

**District/Borough Councils in Essex**

Cllr C Riley

**Unitary Councils**

**Scheme Members**

Keith Blackburn

**Smaller Employing  
Bodies**

J Moore

Also in attendance were Cllr K Bobbin (Labour Group Sub) and Cllr S Walsh (Member of the Pension Advisory Board)

The following officers and advisers were also present in support:

Samantha Andrews	Investment Manager
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)
Sara Maxey	Employer Relationship Manager
Ian Myers	Secretary to the Board
David Tucker	Employer Liaison Manager Essex Pension Fund

**1. Appointment of Chairman and Vice Chairman**

Members were informed that Cllr Rodney Bass had been re-appointed Chairman of the Essex Pension Strategy Board and Investment Steering Committee with Cllr Norman Hume Vice-Chairman.

Cllr Bass welcomed Cllr Colin Riley and Cllr Stephen Canning to their first meeting of the Board and also Cllr Simon Walsh as an observer.

## **2. Board Membership and Terms of reference**

Members received report EPB/06/15 from the Secretary to the Board concerning the membership of the Board and its terms of reference and received a verbal update from Kevin McDonald, Director for Essex Pension Fund. It was noted that there are some vacancies at present on the Pension Advisory Board

The Chairman advised that any member is welcome to attend any meeting of the Investment Steering Group or Pension Advisory Board.

### **Resolved:**

That the report be noted.

## **3. Apologies for Absence**

Apologies for absence were received from Councillor Ron Woodley and Margaret Lee.

## **4. Declarations of Interest**

The Chairman requested Members declare any interests as appropriate.

## **5. Meetings for Remainder**

Members were reminded of dates of future meeting as follows:

- Wednesday 16 September 2015
- Wednesday 9 December 2015
- Wednesday 9 March 2016

## **6. Minutes**

### **Resolved:**

That the minutes of the Essex Pension Fund Board held on 4 March 2015 be approved as a correct record and signed by the Chairman. It was also recorded that Cllr LeGresley had forwarded his apologies for the meeting.

## **7. End of Year Returns and Annual Benefit Statements**

Members received report EPB/07/15 from the Director for Essex Pension Fund and Head of the Essex Pension Fund which updated the Board on 2014/15 year end data submissions by fund employers and the likelihood of delays in distributing Annual Benefit Statements to active scheme members.

Members were informed of the latest position was that 20% of employers were still to submit a return. As a consequence a new risk was agreed to be added to the risk register highlighting the risk that not all active members would receive an Annual Benefit Statement by the 31 August deadline.

Members discussed the imposition of fines and penalties that could be applied in these cases.

The Chairman suggested that a target be set of Annual Benefit Statements being sent to 95% of active members. It was also agreed that reminder letters and fines be issued to employers who had not submitted returns or engaged with Fund officers.

The Director for Essex Pension Fund agreed to update the Strategy Board at its next meeting and develop recommendations for the following years' process.

**Resolved:**

That the report be noted.

**8. Update on Pension Fund Activity**

- A(i) 2015/16 Business Plan**
- A(ii) Three Year Business Plan**
- B Risk Management**
- C Scorecard (measurement against objectives)**

The Board considered a joint report EPB/08/15 by the Director for Essex Pension Fund and Head of Essex Pension Fund, which provided an update on the 2015/16 Business Plan, three year Business Plan, Risk Management and Scorecard.

Members were appraised of the objectives, the risks and progress against made against the objectives, noting in particular any areas of concern.

**Resolved:**

That the report be noted.

**9. Effectiveness of the Essex Pension Fund Board**

Members received report EPB/09/15 from the Independent Governance and Administration Adviser which provided feedback on the survey of members of the Pension Strategy Board and the Investment Steering Committee on the effectiveness of those bodies carried out during March 2015 noting that improvements to the induction programme are to be made.

The Chairman stated that to encourage and improve Members attendance and involvement at Board meetings the case for an SRA should be investigated. It was agreed that Kevin McDonald liaise with Margaret Lee on this matter.

**Resolved:**

That the report be noted.

**10. Investment Steering Committee (ISC) Quarterly Report**

Members received report EPB/10/15 from the Director for Essex Pension Fund on ISC activity since the last Board meeting.

**Resolved:**

That the report be noted.

**11. External Audit Programme of Work and Fees**

Members received report EPB/11/15 from Baldeep Singh, partner Ernst & Young LLP, which outlined the External Audit Plan in relation to the 2014/15 financial statements of the Essex Pension Fund.

Members were informed the report had previously been received by the Audit Committee and that work will commence later in the month.

**Resolved:**

That the report be noted.

**12. Internal Audit Annual Report of Pension Fund Reviews**

Members received report EPB/12/15 from the Head of Internal Audit which provided a summary of Internal Audit's 2014/15 activity in relation to the pension fund and proposals for 2015/16.

**Resolved:**

That the report be noted.

**13. Draft Pension Fund Accounts**

Members received report EPB/13/15 from the Executive Director Corporate and Customer Services which provided the draft Pension Fund financial statements for 2014/15 and the content and timescale for production of the Pension Fund Annual Report.

It was confirmed the final accounts will be presented to the next meeting of the Board to be held on 16 September 2015.

**Resolved:**

That the report be noted.

**14. Employers Forum**

Members received report EPB/14/15 from the Director for Essex Pension Fund and Head of the Essex Pension Fund which provided feedback to the Board from the Essex Pension Fund Forum held on 23 June 2015.

**Resolved:**

That the report be noted.

**15. Essex Pension Fund Board – Annual Report**

Members noted report EPB/15/15 from the Secretary to the Board on the Board's 2014/15 Annual Report which was due to be considered by the Council on 14 July 2015

**Resolved:**

That the report be noted.

**16. Annual Review of Member Attendance**

The Board received a report EPB/16/15 from the Secretary to the Board which detailed members' attendance at Board and Investment Steering Committee (ISC) meetings and training events for the period 1 July 2014 to 30 June 2015.

**Resolved:**

That the report be noted.

**17. Date of Next Meeting**

The next Board meeting will be held at 2.00pm on Wednesday 16 September 2015 in Committee Room 2

**18. Urgent Business**

The Chairman informed Members that the Essex Pension Fund had been a finalist in two categories at the Professional Pensions Pension Scheme of the Year Awards.

There being no further business, the meeting closed at 3.15pm.

Chairman

<b>Essex Pension Fund Strategy Board</b>	<b>PSB/17/15</b>
date: 16 September 2015	

**Membership of Essex Pension Fund Advisory Board**

Report by Director for Essex Pension Fund

Enquiries to Kevin McDonald. 0333 0138 488

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**1. Purpose of the Report**

- 1.1 To provide an update on the final appointments to the Pension Advisory Board (PAB).

**2. Recommendation**

- 2.1 That the Board note the report.

### 3. Background

- 3.1 At its meeting on 8 July 2015, the Pension Strategy Board received a report detailing the membership of the ISC, PSB and PAB.
- 3.2 It was noted at that time that the appointment of three scheme member representatives of the PAB had not been finalised.
- 3.3 These three scheme member representatives were to be appointed following an application and interview process which finished on 10 July 2015.

### 4. Outcome of interviews

- 4.1 Interviews were conducted by Cllr Barker and Cllr Whitehouse on 10 July in County Hall. Each of the following candidates were interviewed and the three candidates indicated were appointed.

Name	Employer	Status	Appointed ?
Kevin Andrews	Essex County Council	Active	
Beth Daly	Chelmsford City Council	Active	
Paul Hewitt	Southend Council & Harlow Council	Deferred	Yes
Jenny Hunt	Anglia Ruskin University	Deferred	Yes
Mark Paget	Essex County Council	Active	Yes

- 4.2 These appointments complete the process of populating the PAB which had its first meeting on 17 July 2015.

### 5. Background Papers

- 5.1 None

<b>Essex Pension Fund Board</b>	<b>PSB/18/15</b>
<b>date: 16 September 2015</b>	

### **2015 Interim Review & Funding Strategy Statement**

Joint report by the Director for Essex Pension Fund and the Head of Essex Pension Fund

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Enquiries to Kevin McDonald on 0333 0138 488

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

- 1.1 To present to the Board with an update on the Interim Review undertaken by Graeme Muir, Fund Actuary as at 31 March 2015.
- 1.2 To allow the Board to consider the impact of the Interim Review on the Funding Strategy.

#### **2. Recommendations**

- 2.1 That the 31 March 2015 Interim Review report be noted.
- 2.2 That no changes, at this time, are made to the Essex Pension Fund's Funding Strategy Statement.

### **3. Background**

- 3.1 All Local Government Pension Scheme Funds are required to have a full Actuarial Valuation every three years. The last such Valuation was as at 31 March 2013, and the next is due as at 31 March 2016.
- 3.2 Alongside Actuarial Valuations, Funds are required to produce, consult on, and publish a Funding Strategy Statement (FSS). The Board agreed the FSS at its meeting on 5 March 2014.
- 3.3 The objectives of the FSS include “to determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible”.
- 3.4 In the intervening years between Actuarial Valuations, Funds have the discretion to commission Interim Reviews.
- 3.5 Included within the 2015/16 Business Plan are the following two actions:
  - An interim review of the Fund as at 31 March 2015 will be commissioned from the Actuary;
  - Consideration will be given to whether the Funding Strategy requires review in the light of the results of the Interim Review.

### **4. Interim Review 31 March 2015**

- 4.1 The Actuary has now completed this Review, and a summary is attached to this report at Annex A.
- 4.2 At the Board meeting, the Actuary will take Members through a presentation on the Interim Funding Review, with the opportunity for questions and discussion.

### **5. Funding Strategy Statement**

- 5.1 The full Funding Strategy Statement including details of the link with the Fund’s investments strategies and risk register, is 22 pages and can be found on infoBOARD.
- 5.2 The section of the FSS entitled “*Solvency issues and Target Funding Levels*” which includes the maximum deficit recovery period for each category of employer is shown at Annex B.

## **6. Recommendation**

- 6.1 Following discussion of the Actuary's presentation Members will be asked to consider the recommendation that, at this time, no change is made to the Funding Strategy Statement.

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

- 7.1 One of the Fund's key objectives is "within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the FSS".

## **8. Risk Implications**

- 8.1 Both the Interim Funding Review as at 31 March 2015, and reviewing the FSS in conjunction with the Interim Review are intended to monitor progress towards (including risks to that progress) achieving assets equal to 100% of liabilities.

## **9. Communication Implications**

- 9.1 The next Employer Forum will include a presentation on the results of the 31 March 2015 Interim Funding Review.

## **10. Finance and Resources Implications**

- 10.1 Maintaining the existing Funding Strategy (as is proposed at 2.2 and 6.1) will mean there is no change to the financial arrangements determined by the 2013 Actuarial valuation.

## **11. Background Papers**

- 11.1 The 2014 Essex Pension Fund Funding Strategy Statement



# Essex Pension Fund

Funding Update Report

as at 31 March 2015

Graeme D Muir FFA  
Barnett Waddingham LLP

2 September 2015

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## 1. Introduction

- 1.1. We have carried out an annual monitoring assessment of the Essex Pension Fund (the Fund) as at 31 March 2015. The purpose of this assessment is to provide an update on the funding position.
- 1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.
- 1.3. In addition, and for information, we have also assessed the funding position on an alternative "gilts plus" basis where assets are taken at market value and discount rates are a fixed premium over gilt yields (we have assumed a 2% premium). This is the model typically used in the private sector and also by some LGPS Funds.

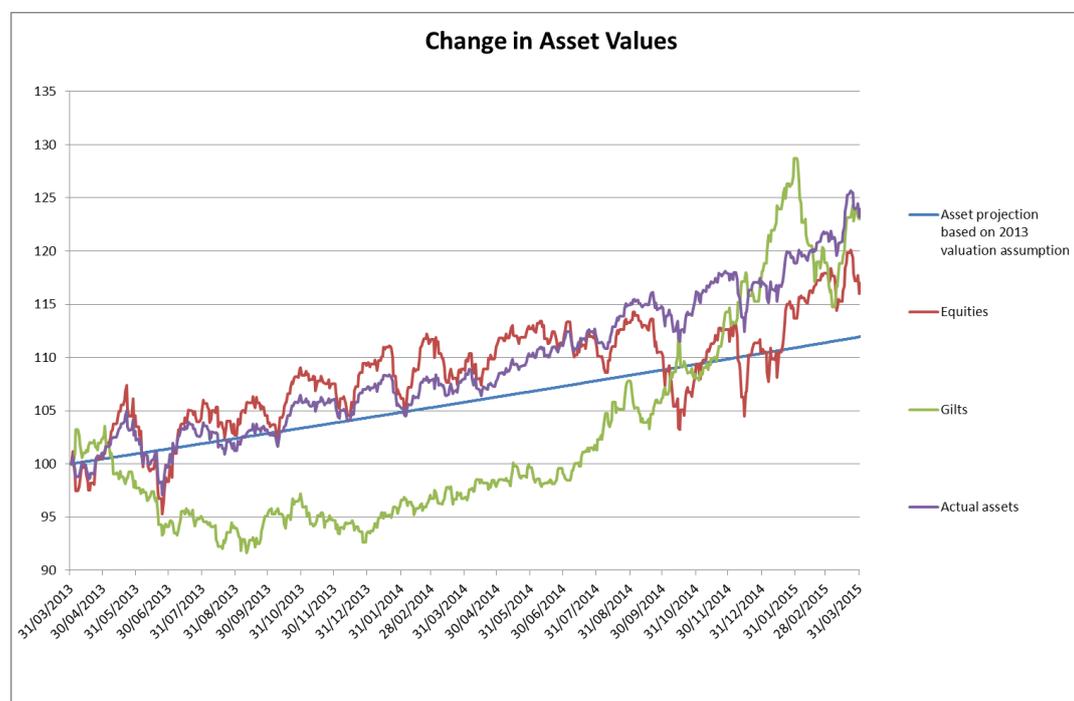
## 2. Assets

2.1. The estimated asset allocation in market value terms of the Essex Pension Fund as at 31 March 2015 is as follows:

Assets (market value)	31 Mar 2015		31 Mar 2014		31 Mar 2013	
	£000s	%	£000s	%	£000s	%
Global Equities	3,303,487	67%	2,856,327	66%	2,628,196	66%
Property	539,587	11%	468,964	11%	418,595	11%
Index Linked Gilts	216,532	5%	344,996	8%	264,371	7%
Corporate Bonds	549,562	11%	371,627	9%	336,050	8%
Infrastructure	158,975	3%	127,236	3%	113,567	3%
Financing Fund	11,921	0%	14,529	0%	16,213	0%
Timber	49,057	1%	34,705	1%	30,972	1%
Cash	103,502	2%	118,990	3%	150,509	4%
<b>Total assets</b>	<b>4,932,623</b>	<b>100%</b>	<b>4,337,374</b>	<b>100%</b>	<b>3,958,473</b>	<b>100%</b>

2.2. The investment return achieved by the Fund's assets in market value terms for the year to 31 March 2015 is 14.8%. The return achieved since the previous valuation is 12.2% p.a.

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



2.4. As we can see asset value as at 31 March 2015 in market value terms is more than where it was projected to be at the previous valuation.

### 3. Changes in market conditions – market yields and discount rates

- 3.1. The actual investment returns earned by the Fund will affect the value of the Fund’s assets. The value of the Fund’s liabilities, however, is dependent on the assumptions used to value the future benefits payable. The following table show how the assumptions under our BW economic model have changed since the last triennial valuation:

Assumptions BW economic model	31 Mar 2015		31 Mar 2014		31 Mar 2013	
	Nominal % p.a.	Real	Nominal % p.a.	Real	Nominal % p.a.	Real
Pension increases	2.54%	-	2.78%	-	2.74%	-
Salary increases	4.34%	1.80%	4.58%	1.80%	4.54%	1.80%
Discount rate	5.45%	2.91%	5.89%	3.11%	5.80%	3.06%

- 3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate under the BW economic model is broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.
- 3.3. The following table shows how assumptions have changed under the alternative “gilts plus” model with a 2% risk premium:

Assumptions (Gilts plus model)	31 Mar 2015		31 Mar 2014		31 Mar 2013	
	Nominal % p.a.	Real	Nominal % p.a.	Real	Nominal % p.a.	Real
Pension increases	2.48%	-	2.83%	-	2.80%	-
Salary increases	4.28%	1.80%	4.63%	1.80%	4.60%	1.80%
Discount rate	4.32%	1.84%	5.62%	2.79%	5.14%	2.34%

- 3.4. As we see the real discount rate under the gilts plus model has decreased which increases the value placed on liabilities under the gilts plus basis.

## 4. Summary of results

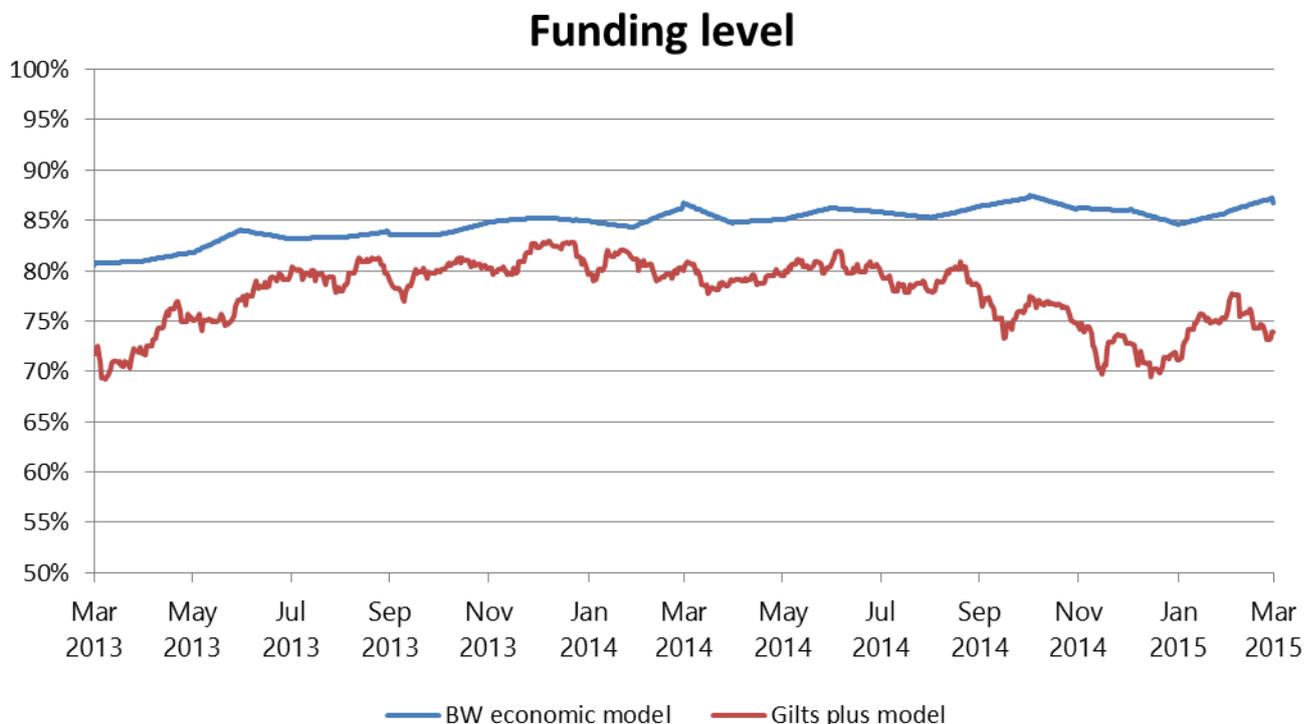
4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2015 is 86.8% and the average required employer contribution would be 20.3% of payroll assuming the deficit is to be paid by 2033;
- This compares with the reported (smoothed) funding level of 80% and average required employer contribution of 21.7% of payroll at the 2013 funding valuation.

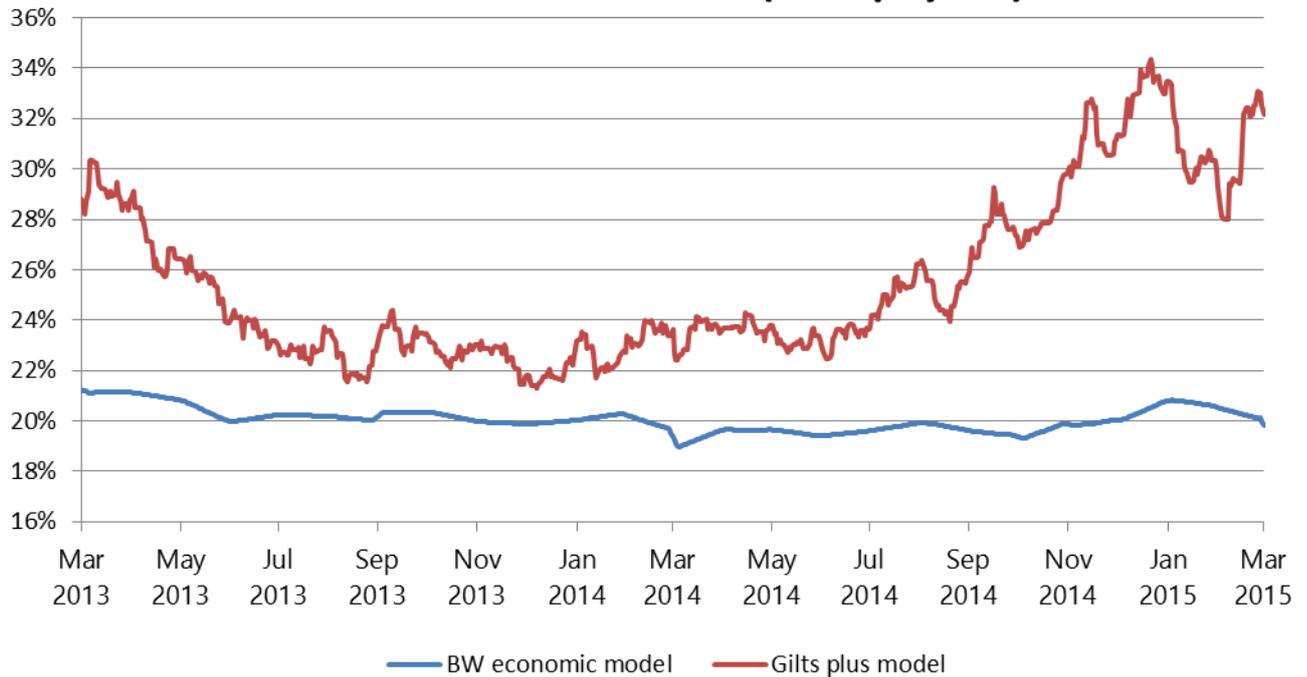
4.2. The discount rate underlying the smoothed funding level as at 31 March 2015 is 5.5% p.a. The investment return required to restore the funding level to 100% by 2033, without the employers paying deficit contributions, would be 6.2% p.a.

4.3. More detailed results are shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. The following charts show how the funding position and average required employer contribution rate have changed under both funding models since the last valuation date:



### Total contribution rate (% of payroll)



4.5. The two key observations are:

- The BW economic model continues to deliver more stable funding levels and employer contribution rates;
- Since the previous report as at 31 March 2014, gilt yields have fallen significantly which has caused the results of the gilts plus model to change dramatically, however, the results under the BW economic model remains reasonably stable.

4.6. Since 31 March 2015 equity markets have been particularly volatile and generally heading south. However the BW economic model is designed to try and cope with such volatility and the estimated funding level as at the date of this report (2 September) is not that different to the estimated position as at 31 March. Under the gilts plus model however the estimated funding level is down around 5% since March to around 70% with daily fluctuations of up to 2%.

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

**Graeme D Muir FFA**  
**Partner**

## Appendix 1 Financial position since previous valuation

BW economic model										
Valuation date	Assets £000s	Liabilities £000s	Surplus/ Deficit £000s	Funding level %	Final salary ongoing cost (% of payroll)	CARE ongoing cost	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2013	3,925,714	4,878,393	(952,679)	80%	14.5%	14.3%	7.2%	21.7%	5.8%	6.9%
30 Apr 2013	3,949,259	4,886,071	(936,812)	81%	14.4%	14.2%	6.9%	21.2%	5.9%	6.9%
31 May 2013	3,993,852	4,896,855	(903,003)	82%	14.4%	14.2%	6.7%	20.9%	5.9%	6.9%
30 Jun 2013	4,097,214	4,899,393	(802,179)	84%	14.3%	14.1%	6.0%	20.1%	5.9%	6.8%
31 Jul 2013	4,059,381	4,910,205	(850,824)	83%	14.2%	14.1%	6.4%	20.5%	5.9%	6.9%
31 Aug 2013	4,062,355	4,915,543	(853,188)	83%	14.2%	14.0%	6.4%	20.4%	5.9%	6.9%
30 Sep 2013	4,107,344	4,962,847	(855,503)	83%	14.3%	14.1%	6.5%	20.6%	5.9%	6.9%
31 Oct 2013	4,139,030	4,988,774	(849,744)	83%	14.3%	14.2%	6.4%	20.6%	5.9%	6.9%
30 Nov 2013	4,223,411	5,013,700	(790,290)	84%	14.4%	14.2%	6.0%	20.2%	5.9%	6.8%
31 Dec 2013	4,270,083	5,037,264	(767,181)	85%	14.4%	14.2%	5.9%	20.1%	5.9%	6.7%
31 Jan 2014	4,273,027	5,055,694	(782,666)	85%	14.4%	14.2%	6.0%	20.4%	5.9%	6.8%
28 Feb 2014	4,263,768	5,074,979	(811,211)	84%	14.4%	14.2%	6.2%	20.6%	5.9%	6.8%
31 Mar 2014	4,380,183	5,091,462	(711,278)	86%	14.4%	14.2%	5.5%	19.7%	5.9%	6.7%
30 Apr 2014	4,335,174	5,115,198	(780,024)	85%	14.1%	14.1%	5.5%	19.7%	5.9%	6.8%
31 May 2014	4,384,481	5,153,554	(769,072)	85%	14.2%	14.2%	5.5%	19.7%	5.8%	6.7%
30 Jun 2014	4,483,539	5,200,664	(717,125)	86%	14.3%	14.3%	5.1%	19.4%	5.8%	6.6%
31 Jul 2014	4,492,079	5,234,601	(742,521)	86%	14.3%	14.3%	5.3%	19.6%	5.8%	6.6%
31 Aug 2014	4,497,383	5,274,301	(776,918)	85%	14.4%	14.4%	5.6%	19.9%	5.7%	6.6%
30 Sep 2014	4,587,532	5,309,744	(722,212)	86%	14.4%	14.4%	5.2%	19.6%	5.7%	6.5%
31 Oct 2014	4,672,836	5,339,916	(667,080)	88%	14.4%	14.4%	4.8%	19.2%	5.6%	6.4%
30 Nov 2014	4,635,375	5,374,226	(738,851)	86%	14.5%	14.5%	5.3%	19.8%	5.6%	6.4%
31 Dec 2014	4,656,162	5,417,560	(761,398)	86%	14.5%	14.5%	5.5%	20.1%	5.5%	6.4%
31 Jan 2015	4,642,278	5,485,989	(843,711)	85%	14.7%	14.7%	6.1%	20.8%	5.5%	6.4%
28 Feb 2015	4,736,707	5,532,198	(795,491)	86%	14.8%	14.8%	5.8%	20.6%	5.5%	6.3%
31 Mar 2015	4,851,969	5,590,984	(739,015)	87%	15.0%	15.0%	5.4%	20.3%	5.5%	6.2%

Gilts plus model										
Valuation date	Assets £000s	Liabilities £000s	Surplus/ Deficit £000s	Funding level %	Final salary ongoing cost (% of payroll)	CARE ongoing cost	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2013	3,958,473	5,511,016	(1,552,543)	72%	18.1%	17.8%	11.0%	29.1%	5.1%	6.8%
30 Apr 2013	3,991,155	5,557,464	(1,566,309)	72%	18.2%	18.0%	10.8%	28.8%	5.0%	6.7%
31 May 2013	4,049,552	5,394,496	(1,344,944)	75%	17.2%	16.9%	9.5%	26.4%	5.3%	6.8%
30 Jun 2013	3,953,018	5,125,305	(1,172,286)	77%	15.6%	15.4%	8.5%	23.9%	5.6%	6.9%
31 Jul 2013	4,086,906	5,125,899	(1,038,993)	80%	15.4%	15.2%	7.6%	22.9%	5.6%	6.8%
31 Aug 2013	4,011,615	5,147,154	(1,135,538)	78%	15.4%	15.2%	8.4%	23.6%	5.7%	7.0%
30 Sep 2013	4,074,833	5,158,260	(1,083,427)	79%	15.4%	15.2%	8.0%	23.2%	5.6%	6.8%
31 Oct 2013	4,206,434	5,248,017	(1,041,583)	80%	15.8%	15.6%	7.7%	23.2%	5.6%	6.7%
30 Nov 2013	4,227,682	5,235,350	(1,007,668)	81%	15.6%	15.4%	7.5%	22.9%	5.7%	6.8%
31 Dec 2013	4,288,707	5,169,018	(880,311)	83%	15.1%	14.9%	6.6%	21.5%	5.8%	6.8%
31 Jan 2014	4,219,284	5,240,848	(1,021,564)	81%	15.4%	15.2%	7.7%	23.1%	5.6%	6.8%
28 Feb 2014	4,335,272	5,275,922	(940,650)	82%	15.5%	15.3%	7.1%	22.6%	5.6%	6.6%
31 Mar 2014	4,337,374	5,358,349	(1,020,975)	81%	15.8%	15.6%	7.7%	23.3%	5.6%	6.7%
30 Apr 2014	4,284,965	5,420,117	(1,135,152)	79%	15.8%	15.8%	7.8%	23.5%	5.6%	6.8%
31 May 2014	4,377,711	5,506,829	(1,129,118)	79%	16.0%	16.0%	7.7%	23.8%	5.5%	6.7%
30 Jun 2014	4,419,120	5,493,512	(1,074,392)	80%	15.8%	15.8%	7.4%	23.3%	5.5%	6.7%
31 Jul 2014	4,446,726	5,562,260	(1,115,534)	80%	16.0%	16.0%	7.7%	23.7%	5.4%	6.6%
31 Aug 2014	4,579,709	5,875,540	(1,295,830)	78%	17.5%	17.5%	8.8%	26.3%	5.0%	6.4%
30 Sep 2014	4,571,422	5,849,960	(1,278,538)	78%	17.2%	17.2%	8.7%	25.9%	5.1%	6.5%
31 Oct 2014	4,635,518	5,984,140	(1,348,622)	77%	17.7%	17.7%	9.2%	26.9%	5.0%	6.4%
30 Nov 2014	4,706,031	6,298,082	(1,592,051)	75%	19.2%	19.2%	10.6%	29.8%	4.7%	6.3%
31 Dec 2014	4,678,071	6,427,892	(1,749,821)	73%	19.7%	19.7%	11.6%	31.3%	4.5%	6.3%
31 Jan 2015	4,751,920	6,677,258	(1,925,338)	71%	20.8%	20.8%	12.6%	33.5%	4.0%	5.9%
28 Feb 2015	4,868,474	6,467,837	(1,599,363)	75%	19.6%	19.6%	10.7%	30.3%	4.5%	6.1%
31 Mar 2015	4,932,623	6,678,230	(1,745,607)	74%	20.5%	20.5%	11.6%	32.2%	4.3%	6.0%

A1.1. Note that market values of assets under the gilts plus model at dates other than March are estimates. Asset values under the economic model are smoothed (estimated) values.

## Essex County Council Pension Fund

### Funding Strategy Statement – EXTRACT

#### Contents

1. Introduction
2. Purpose of FSS in policy terms
3. Funding objectives and purpose of the Fund
4. Responsibilities of the key parties
- 5. Solvency and target funding levels**
6. Link to investment policy
7. Monitoring and review

Schedule A - Risk Analysis

Schedule B - Actuarial assumptions

*This annex is an extract (section 5) of the Funding Strategy. The full Strategy can be found at*

<http://www.essexpensionfund.co.uk/themes/essex/scheme%20documents/Funding%20strategy%20statement%202013.pdf>

## **5. Solvency issues and target funding levels**

To meet the requirements of the Administration Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay. The actuarial assumptions to be used in the calculation of the funding target are set out in the Appendix.

The key assumptions making up the funding strategy and as adopted for the 2013 actuarial valuation are that:

- our long-term aim is to achieve 100% funding of pension liabilities;
- the Scheme is expected to continue for the foreseeable future;
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term;
- we wish to minimise fluctuations in employers' contributions in order to assist them with their financial planning and to meet their financial responsibilities to the Fund;
- the Fund is still relatively immature in terms of its membership profile and we can therefore take advantage of that fact in setting our investment strategy;
- we have a large number of employing bodies with different characteristics including size and strength of covenant.

The effective date of the current actuarial valuation of the Fund is 31 March 2013. The results of the valuation indicate that overall the assets of the Fund represented 80% of projected accrued liabilities at the valuation date.

The Administering Authority after due consideration of all of the information available to it including consultation with the Fund Actuary and other interested parties, has adopted the following objectives to achieve the funding target:

- we will set employers' contribution rates to achieve 100% funding of liabilities in the long term;
- employer contribution rates will be made up of two separate elements:
  - an ongoing rate, as a percentage of pensionable pay, to meet the costs of future service (payable no later than the 19<sup>th</sup> day of the month following the month of relevant payroll run); and

- a deficit recovery contribution, expressed in most instances as a cash sum, to recover any shortfall revealed by the actuarial valuation (payable as detailed in this Funding Strategy Statement);
- we will for the purpose of our administration, the calculation of contribution rates and for the setting of maximum deficit recovery periods, continue to deal with town and parish councils (T&PC) as a group. We will consider a cessation valuation policy for group employers. This will be subject to a separate consultation
  - we will set deficit recovery periods for the T&PC that as far as possible are likely to reduce the level of deficit during the inter-valuation period if all of the Actuary's assumptions prove correct.
- schools, including former grant maintained schools (but excluding Academies), will be treated as part of the local authority within whose area of responsibility they fall for the purpose of setting contribution rates and deficit recovery periods; any discretions in respect of these matters will fall to the local authority;
  - schools that opt to become Academies become stand-alone employers in their own right but inherit responsibility for the share of scheme deficit attributable to the former school(s) from which they were formed and that share of scheme deficit will then be taken into account in calculating their separate contribution rate taking account of the Department of Communities and Local Government (DCLG) guidance on setting academies' contribution rates.
  - for 2014/2015, pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/14 ongoing contribution rates in 2014/15. Deficit amounts payable in 2014/15 will be the annual rate for 2013/2014 plus the standard 4.5% increase in line with the Actuary's long term pay increase assumption. A separate exercise will be undertaken with academies in due course to set appropriate contribution rates for 2015/2016 and 2016/2017. Where necessary, stability mechanisms described in this Statement may be used in the transition to the appropriate contribution rates.
- we will set objective and maximum deficit recovery periods for the remaining employers
  - the agreed deficit recovery periods will be set at levels that safeguard the interests of the Fund by having regard to the Fund's judgement of the strength of covenant and the financial stability of individual employers;
  - individual employers will, at the discretion of the Fund, be able to increase their deficit recovery period up to the maximum deficit recovery period subject to providing assurance of greater strength

of covenant and financial stability. (e.g. guarantor employer consent, provision of a bond, a deposit, a parent company guarantee or other surety);

- where a deficit recovery period greater than that of “average future working life” was applied at the 2010 valuation, the starting point for the deficit recovery period to be applied at the 2013 valuation is three years less than that previously applied. The Fund may, at its discretion, allow this three year period to be reapplied.

*While a deficit exists, annual contributions will not normally be reduced. This may result in a shorter deficit recovery period than the Objective*

## Objective and maximum deficit recovery periods for active employers (i.e. those employers with active members)

Category	Employer	Example	Objective	Maximum
A	Scheduled - major tax raising bodies	District Council, Fire Authority	2010 deficit recovery period less three years	30 years
B	Scheduled - Academies	Academies	Pending clarity on the outcome of the 2013 DCLG consultation on pooling, existing academies will retain their 2013/14 ongoing contribution rates in 2014/15. Deficit amounts payable in 2014/15 will be the annual rate for 2013/2014 plus the standard 4.5% increase in line with the Actuary's long term pay increase assumption. A separate exercise will be undertaken with academies to set contribution rates for 2015/16 and 2016/17.	
C	Scheduled - other	Further & Higher education corporations	2010 deficit recovery period less three years	27 years
D	Resolution	Town / Parish Councils	2010 deficit recovery period less three years	30 years
E	Transferee admission	Contractor	contract length or average remaining working life of employer's staff in LGPS, if shorter	contract length or average remaining working life of employer's staff in LGPS, if shorter
F	Community admission .1	Voluntary, not for profit, charities, housing associations	average remaining working life of employer's staff in LGPS	average remaining working life of employer's staff in LGPS
G	Community admission . 2	Employer providing evidence of financial security to the satisfaction of the Essex Pension Fund	average remaining working life of employer's staff in LGPS	20 years

1. The draft maximum deficit recovery periods are designed, where appropriate, to stabilise the amount of deficit contributions payable. It is not designed to allow for a reduction in contributions.

2. In addition, mitigations may be adopted to allow for affordability and stability of contributions as well as for transition to revised policies. These may include the stepped introduction of revised contribution rates.

3. The provision of financial security for Category G employers could include the agreement and provision of a guarantee by a Category A employer.

4. While a deficit exists, annual contributions will not normally be reduced. This may result in a shorter deficit recovery period than the Objective.

5. Contributions normally will not be reduced below the future service rate.

6. Contributions are subject to the certification of the Fund Actuary.

- The Town & Parish Council employers' contributions will be phased over the 3 year period 2014/15 to 2016/17.
- The 2014/15, 2015/16 and 2016/17 deficit amounts certified for each employer will reflect one of the following:

- i. the actuarially assessed value of the annual deficit paid in twelve equal instalments monthly in arrears with each payment being due by the 19th day of the following month; or
  - ii. the actuarially assessed value of the annual deficit paid in one lump sum payment prior to 30 April of the specified year; or
  - iii. the actuarially assessed value of i) or ii) for all three years paid in 36 or 3, respectively, equal instalments; or.
  - iv. the actuarially assessed value of paying the deficit for three years in one lump sum payment prior to 30 April 2014.
- Individual employers retain the freedom to
    - make a lump sum payment prior to 1 April 2014, following agreement with the administering authority. The annual deficit amounts certified for financial years 2014/15, 2015/16 and 2016/17 will reflect the actuarially assessed value of making this payment, either utilising the payment over the three years or over the deficit recovery period;
    - decide to repay their share of the deficit over a shorter period should they so choose;
    - make additional payments to the Fund over and above the minimum employer contribution rates certified.

In determining the deficit recovery period(s) the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles;
  - the need to balance a desire to attain the target as soon as possible against the major increases in the level of employers' contributions which a shorter period would require; and
  - the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.
- Reductions to the ongoing contribution rate (future service rate) may be stepped.
  - Where an employer augments scheme benefits, immediate payment of the augmentation cost will be required to be made to the Fund;
  - Where an employer allows an early retirement, for any reason other than ill health, that produces a strain cost, payment of the strain cost may be met

either in the form of an immediate lump sum to the Fund, or by payment over three years to the Fund including interest;

- Levels of ill health will be monitored and will normally be reflected in assumptions at triennial valuations or sooner if deemed necessary
- Employers who are able to and have closed the Scheme to new members, or have had no new members in the previous two years to 31 March 2013, will have their employer contribution rate assessed on a closed basis at the triennial valuation.
- Where an employer is able to and closes the Scheme to new members, between valuations, the employer contribution rate may be reassessed on a closed basis and a revised certificate issued.
- In preparation for the cessation of an employer's participation in the Scheme:
  - The future service rate and deficit recovery contribution may be reviewed by the Fund Actuary and amended if required.
  - All community admission bodies will be allowed flexibility to elect to adopt a funding approach prior to termination in line with the "least risk" exit debt basis, if that is their preference.
  - In certain circumstances, subject to satisfactory surety, a formal plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer to manage payment of deficit up to and beyond the termination date.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer would be due to the Scheme as a termination contribution, unless it was agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer would be transferred within the Scheme to another participating employer. The basis of the termination valuation will be determined in consultation with the Fund Actuary.
  - In certain circumstances, subject to satisfactory surety, a formal payment plan may be agreed between the Fund, the Fund Actuary and the Fund Employer, and if applicable the Transferor Scheme Employer.
- All transferee admission bodies (i.e. "best value" contractors delivering services to scheme employers) will be accepted for admission into the Fund so long as all the necessary regulatory requirements for admission are satisfied, including those covering the assessment of the requirement for and provision of security to the satisfaction of the administering authority.

- In the case of a transferee admission body, or any participating employer acting as guarantor in the case of non-transferee admission bodies, implementation of an alternative funding basis or approach (including on termination) will be subject to agreement from the relevant guarantor body/scheme employer. Any special funding arrangements between the scheme employer and transferee admission body should be covered by the commercial arrangements, i.e. outside the Fund and not part of the admission agreement.
- Community admission bodies will be accepted for participation in the Fund, or otherwise, on a case by case consideration of the merits of admission and the associated risks to the Fund. In accordance, with regulatory requirements, a bond, indemnity, guarantee will be required for all community admission body cases, to the satisfaction of the administering authority.
  - For community admission bodies the Fund will consider application of special conditions or requirements as deemed appropriate.
- In the case where a contractor wishes to offer a broadly comparable scheme, rather than apply to become an admitted body of the Fund, standardised bulk transfer terms will be offered via the Actuary's Letter. The letter will be structured so as to target an asset transfer to the contractor's Broadly Comparable scheme such that it is equivalent to 100% of the past service liabilities reserved for by the Fund in respect of the transferring members' accrued service as at the date of transfer. The Fund will only agree to any variations in the standard in exceptional circumstances and with the prior agreement of the transferring scheme employer.

<p><b>Essex Pension Fund Strategy Board</b></p>	<p><b>PSB/19/15</b></p>
<p><b>date: 16 September 2015</b></p>	

**LGPS Reform**

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 0333 0138 488

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**1. Purpose of the Report**

- 1.1 To update the PSB on developments regarding potential structural reforms of the Local Government Pension Scheme as a result of the Budget 2015 announcement.
- 1.2 To inform the PSB on work currently being undertaken by the national Shadow Scheme Advisory Board exploring potential options on the degree of separation between the Scheme Manager function and the host authority.

**2. Recommendations**

- 2.1 That the report be noted.

### **3. Structural Reform**

- 3.1 At its meeting on 18 September 2013, the Essex Pension Board (Board) agreed the basis of its response to the *call for evidence* on the future structure of the LGPS issued jointly by the Local Government Association (LGA) and the Department for Communities & Local Government (DCLG).
- 3.2 Following receipt of responses to the call for evidence, DCLG commissioned analysis of structural reform options to be led by Hymans Robertson. These options covered:
- merging funds; and
  - the use of Collective Investments Vehicles (CIVs).
- 3.3 On 1 May 2014, DCLG published the consultation document “Opportunities for collaboration, cost saving and efficiencies” along with the analysis undertaken by Hymans Robertson.
- 3.4 The consultation’s emphasis centred on the use of CIVs and passive management, at the time removing the option of fund mergers.
- 3.5 At its meeting on 9 July 2014 the Board agreed its response to the consultation.

### **4. Budget 2015**

- 4.1 The Chancellor on the 8 July 2015 announced in his budget statement 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.*

## **5. Subsequent developments**

- 5.1 During August, the Local Government Association arranged a roundtable event and, in conjunction with the Shadow Scheme Advisory Board a seminar to explore this issue. Officials from DCLG were in attendance at both events and the Fund was represented.
- 5.2 It appears likely that the consultation to which the Budget statement refers will be issued in November. The common criteria are expected to be size, cost and governance.
- 5.3 A verbal update on the dialogue held with officers from other LGPS Funds will be given at the meeting.

## **6. Shadow Scheme Advisory Board**

- 6.1 The national Shadow Scheme Advisory Board (SSAB) has commissioned KPMG to report on potential options on the degree of separation between the Scheme Manager function and the host authority. KPMG are expected to report to the SSAB on 21 September 2015.
- 6.2 The Annex to this report details the specification to which KPMG are required to work. The options are:
  - Option 1 – Stronger role for Section 151 Officer within a distinct entity of the host authority
  - Option 2 - Joint Committee of two or more administering authorities.
  - Option 3 - LGPS complete separation of the pension fund from the host authority
- 6.3 A verbal update will be given at the meeting.

## **7. Background papers**

- 7.1 DCLG consultation “Opportunities for collaboration, cost saving and efficiencies” – May 2014
- 7.2 Fund response agreed 9 July 2014



# Scheme Advisory Board

## Options for separation of host authority and pension fund

### Proposal for assistance

#### Introduction

The LGPS Scheme Advisory Board (The Board) is established under the Public Service Pensions Act 2013 to advise the Secretary of State for Communities and Local Government on the development of the Local Government Pension Scheme.

In support of its work plan for 2015-16, the Board is inviting proposals from interested parties to assist it in developing options with regard to the increased separation of LGPS pension funds and their host authorities for consideration prior to potentially making recommendations to the Secretary of State.

#### The work

The work required is to develop the options set out in the annex to these instructions in the form of a report to be presented to the Board.

For each option the successful organisation will be required to produce a comprehensive review to include a detailed description of:

1. The end position together with the steps required to reach that position
2. The impact (positive and negative) on the accountability of the scheme manager to
  - Scheme members
  - Scheme employers
  - Local taxpayers
3. The impact (positive and negative) on
  - Compliance with the IORP and in particular articles 8 and 18
  - Conflicts of interest between the scheme manager and the host authority
4. The impact (positive and negative) on financial transparency, in particular
  - Production of comprehensive and clear accounts
  - Dedication of resources
  - Management and administration costs
  - Investment costs
5. The ease or complication of the legislative requirements to implement the option, in particular the need for new or amended
  - Primary legislation
  - Secondary legislation
  - Statutory guidance
  - Third party (e.g. CIPFA) codes of practice/guidance

# Scheme Advisory Board

6. The impact (positive and negative) on management costs and funding or investment costs including:-
  - Set up costs
  - Ongoing costs
  
7. The impact (positive and negative) on service delivery to stakeholders including
  - Scheme members
  - Scheme employers
  - Third parties (e.g. TPR, HMRC)

## Budget

The Board is working within a fixed budget to be agreed by the Department with a wide and varied work plan to complete. Bidders should be aware that the value of bids will be an important element in the selection of the successful organisation.

## Proposals

Proposals from interested parties should consist of the elements below with each element restricted to no more than 1 side of A4. Further information may be provided as annexes however standard marketing material should not be included. Proposals should be returned no later than 17.00 on Thursday 2<sup>nd</sup> July 2015 to [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk) copied to [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk).

**Important** - Where the bidder is (or in the case of a joint bid one or more of the bidders are) an organisation represented in the Scheme Advisory Board in any capacity the bidder must include in its submission:-

- A declaration of the nature and extent of the representation
  
- A statement detailing how it will effectively manage the potential conflict of interest arising from the delivery of this work to the Board

## Elements required

1. **Introduction** - set out the approach you would take to the work and your objectives, in particular how you would work with members of the Board and how you would manage confidentiality issues.
  
2. **Your pitch** - set out what sets you apart from others who may bid for this work in particular the experience and expertise you bring.
  
3. **Fee structure** - state the cost of the work either as a fixed fee or as a daily rate. If the latter specify the number of days included in your bid.
  
4. **Expertise of team** - set out the names, job titles and experience of members of your organisation who would be involved in delivering this work. Also specify a named lead member for the team who would be responsible for the co-ordination and delivery of the work.

# Scheme Advisory Board

5. **Input from Board organisations and other stakeholders** - set out the input you will require from organisations involved in the scheme and state if that input will be in the form of face to face meetings or written material.
6. **Timescale** - potential bidders should set out the timescale required to complete the work together with important milestones with a view to making a presentation to the 21<sup>st</sup> September Board meeting

Board secretariat  
16<sup>th</sup> June 2015

# Scheme Advisory Board

## ANNEX 1 Options for reform

### The Current Position

Whilst the LGPS in England and Wales is one scheme, it is comprised of 88 different administering authorities. The size of the funds varies widely, as do the arrangements for its management. In some instances, pensions operations are integrated within the HR and Finance functions of the relevant administering authority; in others, discrete pensions units have been created to take on the task.

Each Administering Authority (as defined in Part 1 of Schedule 3 of the LGPS Regulations 2013) is responsible for managing and administering the LGPS in relation to any person for which it is the appropriate administering authority under the Regulations. The Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

The majority of Administering Authorities are local authorities and therefore operate in accordance with local government law requirements. However some Administering Authorities are not local authorities such as the Environment Agency, the London Pensions Fund Authority and the South Yorkshire Pensions Authority. Such bodies operate in accordance with their own legal constitutions.

There are diverse approaches to how each LGPS Fund operates. In some instances, two or more Administering Authorities may share their administration function, for example through a shared service arrangement, or in other ways. However, where this happens each local authority still retains its own individual Administering Authority status and therefore legal responsibility for its own Fund.

In practice decisions about pensions are delegated by the Administering Authority in accordance with Section 101 of the 1972 Act to:

- Committees or sub-committees made up of councillors from all the political groups and will be politically balanced; or
- Officers.

The delegation of pension functions varies from Administering Authority to Administering Authority depending on local circumstances. The Regulations require an Administering Authority's governance compliance statement to set out whether the Authority delegates its functions and the detail of the delegation given. In addition there are specific legal requirements (as well as precedent through case law and statutory guidance) for the Section 151 officer or the Chief Financial Officer relating to the LGPS. These existing requirements are further elaborated upon in the details under option 1 below (Stronger role for Section 151 Officer).

The following options each seek to improve the governance of pension funds by increasing the degree of separation between the scheme manager function (the management and administration of the scheme and the local fund) and the host authority.

# Scheme Advisory Board

## **Option 1 - Stronger role for Section 151 Officer within a distinct entity of the host authority**

### **Primary recommendations**

- Separation of financial statements and audit arrangements
- Pension fund-specific annual governance statement
- Specific delegations or require a senior officer to lead the function
- Group the responsibility for all LGPS related activities within one function.

### **Brief description of option**

#### **Separate accounts**

At present, regulations require that LGPS fund financial statements be incorporated with the financial statements of the administering authority. This option proposes amending the Accounts and Audit Regulations to require LGPS administering authorities prepare the pension fund financial statements as a discrete financial report outside of the host authorities' accounts.

This option would necessitate the setting of separate budgets for all pension fund related activities together with separate audit arrangements for the pension fund.

#### **Pension fund-specific annual governance statement**

Regulation 4(3) of the Accounts and Audit Regulations 2011 requires that a local authority produce an annual governance statement (AGS) to accompany its financial statements, which reports on the effectiveness of its systems of internal control. This option proposes a requirement for a separate AGS for the pension fund.

#### **Specific delegations or separate senior officer role**

This option envisages either

1. Use of delegation to move some or all pension fund-related finance responsibilities from the section 151 officer to another, whilst maintaining the required oversight and control or
2. Requiring the host authority to create a dedicated senior officer position to take on all responsibilities for pension fund-related responsibilities

Either of the above officers would then be responsible for the separate dedicated unit described below.

#### **One function led by a senior officer**

Under this option each host authority would be required to group all LGPS related activities within one discrete organisational unit. Currently the arrangement of how LGPS activities are managed is determined by individual administering authorities. The result is a variety of outcomes ranging from the diverse to the distinct.

# Scheme Advisory Board

## Option 2 - Joint Committee of two or more administering authorities

### Primary recommendations

- Delegation of full scheme manager function and all decision making to a section 102(5) joint committee
- Employment of staff and contractual issues dealt with through lead authority or wholly owned company
- Ownership of assets unchanged
- Consideration be given to enshrining the structure in legislation in the form of a combined authority

**Brief description of option:** Under this option each of the LGPS administering authorities involved would delegate the function of scheme manager in its entirety to a joint committee under Section 102(5) of the Local Government Act 1972 (Part 2 paragraph 5).

The joint committee will then be responsible for all decisions relating to the management and administration of the scheme including asset allocation, manager selection, administering authority discretions, provision of administration services, appointment of advisors and procurement of related services (e.g. actuarial, legal and custodial).

The constitution of the joint committee would need to be contained in a formal agreement entered into by the authorities. The joint committee as constituted would not be a separate legal entity therefore it cannot own assets, have liabilities, raise taxes, enter into contracts or employ staff. The ownership of assets (administering authority) and responsibility for meeting liabilities (employers) would not change.

Employment of staff, entering into contacts and other operational matters would be delivered via a lead authority using a LG Act 1972 Section 113 agreement or an arrangement under the Good and Services Act 1970. Alternatively the authorities could create a jointly owned and controlled company to perform this function.

### Giving the structure a legal identity

Consideration in this option will need to be given to giving the joint committee a legal identity (therefore avoiding the need for a lead authority or jointly owned company) by the creation of a combined authority similar to those in place for transport and planning. Such a combined authority would also be able to employ the necessary staff, enter into contracts and deliver all aspects of the function by utilising existing local government legislation.

The combined authority would become the scheme manager responsible for the management and administration of the scheme in relation to the group of employers assigned to it. The assets and liabilities of existing scheme manager/s would need to be transferred to the combined authority base.

# Scheme Advisory Board

## **Option 3 - LGPS complete separation of the pension fund from the host authority**

### **Primary recommendations**

- DCLG or Treasury to create single purpose Pensions Bodies
- Remove decision making from elected members

### **DCLG or Treasury to create Pensions Authorities**

This option proposes that a government department creates pension bodies to take over the role of scheme managers within the LGPS. Unlike option 2 (combined authorities) these bodies would not be local authorities but could still exist in the public sector.

They would be designed to comply fully with the IORP (articles 8 and 18) in the same manner as private sector trust based pension institutions are obliged to. The bodies would have Boards that include employer and member representation with the same or similar make up as pension institutions in the private sector.

Existing administering authority staff wholly or mainly dedicated to LGPS scheme manager activities would transfer to the new bodies which would have constitutions making them to be responsible for

1. Administering the pension scheme in the most efficient and cost effective way possible
2. Collecting the required contributions from employers and members
3. Ensuring assets are invested in the best interests of members and beneficiaries, and in the event of a conflict of interest the institution must ensure that investments are made in the sole interest of members and beneficiaries
4. Paying benefits as and when they fall due

The option also seeks to ensure clear separation of pension fund monies from those of the host authority.

All of the assets and liabilities of the administering authority with regard to its function as an LGPS scheme manager would transfer to the new body

### **Remove decision making from elected members**

This option seeks to remove the potential for conflict of interest between the host authority (sponsor) and the pension fund (institution) by removing the fund and placing it in a separate body with its own duties and interests that are solely aligned with those of the beneficiaries. Elected members of a current host authority may well be on the board of the new body but as employer representatives with no more or less say in the direction of investment policy than any other board member.

The option aims to remove any possibility of the host authority from taking decisions on investments which prefer its interests over the interests of the members of the LGPS or other employers in the fund.



<p><b>Essex Pension Fund Strategy Board</b></p>	<p><b>PSB/20/15</b></p>
<p><b>date: 16 September 2015</b></p>	

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

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 0333 0138 488

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**1. Purpose of the Report**

- 1.1 To share with the board the Fund's response to the consultation issued by HM Treasury on a proposed exit payment cap.

**2. Recommendations**

- 2.1 That the response be noted.

### **3. Background**

- 3.1 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.
- 3.2 The key concern with the proposal centres on financial strain payments made by employers to LGPS Funds.

### **4. Financial Strain**

- 4.1 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.

### **5. Response to consultation**

- 5.1 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.
- 5.2 In the absence of a PSB meeting during the consultation period, the key theme of the response was discussed and agreed with both Cllr Bass, Chairman of the Board and Margaret Lee s151 officer for both Essex County Council and the Essex Pension Fund.
- 5.3 The Fund’s response is attached at Annex A to this report.

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

- 6.1 Maintaining awareness of current issues with regard to LGPS reform will assist the Board in achieving 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
  - To ensure the Fund is properly managed

**7. Risk Implications**

Failure to maintain an awareness of current issues with regard to LGPS reform and respond to consultations would mean that the Fund's views are not taken into account when changes are proposed.

**8. Communication Implications**

Further communication may be necessary once Government responds to the consultation.

**9. Finance and Resources Implications**

Further analysis may be necessary once Government responds to the consultation.

**10. Background Papers**

None





**Essex Pension Fund**

A2, County Hall  
Chelmsford  
Essex, CM1 1JZ

Consultation on Exit Payments Cap  
Workforce, Pay and Pension Team  
HM Treasury  
Horse Guards Road  
London  
SW1A 2HQ

27 August 2015

Dear Sir / Madam,

**Consultation on Exit Payment Cap**

The opportunity to respond to HM Treasury on this matter is welcomed. It is however unfortunate that the consultation period has been confined to the month of August as this may limit the number of responses Government receive.

This matter has been considered in detail by officers of the Essex Pension Fund. The core theme of the response has been discussed and agreed with both the Chairman of the Essex Pension Fund Strategy Board and the s151 Officer for both Essex County Council and the Essex Pension Fund.

The Essex Pension Fund is the tenth largest of the eighty nine Local Government Pension Scheme (LGPS) funds within England and Wales. It currently has in excess of 550 separate employers, including over 200 Academies. The Essex Pension Fund Strategy Board operates as the s101 Committee under the terms of the 1972 Local Government Act.

Our responses to the questions set out in the consultation are below.

***Question 1: What other forms of exit costs do you think are relevant in this context?***

We are not aware of any other exit costs relevant in this context.

**Question 2: Do you agree that the government should introduce a cap on the value of public sector exit payments on the basis set out above?**

No.

It appears as though a fundamental flaw or misunderstanding has been incorporated into the definition of the cap within 3.1 of the consultation as this includes:

*“early access to unreduced pension – some employers offer the option for employees that have reached the relevant age to take early retirement on an ‘unreduced’ pension, in place of, or in addition to, a cash lump sum compensation payment. In these instances employers bear the cost of ‘buying out’ the actuarial reduction that would normally apply to a pension that was taken early.”*

It is regulatory (1) requirement that employees within the LGPS aged 55 or over and who are made redundant, must have “early access to unreduced pensions”. This means a financial strain payment (sometimes called actuarial strain) becomes payable by the employer *to the LGPS Fund*. In other words the financial strain payment is *not* made to the exiting employee – and it is payments to exiting employees which Government intends to cap.

Furthermore, it is noted that the figures stated in section 3.3 of the Consultation do not distinguish between statutory redundancy payments, financial strain costs and other severance payments.

(1) Regulation 30 (6)&(7) LGPS Regulations 2013

**Question 3: Do you agree that the payments listed above should be subject to a cap on exit payments under the terms set out above? If you believe certain payment types should be excluded please provide a rationale and examples.**

No.

Section 4 of the Consultation stated that the cap would include *“the cost to the employer of funding early access to unreduced pensions for employees where available”*

As highlighted in our response to question 2, this cost to the employer is paid to the LGPS Fund *not* the exiting employee.

Furthermore, at a time when many Local Government employers anticipate being required to undertake a further round savings and restructuring exercises, any move which limits scope for voluntary redundancies will be considered counterproductive.

The Essex Pension Fund’s key response is to add its voice to those questioning whether this course of action is the Government’s underlying intention.

#### **Question 4: Are there further payments that the government should include?**

None of which we are aware.

#### **Question 5: Do you agree that a cap on exit payments should be set at £95,000? If you think an alternative level would be more appropriate, please provide evidence and analysis to support your proposal.**

We strongly believe that any cap on exit payments to individuals should exclude financial strain payments to LGPS Funds as it would give rise to unintended consequences.

The following analysis below has been produced by the Fund's Actuary Barnett Waddingham. This shows the financial strain costs payable by employers to LGPS Funds in respect of redundant 55 year olds. No other costs have been included.

#### **Grey numbers**

These indicate the amounts of financial strain payable to LGPS Funds lower than the proposed £95,000 cap. The implication is that less scope is then available for other payments such as the statutory redundancy payment.

#### **Yellow numbers**

These indicate the circumstances where the degree of financial strain alone exceeds the proposed £95,000 cap. The implication is that not only is there no scope for redundancy payments but that the strain itself would be limited to £95,000 – a move that would exacerbate deficits within the LGPS.

	Pay									
Service Yrs	£10,000	£15,000	£20,000	£25,000	£30,000	£40,000	£50,000	£75,000	£100,000	£150,000
2	£2,864	£4,295	£5,727	£7,159	£8,591	£11,454	£14,318	£21,477	£28,636	£42,954
5	£6,334	£9,501	£12,668	£15,835	£19,002	£25,336	£31,670	£47,505	£63,340	£95,010
10	£11,235	£16,852	£22,470	£28,087	£33,704	£44,939	£56,174	£84,261	£112,348	£168,521
15	£14,561	£21,841	£29,122	£36,402	£43,682	£58,243	£72,804	£109,206	£145,608	£218,412
20	£15,563	£23,344	£31,126	£38,907	£46,688	£62,251	£77,814	£116,721	£155,628	£233,442
25	£17,904	£26,857	£35,809	£44,761	£53,713	£71,618	£89,522	£134,283	£179,044	£268,566
30	£20,246	£30,369	£40,492	£50,615	£60,738	£80,984	£101,230	£151,845	£202,460	£303,690
35	£22,588	£33,881	£45,175	£56,469	£67,763	£90,350	£112,938	£169,407	£225,876	£338,814

#### **Question 6: Are there other ways to ensure such arrangements are consistent with the cap on lump sum payments?**

If the proposals go ahead, careful consideration will be needed to the issues faced by the LGPS where – as highlighted in our response to question 2 - the regulatory

requirement is an unreduced pension at age 55 or over for employees who are made redundant. If necessary, Government should consider delaying the introduction of any cap in local government until these issues have been fully resolved.

***Question 7: Do you agree with the proposed approach of limiting early retirement benefits with reference to the cost for the employer? What alternative approaches would you suggest and why?***

No.

These employer costs are paid to LGPS Funds not the exiting employee. In addition, the proposed approach could skew redundancy considerations based on the length of an individual employee's LGPS membership.

See also answers to Questions 2, 3 & 5

***Question 8: Do you agree that the government has established the correct scope for the implementation of this policy?***

A joint answer to Question 8 and 9 is set out under Question 9.

***Question 9: How do you think the government should approach the question of employees who are subject to different capping and recovery provisions under TUPE rules following a transfer to (or from) the private sector and whether there should be consistency with public sector employees in general?***

Joint answer to Question 8 & Question 9:

The employer profile of the LGPS has transformed radically in the last 15 years. Many local authorities commission service delivery from the private sector and the numbers of transferee admission bodies within the LGPS has grown significantly.

As a result, the active LGPS membership includes significant numbers of employees who having previously worked for public sector bodies, are now employed in the private sector. By definition the existing scope includes the former but excludes the latter. The consequence of imposing the cap with the current scope is that one group of LGPS employers will have limits placed on the amount of financial strain they can pay whilst another group will not.

In our view this reinforces the case for excluding financial strain from the exit payment cap.

***Question 10: Do you agree with the proposed approach for waivers to the cap on exit payments?***

As highlighted in our response to Question 3, moves which inhibit Local Government employers from effectively managing future restructuring exercise will be seen as counterproductive.

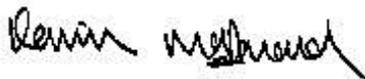
**Question 11: Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?**

None of which we are aware.

**Question 12: Are you able to provide information and data in relation to the impacts set out above?**

Our response to Question 5 includes relevant data provided by our Fund Actuary Barnett Waddingham.

Yours sincerely,



Kevin McDonald  
Director for Essex Pension Fund  
Essex Pension Fund  
Corporate Services

Essex County Council  
Office telephone: 0333 0138 488  
Mobile telephone: 077123 56217  
Email: [kevin.mcdonald@essex.gov.uk](mailto:kevin.mcdonald@essex.gov.uk) | [www.essex.gov.uk](http://www.essex.gov.uk) |  
[www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk)



Public Sector  
Scheme of the  
Year  
2014





<b>Essex Pension Fund Strategy Board</b>	<b>PSB/21/15</b>
<b>Date: 16 September 2015</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:

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

#### **2. Recommendations**

2.1 That the Board notes:

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

### **3. Background**

3.1 The following documents accompany this report:

- an update on the 2015/16 business plan at Annex A(i);
- the 3 year business plan at Annex A(ii);
- unchanged risks with a residual score of six or above are detailed at Annex B;
- 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:

- Interim Review 31 March 2015
- Structural Reform of LGPS – Budget 2015
- Investment Steering Committee (ISC) Quarterly report
- Knowledge & Skills Training strategy
- External Auditors Report

### **5. End of Year Returns and Annual Benefit Statements**

5.1 At its 8 July 2015 meeting, the PSB was updated on progress with business plan action 16 which covers the year end data collection exercise and the production of Annual Benefit Statements (ABS). It was noted that, in common with experience throughout the LGPS in England & Wales, delays in receiving year end data of sufficient quality from all Fund employers was impacting on the Fund's ability to deliver an ABS to active scheme members by the 31 August deadline. The PSB agreed that a target bet set of an ABS being issued to **95%** of the Fund's active membership by 31 August deadline.

5.2 After the last PSB meeting notifications of fines were issued to employers who, as at end June had neither submitted data nor been in touch with Fund officers.

5.3 By 15 August 2015 data returns had been received from 93.4% of employers which enabled the Fund to undertake the necessary data processing ahead of submission to the external printers for publication in respect of **93%** of the Fund's active membership.

5.4 As a consequence:

- each of the employers who did not submit data or data of sufficient quality has been notified that their LGPS workforce will not receive an ABS in line with the statutory requirement;

- an update has been placed on the Fund's web site, advising the employees affected by the absence of data from certain employers, that an ABS will be forwarded to them later this year;
- Fund officers have advised the Pension Regulator of the situation; and
- both the Local Government Association (LGA) and National Association of Pension Funds (NAPF) have made representations to the Pension Regulator on behalf of LGPS Funds.

5.5 For the purposes of the measures appearing elsewhere within this agenda item:

- risk measure **A18** remains red; and
- scorecard measure **4.1.9** is now amber (the first time it has not been green).

5.6 Fund officers continue in their dialogue with employers. Planning is underway for employer engagement and training events later in the year. Proposals on the approach to the year-end data collection exercise for 2015/16 – including a risk assessment and scale of fines for non-compliance – will be brought to the PSB's next meeting on 9 December 2015.

## **6. Business Plan 2015/16**

6.1 Progress is broadly on track with the business plan shown at Annex A(i). Of the 23:

- 3 (13%) have been completed;
- 15 (65%) are in progress, of which 4 are subject to items elsewhere on this agenda
- 5 (22%) are scheduled to commence later in the year.

## **7. 3 year Business Plan**

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

## **8. Risk Register**

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

8.2 The full risk register is available on infoBOARD.

## **9. Scorecard**

9.1 The scorecard is set out in Annex C.

- 9.2 The Knowledge & Skills Training Strategy appears elsewhere on this agenda. Those measures relating to training (1.2.1; 1.2.2; 1.2.3; 2.2.2; 2.2.3) are shown as grey within the scorecard and will be reviewed in the light of the PSB's consideration of that item.
- 9.3 Based upon the Local Authority Universe of data issued by State Street in July 2015, Essex Fund has the highest investment return for 2014/15 out of the selected peer group of local LGPS Funds. Measure 2.1.1 therefore remains green.
- 9.4 At its meeting on 22 July, the ISC reviewed the cash flow position of the Fund and agreed a revision to measure 3.4.1 to reflect the Fund's partial use of investment income to fund benefit expenditure.
- 9.5 As highlighted in section 5 of this report, an ABS was issued to 93% of the Fund's active membership by the 31 August 2015 deadline. Measure 4.1.9 is therefore amber for the first time.
- 9.6 Measure 4.1.14 covers the payment of death grants. For the first time since this measure was introduced there have been instances where individuals named in the nomination have predeceased the scheme member. As a consequence the death grant has been paid to the next of kin. The detailed analysis which accompanies 4.1.14 has been expanded to reflect this.
- 9.7 There were 81 minor data breaches in the quarter and as a result measure 4.2.1 is amber. Over 12,500 letters were distributed to Fund members who had a change in their circumstances (i.e. joined the Fund voluntarily, brought into the Fund by auto-enrolment, changed job or started an additional employment with an admitted employer) since the migration to the new CIVICA/UPM system in November 2014. Of this total, 81 letters (0.6%) wrongly paired names with the wrong address. This was the result of human error during the bulk upload of data to the new system.
- 9.8 This breach has been reported in line with ECC's data breach protocols. 81 revised letters have been distributed explaining and correcting the situation. The data on UPM has been corrected.

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

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

## **11. Risk Implications**

- 11.1 Key risks are identified at Annex B

## **12. Communication Implications**

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

## **13. Finance and Resources Implications**

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

## **14. Background Papers**

- 14.1 None.



## Essex Pension Fund Business Plan 2015/16

### Governance

#### Objectives:

- Provide a high quality service whilst maintaining value for money
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise.
- Evolve and look for new opportunities that may be beneficial for our stakeholders, particularly the Fund's beneficiaries, ensuring efficiency at all times. Continually measure and monitor success against our objectives
- 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

#### Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at September 2015
1. Annual business plan will be put in place.	Proposed actions for 2015/16 business plan actions presented to 4 March 2015 Board for approval.	DfEPF & HoEPF	Complete
2. Further roll out of training and training needs assessments	Training & training needs assessments will continue in 2015/16.	IGAA	In progress. A separate item on this matter appears elsewhere on the 16 September 2015 PSB agenda.

<b>Action</b>	<b>How will this be achieved?</b>	<b>Officer managing action*</b>	<b>Progress as at September 2015</b>
3. Board members' knowledge centre	Further infoBOARD training will take place during 2015/16	HoEPF	In progress. Following the workshop on infoBOARD immediately after the Board's meeting on 8 July 2015 some work is taking place with Hymans Robertson to improve user-friendliness, use by the PAB and better use of infoBOARD's functionality so as to get better value for this product
4. Annual review of governance policy	A review of governance policy will take place after arrangements for the Pensions Advisory Board have been finalised.	DfEPF, HoEPF & IGAA	Scheduled for December 2015. The Governance Compliance Statement will be updated to reflect the changes to the membership of the PSB and the formation of the PAB.
5. Annual review of Pension Fund Board	Review the effectiveness of the Pension Fund Board and the services supplied to it.	GTM and IGAA	In progress. All the recommended actions in the paper presented to the Board's 8 July 2015 meeting are being considered by the officers and will be acted upon as appropriate over the next 12 months.
6. Implement the requirements of the Public Sector Pension Act 2013	Implement required changes to Governance arrangements	DfEPF, HoEPF & IGAA	Complete. The first meeting of the new Pension Advisory Board took place on 17 July 2015.

## Investments

### Objectives:

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

### Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at September 2015
7. Review of asset allocation	Review of asset allocation as part of the strategy & structure deliberations at the ISC strategy meetings.	DfEPF	In progress. A review took place on 22 July 2015. A further review is scheduled for 22 February 2016
8. Implement any review of investment allocation arrangement	Any asset allocation decisions made by the ISC will be implemented as required.	DfEPF	In progress. Arrangements are underway for rebalancing the Baillie Gifford mandate in line with the ISC's decision of 22 July 2015.
9. To review investment management fees	Ensure that fee monitoring arrangements form part of the annual review of performance.	DfEPF	Scheduled for November 2015.

Action	How will this be achieved?	Officer managing action*	Progress as at September 2015
10. Review the Statement of Investment Principles (SIP)	Annual Review of SIP – to include review of Statement of Compliance on Investment Decision Making	DfEPF	The next review of the SIP is scheduled for March 2016.
11. Procurement of Independent Investment Adviser (IIA)	The position of IIA will be advertised, and a shortlist of suitable candidates will be interviewed by a sub-committee of Members.	DfEPF	Complete. The Appointment Sub Committee met on 19 June 2015 and agreed to appoint Mark Stevens as the new IIA.
12. Respond to the requirements of LGPS structural reform process	Developments in relation to LGPS structural reform will be monitored.	DfEPF	In progress. A separate report on this matter appears elsewhere on the 16 September 2015 agenda.

# Funding

## Objectives

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

## Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at September 2015
13. Interim Review as at 31 March 2015.	An interim review of the Fund as at 31 March 2015 will be commissioned from the Actuary.	DfEPF and HoEPF	In progress. A separate report on this matter appears elsewhere on the 16 <sup>th</sup> September 2015 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 16 <sup>th</sup> September 2015 agenda.
15. Employer participation	Employer participation and membership of the Essex Pension Fund will be monitored on an on-going basis	DfEPF and HoEPF	In progress - Monitoring continues

## Administration

### Objectives:

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

### Actions:

Action	How will this be achieved	Officer managing action*	Progress as at September 2015
16. Complete the annual end of year data exercise as at 31 March	Complete year end accounting, gather information from employer and update UPM, and produce annual benefit statements.	HoEPF	In progress.  Further detail is provided in section 5 of the cover report of this item (item 9 of the 16 September 2015 PSB agenda).
17. Administration Strategy	The Administration Strategy will be monitored during 2015/16.	HoEPF	In progress.  Monitoring continues

Action	How will this be achieved	Officer managing action*	Progress as at September 2015
18. Auto Enrolment – Work based Pensions	Monitor developments and maintain dialogue with Pension Fund employers throughout the process of auto enrolment implementation. (Staggered staging dates apply to all employers – depending on size – between 2012 and 2016).	HoEPF	In progress.  Monitoring continues
19. Implementation of new administration system	The second phase of UPM implementation including the “ <i>member online</i> ” and “ <i>employer online</i> ” modules will be phased in during 2015/2016.	HoEPF	In progress.  Testing continues.  Phase 2 modules currently being implemented are the new required GMP module, barcoding to enable streamlined scanning of documents and bulk data importing to allow large uploads of employee information.
20. Review of staffing structure	A review of staffing structure will take place.	DfEPF and HoEPF	Scheduled for Q4 2015/ Q1 2016
21. Confirmation of GMP entitlement	Confirming the GMP element of all Scheme Members’ entitlement is required to have been completed by 2017/18.	HoEPF	In progress: Work on this significant project has commenced.

## Communications

### Objectives:

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

### Actions:

Action	How will this be achieved?	Officer managing action*	Progress as at September 2015
22. Monitor Communications Policy	A review of the communications policy will take place.	HoEPF & CM	Scheduled for later in 2015/16.
23. Communicating forthcoming National Insurance changes	The Fund will inform both employers and active scheme members of the increases to employer and employee national insurance contribution rates scheduled to commence from April 2016.	CM	In progress.  Initial dialogue with employers underway. Employees advised within the Annual Benefit Statement.

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 2015 to March 2018

Area of activity	2015/16	2016/17	2017/18
<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	December	September	September
Effectiveness of Pension Fund Board	July	July	July
Annual Statement of Accounts	July (draft) September (Final)	July (draft) September (Final)	July (draft) September (Final)
Employer Forum(s)	June	May (onwards)	May / June
Review scorecard (risk register)	Quarterly	Quarterly	Quarterly
Review performance	Quarterly	Quarterly	Quarterly
Administering Authority discretions and delegations review			September (review)
Employing Authority discretions and delegations review			September (review)
Communications policy review	December	December	December

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

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 planned for 2015/16
Investments	To maximise the returns from investments within reasonable risk parameters	I1	If investment return is below that assumed by the Actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk.	3	3	9	9	Kevin McDonald	Diversified portfolio; Annual Strategy Review; Asset Liability Study, extended recovery periods to smooth contribution increases.
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	3	3	9	9	Kevin McDonald	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	3	2	6	6	Kevin McDonald	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	3	2	6	6	Kevin McDonald	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible

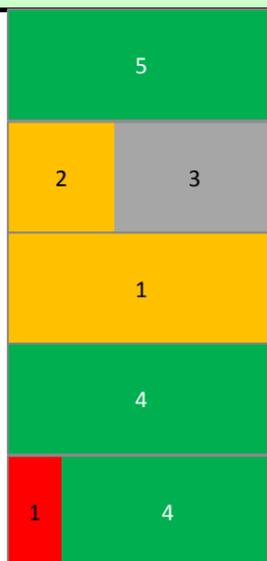
Category	Objective	Risk Ref:	Description of Risk of not Achieving the Objective	Residual Impact	Residual Probability	Residual Risk	Previous Risk Score	Risk Owner	Comments, Actions and Recommendations
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	3	2	6	6	Kevin McDonald	Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible
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	3	2	6	6	Jody Evans	Phase one of the new UPM Civica system was implemented in January 2015 and monitoring continues. Phase two is anticipated in early 2016.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A6	Fund's resources not able to match the demands of providing the service.	3	3	9	9	Kevin McDonald / Jody Evans	A review of the staffing structure planned for 2015/16
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A17	Failure to administer scheme in line with Regulations and policies - Brewster test case in Northern Ireland pave way for retrospective action re: surviving co-habiting partners with no nomination for surviving partners pension.	3	2	6	6	Jody Evans	In the event of revised LGPS Regulations on nomination arrangements for surviving co-habiting partners' pensions, a case by case review will be conducted.
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A18	Unable to produce Annual Benefit Statements for active Scheme Members in line with Regulatory deadlines due to lack or late provision of data from employers	4	3	12	12	Jody Evans	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	The Freedoms & Flexibilities (for DC schemes) introduced in April 2015 has resulted in a significant number of phone calls to the office.

## Essex Pension Fund Scorecard - 16 September 2015

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

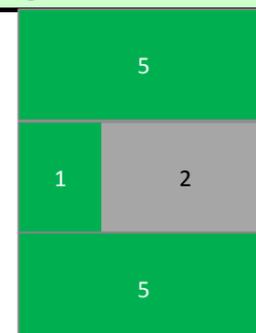
### 1. GOVERNANCE

- 1.1 - Provide a high quality service whilst maintaining value for money
- 1.2 - Ensure the Pension Fund is managed by people who have the appropriate knowledge and expertise
- 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.
- 1.4 - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- 1.5 - Understand and monitor risk and compliance



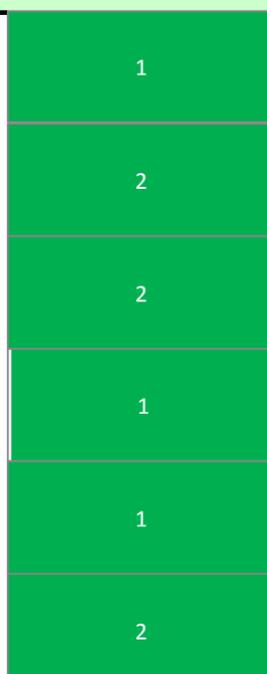
### 2. INVESTMENTS

- 2.1 - Maximise returns from investments within reasonable risk parameters
- 2.2 - Ensure the Pension Fund is properly managed (ISC attendance, skills and governance arrangements)
- 2.3 - Ensure investment issues are communicated appropriately to the Fund's stakeholders



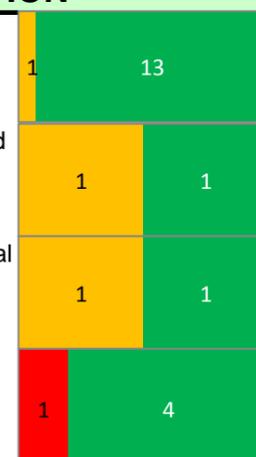
### 3. FUNDING

- 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
- 3.2 - To recognise in drawing up its Funding Strategy, the desirability of employer contributions that are as stable as possible
- 3.3 - To have consistency between Investment and Funding strategies
- 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.
- 3.5 - Maintain liquidity in order to meet projected net cash flow outgoings
- 3.6 - Minimise unrecoverable debt on termination of employer participation



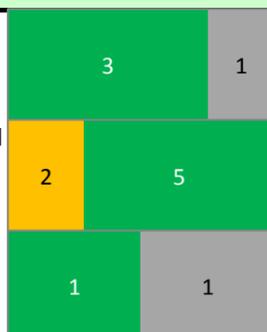
### 4. ADMINISTRATION

- 4.1 - Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need
- 4.2 - Data is protected to ensure security and authorised use only
- 4.3 - Ensure proper administration of financial affairs
- 4.4 - Compliance with Fund's governance arrangements



### 5. COMMUNICATIONS

- 5.1 - Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally.
- 5.2 - Ensure our communications are simple, relevant and have impact and deliver information in a way that suits all types of stakeholder.
- 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.



### Key

- G** = on or exceeding target
- A** = missing target but within agreed tolerance
- R** = missing target by more than agreed tolerance
- Gy** = data not currently available / work in progress

## 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	2			G	G	5	20	Low	Quarterly
1.1.3 Number of scheme member compliments	33			G	G	15	60	High	Quarterly
1.1.4 Scheme member survey - % of positive answers	96.4%	%		G	G	95%	95%	High	Annual (Dec)
1.1.5 Employer survey - % of positive answers	97.3%	%		G	G	95%	95%	High	Annual (Dec)

### Rationale for performance status and trend

**1.1.1.** Cost per member was £17.81 in 2013/14 (£17.80 in 2012/13 ) compared to the CIPFA Benchmarking average of £20.75 (£20.87 in 2012/13). This Fund remains in the second quartile. The release of the 2014/15 data by CIPFA has been delayed, and will therefore now feature in the December 2015 scorecard.

**1.1.2.** The number of complaints received in the 3 months to 30 June 2015 was 2

**1.1.3.** The number of compliments received in the 3 months to 30 June 2015 was 33

**1.1.4.** 500 scheme members (employees) were invited to participate in a five question survey conducted in November 2013. 118 members returned completed survey's resulting in a total of 810 answers. Of which 29 were negative responses. The remainder 781 (96.4%) were positive. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

**1.1.5.** 378 employers were invited to participate in a 10 question survey conducted in November 2013. Of 112 responses 3 were negative which resulted in a 97.3% positive response rate. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

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

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

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

**Measure Owner:** Kevin McDonald

**Data lead:** Ian Myers/Jody Evans/Barry Mack

Status	Value	Units	Previous Status	Current Status	Target	Annual target	Polarity	Frequency
1.2.1 Board Members attendance at training		%	A	Gy				
1.2.2 Board Members completing training needs analysis (TNA)		%	R	Gy				
1.2.3 Board Members with adequate skills - average scores for comprehensive training need analysis		%	R	Gy				
1.2.4 Board Member attendance at Board meetings	76%	%	A	A	80%	80%	High	Quarterly
1.2.5 Officer training plans and Supporting Success objectives in place	96%	%	G	A	100%	100%	High	Annual (Jul)

### Rationale for performance status and trend

Elsewhere on the 16 September agenda is a item on the Knowledge & Skills Training Strategy. Measures 1.2.1. 1.2.2. & 1.2.3. will be reviewed in the light of the PSB's consideration of this item.

1.2.4. This represents attendance at Board meetings over the last twelve months.

1.2.5. Supporting Success objectives for Investment Team members have been rolled from 2013/14 into 2014/15 pending review. This impacts upon two members of staff.

## 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	13% Complete 65% in progress 22% yet to commence	A	A	30% Complete, 50% 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:

- 3 (13%) complete
- 15 (65%) in progress
- 5 (22%) scheduled to commence later in 2015/16

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		R	G	Yes	High	Quarterly

### Rationale for performance status and trend

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

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

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

1.4.4 Since the last meeting of the PSB, the final three appointments to the PAB have been finalised. Yes = green; No = red.

## 1.5 - Understand and monitor risk and compliance

**Measure Purpose:** Understand and monitor risk and compliance

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

**Measure Owner:** Kevin McDonald & Jody Evans

**Data lead:** Kevin McDonald & Jody Evans

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

### Rationale for performance status and trend

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

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

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

**1.5.4** The Fund currently has 82 risks in its register, of which 1 has a proposed residual score that is classified as red. (1 in July). 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. See item 13 on the 16 September 2015 agenda.

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

Data as at: 31 March 2014

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

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

**Measure Owner:** Kevin McDonald

**Data lead:** Samantha Andrews

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

### Rationale for performance status and trend

2.1.1. Based on the Local Authority performance data released by State Street in July 2015, the Essex Pension Fund with 14.8% had the highest annual return of the peer group which consists of Kent, Suffolk, Norfolk, Cambridgeshire & Bedfordshire. The lowest return within the group was 11.1%. Essex also had the highest return of this group of Funds in 2013/14.

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

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

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

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

## 2.2 - Ensure the Fund is properly managed

**Measure Purpose:** To ensure that the Fund is properly managed

**Scope:** Attendance at ISC and ISC member skills and knowledge

**Measure Owner:** Kevin McDonald

**Data lead:** Samantha Andrews & Barry Mack

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

### Rationale for performance status and trend

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

Elsewhere on the 16 September agenda is a item on the Knowledge & Skills Training Strategy. Measures 2.2.2. & 2.2.3. will be reviewed in the light of the PSB's consideration of this item.

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

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

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

**Measure Owner:** Kevin McDonald

**Data lead:** Kevin McDonald

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

### Rationale for performance status and trend

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

- ISC Terms of Reference in place and noted at the beginning of the municipal year
- 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%

## 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 were offered contributions which increased by no more than 1% per year or 3% per valuation.	Yes	G	G	Yes	Yes	High	3 yearly

### Rationale for performance status and trend

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

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

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

### 3.3 - Consistency between the Investment and Funding strategies

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

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

**Measure Owner:** Kevin McDonald

**Data leads:** Samantha Andrews

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

#### Rationale for performance status and trend

##### 3.3.1 Long term return assumed by Funding Strategy

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

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

##### 3.3.2 Investment Strategy reviewed

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

### 3.4 - Manage employers' liabilities effectively

**Measure Purpose:** To manage employers' liabilities effectively by the adoption of employer specific funding objectives 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	GY	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.

The Fund is will use some investment income to pay benefits during 2015/16.

## 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)	0.000	%	G	G	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

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

#### 3.6.2 Scoring:

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

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

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

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

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

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

**Measure Owner:** Jody Evans

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

Status	Value	Units	Previous status	Current status	Target	CIPFA Average	Polarity	Frequency
4.1.1 Letter detailing transfer in quote issued within 10 working days (375 cases)	96.3%	%	A	G	95.0%	89.5%	High	Annual (Dec)
4.1.2 Letter detailing transfer out quote issued within 10 working days (494 cases)	97.8%	%	A	G	95.0%	92.1%	High	Annual (Dec)
4.1.3 Letter detailing process of refund and payment made within 5 working days (237 cases)	95.3%	%	A	G	95.0%	87.1%	High	Annual (Dec)
4.1.4 Letter notifying estimated retirement benefit amount within 10 working days (2760 cases)	97.3%	%	G	G	95.0%	90.8%	High	Annual (Dec)
4.1.5 Letter notifying actual retirement benefits and payment made of lump sum retirement grant within 5 working days (1887 cases)	96.3%	%	G	G	95.0%	92.5%	High	Annual (Dec)
4.1.6 Letter acknowledging death of active /deferred / pensioner member within 5 working days (962 cases)	99.5%	%	G	G	95.0%	90.9%	High	Annual (Dec)
4.1.7 Letter notifying the amount of dependent's benefits within 5 working days (962 cases)	95.7%	%	G	G	95.0%	91.3%	High	Annual (Dec)
4.1.8 Calculate and notify deferred benefits within 10 working days (5860 cases)	98.3%	%	R	G	95.0%	76.4%	High	Annual (Dec)
4.1.9 Annual benefit statements issued to active members by 31 August.	93.0%	%	G	A	95.0%	95.0%	High	Annual (Aug)
4.1.10 Annual benefit statements issued to deferred members by 30 June.	Yes		G	G	Yes	N/A	High	Annual (Jun)
4.1.11 New IDRPs appeals during the year	2		G	G	Below CIPFA average	Pending	Low	Annual (Dec)
4.1.12 IDRPs appeals - number of lost cases	0		G	G	Below CIPFA average	Pending	Low	Annual (Dec)

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.

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 2015. The previous dispatch was in June 2014

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

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

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

**Measure Owner:** Jody Evans

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

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

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

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

Payment of Death Grants detailed analysis	March '15 quarter	June '15 quarter
A: Notifications of Scheme Member deaths received	39	51
B: Number within A with death grant nomination	20	28
C: Number within B paid in line with nomination held	20	25
D: Number within A paid to next of kin (in instances of predeceased nominee)	0	3
E: Number within A without death grant nomination	19	23
F: Number within D paid to next of kin	19	23
G: 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	81		G	A	0	0	Low	Quarterly
4.2.2 Actions in place for all breaches	81		G	G	Actions in place for all	Actions in place for all	N/A	Quarterly

### Rationale for performance status and trend

**4.2.1** There has been a data breach within the quarter.

Over 12,500 letters were distributed to Fund members who had a change in their circumstances (i.e. joined the Fund voluntarily, brought into the Fund by auto-enrolment, changed job or started a second job) since the migration to the new CIVICA/UPM system in November 2014.

Of this total, 81 letters (0.6%) wrongly combined names with the wrong address. This was the result of human error during the bulk upload of data to the new system.

This breach has been reported in line with ECC's data breach protocols.

Green = 0 breaches

Amber = 1 or more medium or minor breaches

Red = 1 or more major or critical breaches

**4.2.2** 81 revised letters have been distributed explaining and correcting the situation. The data on UPM has been corrected.

## 4.3 - Ensure proper administration of financial affairs

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

**Scope:** Investments and Contributions

**Measure Owner:** Kevin McDonald

**Data leads:** Samantha Andrews & Sara Maxey

Status	Value	Units	Previous status	Current status	Current target	Annual target	Polarity	Frequency
4.3.1 % of monthly reconciliations of equity and bond investment mandates which are timely	0%	%	A	G	0%	100%	High	Quarterly
4.3.2 % of contributing employers submitting timely payments	97.2	%	A	A	100%	100%	High	Quarterly

### Rationale for performance status and trend

**4.3.1** In the quarter up to June 2015 the Investment team's tasks centre on closing the year end accounts. The target for reconciliations is therefore 0%.

**4.3.2** For the quarter ending June 2015 **97.2%** of employers submitted timely payments. In cash terms this equated to **99.7%** of a total employer contribution of £36.4m.

## 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	80	%	G	R	100%	100%	High	Quarterly
4.4.4 % of Board minutes uploaded to internet 12 working days after meetings	100	%	G	G	100%	100%	High	Quarterly
4.4.5 Compliance with governance arrangements - number of governance arrangements not in place	0	number	G	G	0	0	High	On-going

### Rationale for performance status and trend

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

- 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>Expertness of Pensions Teams.</i>	99.1	%	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>	100	%	G	G	90%	90%	High	Annual (Dec)
5.1.4. A Communication Policy is in place for the current year.			Gy	Gy	Yes	Yes	High	Annual (Dec)

### Rationale for performance status and trend

**5.1.1** In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 111 responses were received to the question to 'How would you rate the Essex Pension Fund on helpfulness of staff?'. Only one negative response was received resulting in a 99.1% positive response. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

**5.1.2** In November 2013 an employer survey was issued, 378 employers were invited to participate and 110 responses were received to the question to 'How would you rate Essex Pension Fund staff on their level of expertise?'. Only one negative response was received resulting in a 99.1% positive response. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

**5.1.3** In November 2013 an employer survey was issued, 378 employers were invited to participate and 111 responses were received to the question to 'How would you rate Essex Pension Fund staff on being friendly and informative?'. No negative response was received resulting in a 100% positive response. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

**5.1.4** A review of the Communication Policy is scheduled for later in the year.

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

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

**Scope:** All Scheme members and employers

**Measure Owner:** David Tucker

**Data lead:** Matt Mott

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

5.2.1 - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 68 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Only two negative response was received resulting in a 97.1% positive response. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

5.2.2 - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 111 responses were received to the question to 'How easy was the information in your annual benefit statement to understand?'. 20 negative response was received resulting in a 82% positive response. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

5.2.3 - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 114 responses were received. Only one negative response was received resulting in a 99.1% positive response. The latest survey is currently underway and the results will be included within the December 2015 scorecard.

5.2.4 - In November 2013 an employer survey was issued, 378 employers were invited to participate and 105 responses were received to the question to 'How clear is the information available on the Essex Pension Fund website?'. Eight negative responses was received resulting in a 92.4% positive response. . The latest survey is currently underway and the results will be included within the December 2015 scorecard.

5.2.5 - In November 2013 a scheme member survey was issued, 500 scheme members were invited to participate and 118 responses were received. In 2012 82 responses were received. This is an increase in respondents of 36 (43.9%). The latest survey is currently underway and the results will be included within the December 2015 scorecard.

5.2.6 - In November 2013 an employer survey was issued, 378 scheme members were invited to participate and 116 responses were received. In 2012 43 responses were received. This is an increase in respondents of 73 (169.8%). The latest survey is currently underway and the results will be included within the December 2015 scorecard.

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

## 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

**Scope:** All scheme members and employers

**Measure Owner:** David Tucker

**Data lead:** Matt Mott

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

### Rationale for performance status and trend

5.3.1 This measure is under development.

5.3.2 In November 2013 an employer survey was issued, 378 employers were invited to participate and 112 responses were received when asked about feedback on information available is helpful to employers understanding their responsibilities. Only three negative response were received resulting in a 97.3% positive response. In 2012 the result showed a 95.3% positive response. 116 survey responses that were received 4 respondents chose not to answer this question. The latest survey is currently underway and the results will be included within the December 2015 scorecard.



<b>Essex Pension Fund Strategy Board</b>	<b>PSB/22/15</b>
date: 16 September 2015	

**Investment Steering Committee (ISC) Quarterly Report**

Report by the Director for Essex Pension Fund

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Enquiries to Kevin McDonald on: 0333 0138 488

**1. Purpose of the Report**

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

**2. Recommendations**

2.1 That the Board should note the report.

### 3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Board.
- 3.2 Since the Board's last meeting the ISC has met once on 22 July 2015.

### 4. Report of the meeting of ISC on 22 July 2015

- 4.1 The Committee received an update outlining the latest developments regarding the potential structural reform of the LGPS as a result of the Budget 2015 announcement.
- 4.2 The main focus of the meeting's business was the yearly review of the Fund's investment managers and the half yearly review of strategy. The meeting commenced with an investment review and economic update from James Sparshott and Tim Drayson from Legal & General.
- 4.3 The Committee received a presentation from Hymans Robertson on the Fund's investment performance to 31 March 2015. This was followed by a presentation which summarised their current views on the capability of each of the Fund's managers relative to their peer group universe.
- 4.4 The Committee were subsequently taken through the review undertaken by officers and advisers of the investment strategy and structure of the Fund. This was followed by an update on the cash flow forecast.

The Committee noted that:

- the overall structure of the Fund remains robust and no fundamental changes were proposed;
- the Fund's equity allocation to Baillie Gifford had risen above its strategic target by c. 3% over the past few years due to very strong performance;
- index-linked gilts were c 2% overweight;
- within the alternatives portfolio, the Fund's allocation to Infracapital's infrastructure fund is now in run-off and a potential replacement and/or extension will be required in order to achieve and maintain the Fund's strategic target; and
- that the rental income received from Aviva Investors and dividend income received from the UK pooled funds managed by L&G will be sufficient to supplement the contribution income receivable to meet benefit payments during 2015/16.

The Committee **agreed**:

- to rebalance the Fund's current overweight portfolio managed by Baillie Gifford back to within 1% of its strategic target (consistent with the overall Fund rebalancing policy) and use the proceeds c. £100m to increase the

allocation of the global equity mandates managed by L&G (RAFI fund) and MG Investments by c. £50m each; and

- that the implementation be delegated to officers in consultation with the advisers;
- that no rebalancing of the index-linked gilt portfolio was required at this time, but this will remain under review;
- that the currency hedge portfolio remains appropriate and that a 50% currency hedge continue to operate;
- that officers & advisers investigate the potential options open to the Fund to replace the Infracapital allocation and that a recommendation be brought back to a future ISC meeting;
- that officers & advisers consider a longer term approach to realising income over the next 3 to 5 years in combination with overall risk levels as part of the 2016 funding discussions; and
- that the Pension Strategy Board scorecard measure 3.5.1. effective from September 2015 be amended from:

*3.5.1 Contribution income adequate to meet benefit payments*

to:

*3.5.1 Sufficient investment income is available to supplement contribution income to meet benefit payments.*

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

### **5.1 Investments**

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

## **6. Risk Implications**

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

## **7. Communication Implications**

7.1 None

## **8. Finance and Resources Implications**

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

## **9. Background Papers**

9.1 ISC meetings of 22 July 2015 and 10 Feb 2016 draft minutes.



<b>Essex Pension Fund Strategy Board</b>	<b>PSB/23/15</b>
<b>Date: 16 September 2015</b>	

### **Knowledge & Skills - Training Strategy**

Report by the Independent Governance and Administration Adviser

Enquiries to Barry Mack on 020 7082 6141

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

- 1.1 To propose an updated Training Strategy to meet the Fund's objectives relating to Knowledge and Skills required by members of the ISC, PSB and the PAB.
- 1.2 To demonstrate how the Fund will continue to aim for full compliance with the CIPFA Knowledge and Skills Framework and Code of Practice to meet the skill set within that Framework.
- 1.3 To record 'credits' for attendance at arranged training sessions and relevant external events on the Fund's scorecard.

#### **2. Recommendations**

- 2.1 To consider this updated Training Strategy.
- 2.2 That the Training Strategy be passed to the PAB for consideration.



# Essex Pension Fund

Knowledge and Skills Training Strategy  
September 2015

Barry Mack

Independent Governance & Administration Adviser

Partner, Head of Governance

For and on behalf of Hymans Robertson LLP

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# 1 Introduction

This is the Training Strategy for the Essex Pension Fund (“the EPF”).

It sets out the strategy to be considered by the EPF Strategy Board (“the PSB”), and subsequently put to the EPF Advisory Board (“the PAB”) for their consideration, concerning the training and development of the:

- members of the PSB;
- members of the PAB;
- officers of the EPF responsible for the management of the EPF (the “Officers”).

The training strategy is established to aid the PSB and the PAB members 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. A code of practice and a framework of knowledge and skills have been developed by CIPFA which Local Government Pension Scheme (LGPS) funds are expected to sign up to.

The objective of the CIPFA knowledge and skills framework is to determine and set out the knowledge and skills sufficient to enable the effective analysis and challenge of decisions made by officers and advisers to the s101 Pension Committee. In relation to the EPF, this is the PSB.

Essex County Council set up the PAB as its Local Pension Board as it was required to by the Public Service Pensions Act 2013. The same Act also amended The Pensions Act 2004 requiring the Pensions Regulator to issue a code of practice relating to the requirements of the knowledge and understanding of Board members i.e. members of the PAB. Guidance covering the knowledge and understanding of local pension boards in the LGPS has also been issued by the Shadow Scheme Advisory Board (SSAB) in January 2015. Although this has not been designated as statutory guidance it should be acknowledged as good guidance to which the PAB should refer to. The guidance for local pension boards issued by the SSAB is designed to assist the individual PAB members in undertaking their role to assist the Scheme Manager (the Essex County Council) in the effective governance and administration of the LGPS.

The training necessary to achieve the additional knowledge and skills will be contained in the appropriate training plan(s); an example for the PAB is given in the appendix.

## 1.1 Strategy Objectives

The EPF objectives relating to knowledge and skills are to:

- Ensure the EPF is managed and its services delivered by people who have the appropriate knowledge and expertise;
- Ensure the EPF is effectively governed and administered;
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and are well based, and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives –

**The PSB Members** require an understanding of:

- Their responsibilities as delegated to them by Essex County Council as an administering authority of an LGPS fund;

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- The fundamental requirements relating to pension fund investments;
- The operation and administration of the EPF;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the EPF.

**PAB members** must be conversant with –

- The relevant LGPS Regulations and any other regulations governing the LGPS;
- Any document recording policy about the administration of the EPF;

and have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed.

To assist in achieving these objectives, the EPF will aim for full compliance with the CIPFA Knowledge and Skills Framework and Code of Practice to meet the skill set within that Framework. Attention will also be given to the guidance issued by the Scheme Advisory Board, the Pensions Regulator and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the PSB's and PAB's activities as set out in the EPF's 3-year business plan. For example, funding strategy training will be given at the PSB meeting that discusses the Funding Strategy Statement.

Existing PSB and PAB members will have received and new members will receive induction training to cover the role of a local pension board and to understand the duties and obligations of an LGPS administering authority, including funding and investment matters.

All those with decision making responsibility in relation to LGPS pension matters as well as PAB members will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified; and
- seek to maintain their knowledge.

### **1.2 Application of the training strategy**

This training strategy will apply to all PSB Members and representatives with a role on the PSB and to all the PAB members. Other officers involved in the management and administration of the EPF will have their own personal training plans and career development objectives.

### **1.3 Purpose of training**

The purpose of training is to:

- Equip people with the necessary skills and knowledge to be competent in their role and ensure that knowledge and skills are recorded, assessed and maintained;
- Provide those with responsibility for governing of the EPF to evaluate the information they receive and effectively challenge it where appropriate;
- Support effective and robust decision making;
- Allow members of the PSB and PAB to recognise and manage potential conflicts of interest;
- Meet the required needs in relation to the EPF's objectives.

**1.4 Summary**

This training strategy:

- Assists in meeting the EPF’s objectives;
- Meets the business plan;
- Will assist in achieving delivery of effective governance and management;
- Will equip those responsible with appropriate knowledge and skills;
- Promote ongoing development of the decision makers;
- Lead to demonstrating compliance with the CIPFA Knowledge and Skills Framework;
- Lead to demonstrating compliance with statutory requirements and appropriate consideration of associated guidance.

**2 Meeting the business plan**

**2.1 Timely and relevant**

There will be times in the year when different circumstances will require specific training. For example, funding strategy training can be provided at the PSB meeting that discusses the Funding Strategy Statement.

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan.

The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

**3 Delivery of Training**

**3.1 Training resources**

Consideration will be given to various training resources available in delivering training to the PSB members, PAB members or officers in order to achieve efficiencies. These may include but are not restricted to:

For PSB and PAB members	For Officers
<ul style="list-style-type: none"> <li>• In-house*</li> <li>• Self-improvement and familiarisation with regulations and documents</li> <li>• The Pension Regulator’s e-learning programme</li> <li>• Attending courses, seminars and external events</li> <li>• Internally developed training days and pre/post PSB/PAB sessions*</li> <li>• Shared training with other funds or frameworks*</li> <li>• Regular updates from officers and/or advisers*</li> <li>• Circulated reading material</li> </ul>	<ul style="list-style-type: none"> <li>• Desktop / work based training</li> <li>• Attending courses, seminars and external events</li> <li>• Training for qualifications from recognised professional bodies (e.g. CIPFA, CIPP, PMI)</li> <li>• Internally developed sessions</li> <li>• Shared training with other funds or frameworks</li> <li>• Circulated reading material</li> </ul>

\*These may be shared training events for PSB and PAB members

### 3.2 Training Plans

To be effective, training must be recognised as a continual process and will be centred on 3 key points

- The individual;
- The general pensions environment;
- Coping with change and hot topics.

Training plans will be developed at least on an annual basis. These will be updated as required taking account of the identification of any knowledge gaps, changes in legislation, EPF events (e.g. the triennial valuation) and receipt of updated guidance.

Induction training will be provided for all new officers with pension responsibilities, new members of the PSB and PAB. This will involve covering the requirements of the training strategy alongside guidance and information on the requirements of their roles.

### 3.3 External Events

A log of potential external events which may count towards credits will be maintained on an ongoing basis by the Head of EPF. This will be updated as information on events becomes available and will be provided at PSB and PAB meetings.

After attendance at an external event, PSB and PAB members will be expected to provide verbal feedback at their following PSB/PAB meeting either during the meeting or to an officer covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other PSB/PAB members.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

## 4 On-going development

### 4.1 Maintaining knowledge

In addition to undertaking on-going assessment in order to measure knowledge and skills against the CIPFA requirements and identify knowledge gaps, Officers, PSB and PAB members are expected to maintain their knowledge of on-going developments and issues through attendance at external events and seminars.

Appropriate attendance at events for representatives of the PSB and PAB will be agreed by the appropriate chairman. Attendance at events for officers will be agreed via their relevant line manager.

A list of known future events and seminars will be presented at each PSB/PAB meeting.

The Head of EPF will decide an appropriate level of credits for attendance at an event depending on the type of event, its content and relevance to knowledge maintenance but based on the guide given in section 5 below. The level of credit may then be re-evaluated when receiving feedback (see 3.3 above).

In any event, attendance at events/seminars (which may include some internal training sessions) that are not direct training courses focussed on the CIPFA Knowledge Skills Framework or issued guidance but enhance and improve related on-going and emerging pension knowledge will count as one credit for each session of up to a half day.

Owing to the changing world of pensions, it will also be necessary to have ad hoc training on emerging issues or on a specific subject on which a decision is to be made by the PSB in the near future or is subject to review by the PAB. These will also count as credits in maintaining knowledge.

## 5 Recording Training

### 5.1 Training credits

As a measure of training given or knowledge level, PSB and PAB members are expected to have a minimum level of training credits. Credits will be awarded in recognition of attendance at training events, successful completion of recognised training assessment or for attendance at relevant industry events or seminars. This approach recognises that members of the PSB and PAB may have different learning styles, while at the same time requiring that an appropriate core level of knowledge is attained.

Credits will be awarded in accordance with the following guide:

Method of attaining credit	Number of credits awarded
Completion of a single module of the Pensions Regulators e-learning toolkit. There are 7 modules in total	1 credit per module passed and valid for 2 years
Attendance at a training event organised by the Essex Pension Fund. This would typically be held as part of a full PSB or PAB meeting.	1 credit per session
Successful completion of a knowledge assessment following a training event.	1 credit per assessment passed and valid for 2 years (a pass being awarded for achieving at least 2/3rds of the available marks)
Attendance at an approved conference, seminar or external training event	2 credit for a full day's attendance 1 credit for a half day's attendance

### 5.2 Number of credits required

Members of the PSB and PAB will be expected to accumulate 21 credits over a rolling 2 year period. 21 credits can be obtained by, for example, completing the Pension Regulator's e-learning toolkit, attending 7 EPF training events and passing 4 knowledge assessments.

These will be measured and monitored by the Head of EPF over rolling 2-year periods ending at the relevant prior meeting and recorded. The number of credits is set at a level that encourages both attendance at training sessions and assessment.

It is acknowledged that where an individual is new to the role there will be a lead-in period before the member will be expected to demonstrate the full range of knowledge and skills. However, in any event, the scoring of credits will be reset to zero as at 1 April 2015 following the introduction of the new governance arrangements.

### 5.3 Scorecard

For the purposes of disclosing the level of knowledge and understanding of the PSB and PAB through the scorecard mechanism at PSB meetings, the following will be recorded separately for the PSB and PAB:

- Total number of credits possible in the period in question i.e. the last 2 years starting at 1 April 2015 or later for a new member joining after that date, assuming one assessment takes place per meeting cycle;
- Total number of credits achieved in the same period.

The latter score will be flagged as green if this represents at least 90% of the potential target, amber for between 60% and 89% (inclusive) and red if below 60%.

Separately, the Head of EPF will hold a record of each individual's training credits split between attendance and assessment and will be shared with the chairman of the relevant PSB/PAB from time to time (see also section 8 below).

## 6 CIPFA Requirements

### 6.1 CIPFA Knowledge & Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on s101 pension committees and non-executives in the public sector within a knowledge and skills framework. The framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skills required for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS funds.

### 6.2 Local Pension Boards: A Technical Knowledge and Skills Framework

In August 2015 CIPFA extended the Knowledge and Skills Framework to specifically include members of local pension boards, albeit there exists an overlap with the original framework. The framework identifies the following areas as being key to the understanding of local pension board members;

- Pensions Legislation;
- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;

- Investment Performance and Risk Management;
- Financial markets and product knowledge;
- Actuarial methods, standards and practices.

### **6.3 CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")**

First published in October 2011 and redrafted in July 2013, CIPFA's Code of Practice embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge and skills required. It recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The PSB fully supports the intentions behind CIPFA's Code of Practice and has agreed to formally adopt its principles. This training strategy formally sets out the arrangements the EPF will take in order to comply with the principles of the CIPFA Knowledge and Skills Code of Practice.

## **7 Guidance from the Scheme Advisory Board**

### **7.1 General Principles**

The Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and in January 2015 published Guidance for administering authorities to support them in establishing their local pension board. The Guidance includes a section designed to help local pension board members to understand their knowledge and understanding obligations.

Knowledge and understanding must be considered in the light of the role of a local pension board and Essex County Council will make appropriate training available to assist and support PAB members in undertaking their role.

### **7.2 PSB members**

Although the CIPFA knowledge and skills framework complements the code of practice that should be adopted by administering authorities there is no legal requirement for knowledge and understanding for members of a s101 pension committee. However, the view of the EPF is that members of the PSB should have no less a degree of knowledge and skills than those required in legislation by the PAB. Sections 7.3 to 7.5 below are therefore still relevant in the consideration of the training needs of PSB members.

### **7.3 Degree of Knowledge and Understanding**

The role of the PAB is to assist the scheme manager i.e. the administering authority. To fulfil this role, PAB members should have sufficient knowledge and understanding to challenge failure to comply with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

PAB members should understand the regulatory structure of the LGPS and the documentary recording of policies around the administration of the EPF in enough detail to know where they are relevant and where it will apply.

#### 7.4 Acquiring, Reviewing and Updating Knowledge and Understanding

PAB members should commit sufficient time in their learning and development and be aware of their responsibilities immediately they take up their position. The EPF will therefore provide induction training for all new PAB members [and this was carried out at their meeting held on 17 July 2015].

#### 7.5 Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment when too inflexible to reflect a change in pension law or new responsibilities required of PAB members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

## 8 The Pensions Regulator

### 8.1 E-learning toolkit

The Regulator has developed an on line tool designed to help those running public service schemes to understand the governance and administration requirements in the public service schemes code of practice. The toolkit is an easy to use resource and covers 7 short modules. These are:

- Conflicts of Interests;
- Managing Risk and Internal Controls;
- Maintaining Accurate Member Data;
- Maintaining Member Contributions;
- Providing Information to Members and Others;
- Resolving Internal Disputes;
- Reporting Breaches of the Law.

These modules are designed to apply to all public service schemes and are not LGPS specific. Completion of the toolkit will not in itself provide PAB members with all the information they require to fulfil their knowledge and skills obligations. It does however provide a good grounding in some general areas and all PAB members will be expected to complete the full 7 modules over time.

## 9 Training records and certification

### 9.1 Progress and achievement

Personalised training plans will be used to document and address any knowledge gaps and update areas of learning where required and assist in the acquisition of new areas of knowledge in the event of change.

Progress and achievement will be certificated at least on an annual basis individually to all PSB members, PAB members and officers. These will detail:

- The current assessment of an individual's acquired knowledge;
- Their progress against achieving the credits from other internal/external training or events; and
- All training courses and events attended by them to date.

## 10 Risk

### 10.1 Risk Management

The compliance and delivery of this training strategy is at risk in the event of –

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- Frequent changes in membership of the PSB or PAB;
- Poor individual commitment;
- Resources not being available;
- Poor standards of training;
- Inappropriate training plans.

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

## Appendix

### PAB Training Plan - example

#### Training plan –

##### General –

Due to the new nature of local pension boards it is unlikely that members will be experts in all areas for which they can assist the Scheme Manager. Training of PAB members must therefore be structured and relevant to ensure individuals have and maintain the necessary knowledge and understanding to effectively meet their legal obligations to assist the EPF.

In accordance with section 248A of the 2004 Act, every individual who is a member of a Local Pension Board must:

be conversant with:

- the rules of the LGPS, in other words the Regulations and other regulations governing the LGPS (including the Transitional Regulations, earlier regulations and the Investment Regulations); and
- any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund, and

have knowledge and understanding of:

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

The legal requirement for knowledge and understanding for members of a Local Pension Board i.e. the PAB does not apply to members of a Pension Committee (i.e. PSB). However, the requirement serves as a useful benchmark for the knowledge and understanding that a member of the decision-making PSB should have.

Given the role of the PAB to assist the Administering Authority, members of the PAB should have sufficient knowledge and understanding to challenge any failure by the Administering Authority to comply with the Regulations and other legislation relating to the governance and administration of the LGPS (which should be interpreted as including the Regulations and other legislation relating to investment and funding matters) and/or any failure to meet the standards and expectations set out the Pensions Regulator's Code of Practice No. 14.

Regulation 107(2) of the Local Government Pension Scheme Regulations 2013 only requires employer and scheme member representatives to have the capacity to represent their respective community. However regulation 109 of the Regulations requires the administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. Whilst the guidance on the creation and operation of local pension boards issued by the SSAB is not (as yet) statutory, such guidance must be held up to be good practice. This training plan will therefore be in line with the guidance.

## The Training Strategy

The EPF Knowledge and Skills Training Strategy sets out the fund's objectives and approach with regard to the knowledge and skills required by both the members of the PSB and the PAB.

## The training plan

With the training strategy in place it is important to have an induction training event in place for all new PAB members. The purpose of this should be to advise them of their roles and responsibilities and how this is different from that of the PSB. It is the opportunity to familiarise them with the role ahead and where information can be obtained and perhaps importantly their terms of reference and remit.

The induction day should also be used to introduce them to the training strategy and their training plan for the tenure of their membership. It is suggested the induction takes no longer than a half day.

The training should then as far as is possible be structured along with the business they are conducting. This will not be known until the local pension board has met on a number of occasions so it is necessary to put something in place at an early stage but can be flexible enough to be able to change according to requirements.

The induction training event was in fact carried out at the PAB's first meeting held on 17 July 2015.

The training plan was as follows –

### Induction half day to cover –

#### Why are we here?

- The background to LPBs (the PAB)
- The Public Service Pensions Act
- The LGPS Regulations

#### Your role

- How it differs from the PSB
- Non decision making
- Conduct and conflicts
- Reporting of breaches
- Assist the scheme manager
- Data protection

#### Your responsibilities

- Terms of reference
- Policies
- Reporting

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### **Your knowledge and skills**

- Put a strategy/plan in place
- Maintaining records
- Knowledge gaps and maintaining knowledge

The induction half day will then followed by further training events to cover the following modules:

#### **Module 1**

Introduction to documents and recording policies of the administration of the LGPS in the EPF

Advise attendees of (but not limited to)

- any scheme booklets and information and communication channels
- relevant policies of the EPF
- the policies and documents the EPF is required to have in place to satisfy LGPS regulations
- the risk register
- valuation reports
- annual report and accounts

#### **Module 2**

Background and understanding of the legislative framework of the LGPS and general pensions legislation applicable to the LGPS

This will look at subjects like–

- the difference between the public sector (LGPS) and private sector pension arrangements
- local authority law and how administering authorities are constituted
- overview of the LGPS and the raft of regulations
- other legislation that impacts on the LGPS and its administration

#### **Module 3**

The role and responsibility of the administering authority (Administration, Funding and Investment) and the roles and responsibilities of employers in the EPF

This module will cover –

- the membership and the benefit structure of the LGPS
- record keeping and internal controls
- IDRPs
- statements and reports and accounts
- reporting breaches
- valuations and cessations
- permitted and restricted investments

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- appointment and management of investment managers and custodians

**Module 4**

The role of advisers and key persons, key bodies connected to the LGPS

Explaining the role of key advisers and bodies such as –

- The Pensions Regulator
- Financial Services Authority
- HMRC
- Pensions Ombudsman
- the fund actuary
- auditors



<b>Essex Pension Fund Strategy Board</b>	<b>PSB/24/15</b>
date: 16 September 2015	

**Essex Pension Fund Accounts 2014/15**

Report by the Executive Director for Corporate and Customer Services  

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Enquiries to Samantha Andrews on 03330 138501

**1. Purpose of the Report**

- 1.1 To provide Members with the Pension Fund financial statements for 2014/15.

**2. Recommendation**

- 2.1 That the Board should note the report.

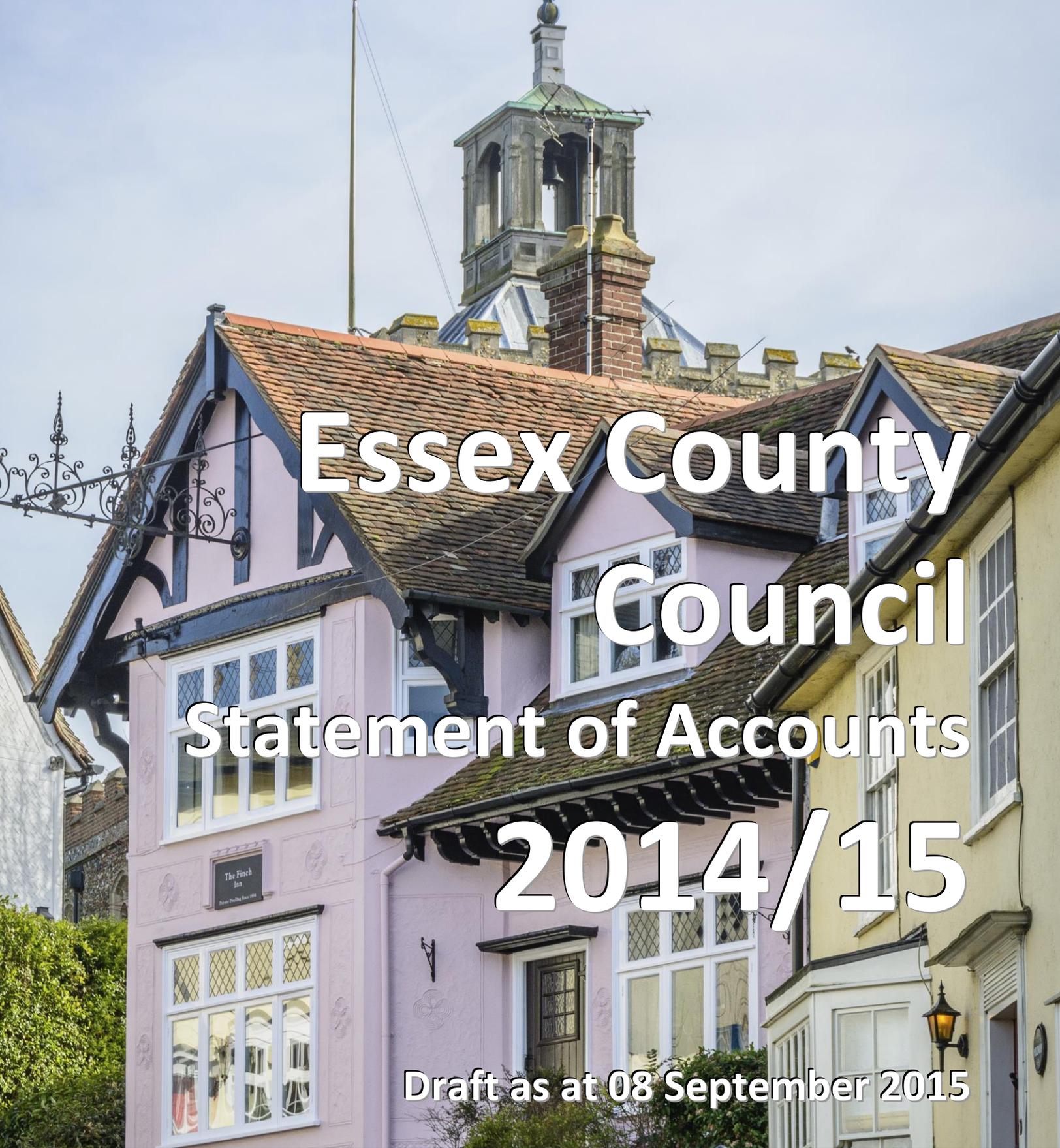
### **3. Draft Accounts 2014/15**

- 3.1 The draft Pension Fund financial statements were submitted to the Pension Board on 8 July 2015.
- 3.2 Colleagues from EY commenced the external audit on 20 July 2015. At the time of writing, no changes to the Fund Account or Net Asset Statement have been required. Following discussion with Ernst & Young and additional clarity being provided, minor changes have been made to two of the accompanying notes Note 16 Financial Instruments and Note 10 Management Expenses.
- 3.3 A copy of the Pension Fund's financial statements for 2014/15 is attached at Appendix 1.

### **4. Background papers**

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

Local Government Pension Scheme (LGPS) Regulations 2013 (as amended)



# Essex County Council Statement of Accounts 2014/15

Draft as at 08 September 2015

## Section Two - 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>134</b>
<b>Net Assets Statement</b>	<b>135</b>
<b>Notes to the Pension Fund Accounts</b>	<b>136</b>

# Section Two - Pension Fund Accounts

## Pension Fund Accounts

Fund Account for the year ended 31 March 2015

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



# Section Two - 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 Board and Investment Steering Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for Corporate and Customer Services along with the Director for Essex Pension Fund.

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

# Section Two - 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 **580** employer organisations within Essex Pension Fund including the County Council itself.

## 1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from **5.5%** to **12.5%** of pensionable pay for the financial year ending 31 March 2015. 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).

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

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

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

### 3. Actuarial valuation

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

#### 3.1 Actuarial Valuation 2013

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

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

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

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions,

## Section Two - Pension Fund Accounts

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

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

The valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full valuation report that is available from [www.essexpensionfund.co.uk](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 2015</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 17. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

## Section Two - Pension Fund Accounts

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### 3.3 Actuarial present value of promised retirement benefits

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

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

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

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

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 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.

## Section Two - 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 149).

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 149).

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 164).

- **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

## Section Two - 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'.

## Section Two - 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 2014/15 this totalled **£1.272m** (£1.041m in 2013/14).

### 4.2.5 Oversight and governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. In 2014/15, this totalled **£1.306m** (£1.543m in 2013/14).

### 4.2.6 Investment management expenses

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

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

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2014/15, **£2.957m** of fees is based on such estimates (2013/14: £2.634m). A creditor has been raised and the actual invoice amount is shown within current liabilities.

The costs of the Pension Fund investment function are charged direct to the Fund along with any direct running costs.

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

## Section Two - Pension Fund Accounts

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### 4.3 Net Assets Statement

#### 4.3.1 Financial Assets

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

#### 4.3.2 Valuation of investments

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

- **Market Quoted Investments**

The value of these investments is taken as the bid market price ruling on each 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 2014/15, these are valued as at 31 December 2014, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31 March 2015 is made. The 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31 March.

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

- **Directly held investments**

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

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

- **Unit trusts and managed funds**

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

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

## Section Two - 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 2015, by Jones Lang LaSalle, Chartered Surveyors. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

### 4.3.3 Derivatives

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

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

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

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

### 4.3.4 Dividends, Interest and Foreign Currencies

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

### 4.3.5 Cash and Cash Equivalents

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

## Section Two - 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.

## Section Two - 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 2015 was **£238m** (31 March 2014: £212m).

- **Infrastructure**

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

- **Timber**

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

- **Pension fund liability**

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

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

## Section Two - 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 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<p>Actuarial present value of promised retirement benefits</p> <p><i>Note: Results are taken from the 2013 Actuarial valuation)</i></p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a <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 annual 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>£509.3m</b>. There is a risk that this investment may be under or overstated in the accounts.</p>

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### 7. Events after the reporting date

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

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

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

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

### 8. Membership activities

#### 8.1 Membership

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

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

## Section Two - Pension Fund Accounts

### 8.2 Pension benefits payable

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

### 8.3 Contributions receivable

#### 8.3.1 By category

Contributions receivable from employers are set out below:

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

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

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

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

## Section Two - Pension Fund Accounts

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

### 8.3.2 By type

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

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

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

## Section Two - Pension Fund Accounts

### 9. Investment income

#### 9.1 By Type

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

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

#### 9.2 Investment property net rental

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

## Section Two - 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:

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

### 9.4 Movement in the fair value of investment properties

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

## 10. Management expenses

### 10.1 Restatement of comparative figures for 2013/14

The comparative figures for 2013/14 were restated by merging administration expenses and investment management expenses into a new style management expense note. The following table provides a reconciliation:

## Section Two - Pension Fund Accounts

	2013/14 £000
Administration Expenses shown in Note 9 of 2013/14 R&A	2,292
Investment Management Expenses shown in Note 10 of 2013/14 R&A	20,638
<b>Total of Administration and Investment Expenses shown in 2013/14 R&amp;A</b>	<b>22,930</b>
Add:	
Transaction costs shown as a footnote to 2013/14 Note 11	1,081
<b>Restated Management Expenses 2013/14 Total</b>	<b>24,011</b>

For 2014/15, Administration expenses and Investment Management expenses have been combined into the management expenses note above.

### 10.2 By type

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

The direct running costs recharged back to the Fund are now apportioned out as per the CIPFA guidance on LGPS Management Costs. In addition, the total transaction costs originally shown as a note to Note 11 in the 2013/14 accounts are now shown within Note 10 under Investment Management expenses. These were £791,000 for 2014/15 (2013/14: £1.081m).

### 10.3 Investment management expenses

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

## Section Two - Pension Fund Accounts

### 11. Investments

#### 11.1 Value of investments held by managers

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

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

## Section Two - 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:

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

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2014/15	Value at 1 April 2014	2014/15 Movement					Value at 31 March 2015
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
<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>Properties</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>

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

## Section Two - Pension Fund Accounts

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

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

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

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

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

## Section Two - Pension Fund Accounts

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

### 11.5 Derivative contracts

#### 11.5.1 Objectives and policies for holding derivatives

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

## Section Two - Pension Fund Accounts

### 11.5.2 Futures

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

### 11.5.3 Forward foreign currency

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

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

### 11.5.4 Open forward currency contracts

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

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### 12. Additional Voluntary Contributions (AVC) Investments

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

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

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

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

### 13. Current assets and liabilities

#### 13.1 Analysis of current assets

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

## Section Two - Pension Fund Accounts

### 13.2 Analysis of debtors

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

### 13.3 Analysis of long term debtors

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

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

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

## Section Two - Pension Fund Accounts

### 13.6 Analysis of creditors

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

### 13.7 Contingent liabilities and contractual commitments

As at 31 March 2015, the Fund had a commitment to contribute a further **£300.7m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2014: £299.6m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

## 14. Taxes on income

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

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

## 15. Related party transactions

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

## Section Two - Pension Fund Accounts

### 15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.702m** in 2014/15 (2013/14: £1.686m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£50.185m** to the Fund in 2014/15 (2013/14: **£49.821m**). No significant amounts were owing to and due to be paid from the Fund in the year.

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

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

### 15.2 Governance

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

### 15.3 Members of the LGPS

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

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

## Section Two - Pension Fund Accounts

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

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

### 16. Financial Instruments

#### 16.1 Classification of financial instruments

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

31 March 2014			Asset type	31 March 2015		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
<b>Financial assets</b>						
186,598	-	-	Fixed interest securities	232,568	-	-
2,644,294	-	-	Equities	3,065,508	-	-
344,996	-	-	Index linked securities	216,532	-	-
231,664	-	-	Pooled unit trusts	217,452	-	-
212,033	-	-	Private equity	237,979	-	-
120,752	-	-	Infrastructure	148,896	-	-
34,705	-	-	Timber	49,057	-	-
-	-	-	Illiquid debt	24,442	-	-
185,029	-	-	Other managed funds	253,665	-	-
4,282	-	-	Derivative contracts	22,902	-	-
-	107,146	-	Cash deposits	-	123,777	-
10,524	-	-	Other investment balances	6,434	-	-
-	26,423	-	Debtors	-	-	-
3,974,877	133,569	-		4,475,435	123,777	-
<b>Financial liabilities</b>						
(390)	-	-	Derivative contracts	(48,206)	-	-
(1,541)	-	-	Other investments balances	(1,987)	-	-
-	-	(12,925)	Creditors	-	-	(3,168)
-	-	-	Borrowing	-	-	-
(1,931)	-	(12,925)		(50,193)	-	(3,168)
3,972,946	133,569	(12,925)	<b>Balance at the end of the year</b>	<b>4,425,242</b>	<b>123,777</b>	<b>(3,168)</b>
		4,093,590	<b>Total</b>			<b>4,545,851</b>

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As a result of receiving greater clarity, statutory debtors and creditors have now been removed from the above note and only contractual debtors and creditors are now in the financial investment notes for 2014/15.

### 16.2 Net gains and losses on financial instruments

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

### 16.3 Fair value of financial instruments and liabilities

31 March 2014			31 March 2015	
Carry value	Fair value		Carry value	Fair value
£000	£000		£000	£000
		<b>Financial assets</b>		
3,974,877	3,974,877	Fair value through profit and loss	4,475,435	4,475,435
133,569	133,569	Loans and receivables	123,777	123,777
4,108,446	4,108,446		4,599,212	4,599,212
		<b>Financial liabilities</b>		
(1,931)	(1,931)	Fair value through profit and loss	(50,193)	(50,193)
(12,925)	(12,925)	Financial liabilities measured at amortised cost	(3,168)	(3,168)
(14,856)	(14,856)		(53,361)	(53,361)
4,093,590	4,093,590	<b>Total net financial assets</b>	4,545,851	4,545,851

### 16.4 Valuation of financial instruments carried at fair value

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

- Level 1** – Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.

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- **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.

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

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

Values as at 31 March 2014			Values as at 31 March 2015			
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
			<b>Financial assets</b>			
3,190,694	416,693	367,490	Fair value through profit and loss	3,543,944	471,117	460,374
133,569	-	-	Loans and receivables	123,777	-	-
3,324,263	416,693	367,490		3,667,721	471,117	460,374
			<b>Financial liabilities</b>			
(1,931)	-	-	Fair value through profit and loss	(50,193)	-	-
(12,925)	-	-	Financial liabilities measured at amortised cost	(3,168)	-	-
(14,856)	-	-		(53,361)	-	-
3,309,407	416,693	367,490	<b>Total net assets per level</b>	<b>3,614,360</b>	<b>471,117</b>	<b>460,374</b>
		4,093,590	<b>Total Net Assets</b>			4,545,851

## 17. Nature and extent of risks arising

### 17.1 Risk and risk management

The Fund's primarily long term risk is that the Fund assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the

## Section Two - Pension Fund Accounts

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

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

### 17.2 Market risk

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

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

### 17.3 Other price risk

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

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

## Section Two - Pension Fund Accounts

### 17.4 Other price risk sensitivity analysis

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

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.

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

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:

## Section Two - Pension Fund Accounts

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

### 17.5 Sensitivity of funding position

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

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

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

### 17.6 Interest rate risk

The Fund's investments are subject to interest rate risk (i.e. to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates). Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal & General and bond mandates with M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. During 2014/15, the Fund commenced an investment in an illiquid debt mandate.

## Section Two - Pension Fund Accounts

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

Asset value as at 31 Mar 2014 £000	Asset type	Asset value as at 31 Mar 2015 £000
93,508	Cash and cash equivalents	109,810
13,638	Cash balances	13,967
186,598	Fixed interest securities	232,568
344,996	Index-linked securities	216,532
-	Illiquid debt	63,329
<b>638,740</b>	<b>Total assets</b>	<b>636,206</b>

### 17.7 Interest rate risk sensitivity analysis

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

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 100 basis points change in interest rates assuming all other factors remain unchanged.

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

### 17.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To

## Section Two - Pension Fund Accounts

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 2015 and prior year:

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

### 17.9 Currency risk sensitivity analysis

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

The table below shows the effect of a **13%** (2013/14: 13%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

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

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### 17.10 Credit Risk

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

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

### 17.11 Commercial

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

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

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

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

### 17.12 Forward currency contracts

Forward currency contracts are undertaken by Legal & General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2015 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the

## Section Two - Pension Fund Accounts

requirements of the LGPS (Management & Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

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

### 17.13 Futures

There were no open future contracts as at 31<sup>st</sup> March 2014 or 31st March 2015.

### 17.14 Bonds

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

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

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2015, the average credit quality of the M&G bond mandate was **A-** rated (**BBB+** rated as at 31 March 2014). The portfolio had suffered five defaults since inception, one of which was experienced in

## Section Two - Pension Fund Accounts

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the financial year ended 31 March 2015. The average credit rating of the financing fund was **BB+** rated as at 31 March 2015 (BB+ rated as at 31 March 2014), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2015 had an average credit quality of **A-** (AA+ rated as at 31 March 2014) and has suffered two defaults since inception, both occurring 2011/12.

### 17.15 Cash held on deposit and current accounts

**Cash managed internally** – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (A- in 2013/14) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2015 **£13.967m** (31 March 2014: £13.638m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

**Cash managed externally** – The majority of the cash held by the Fund's custodian, the Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31 March 2015, the total balance held in the Sterling, US dollar and Euro AAA money market funds was **£103.584m** with a smaller balance of **£6.226m** held in the custodian current account (31 March 2014: £85.515m and £7.748m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

## Section Two - Pension Fund Accounts

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

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

## Section Two - 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 2014		31 March 2015	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				
85,515	AAA Rated	103,584	60,000	0.037%	38
7,748	AA Rated	6,226		0.025%	2
245	A Rated	-		0.069%	-
<u>93,508</u>	<b>Total cash managed externally</b>	<u>109,810</u>			<u>40</u>
	<b>Cash managed internally</b>				
	Deposit with bank and other financial institutions				
1,502	AAA Rated	2	10,000	0.037%	-
7,473	AA Rated	11,508	7,500	0.025%	3
2,662	A Rated	2,457	5,000	0.069%	2
2,001	BBB Rated	-	5,000	0.188%	-
<u>13,638</u>	<b>Total cash managed internally</b>	<u>13,967</u>			<u>5</u>
<u>107,146</u>	<b>Total cash</b>	<u>123,777</u>			<u>45</u>

### 17.16 Liquidity Risk

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

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **23 February 2015**, **27%** of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions and investment income received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2015 had immediate access to its pension fund cash holdings held internally and externally of **£123.777m** (31 March 2014: £107.146m). These monies are primarily invested on an overnight basis on the money market.

## Section Two - Pension Fund Accounts

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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.

### 17.17 Refinancing Risk

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

### 17.18 Custody

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

### 17.19 Investment Management

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

## 18. Further information

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

<p><b>Essex Pension Fund Strategy Board</b></p>	<p><b>PSB/25/15</b></p>
<p>date: 16 September 2015</p>	

**External audit results report: ISA (UK and Ireland) 260**

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 03330 138488

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**1. Purpose of the Report**

- 1.1 To submit for Members' information the Pension Fund Audit results report: ISA 260 external auditors EY.

**2. Recommendation**

- 2.1 That the Board should note the report.

### **3. Background**

- 3.1 The Audit Commission's Code of Practice requires the Council's external auditor to submit a report to the Council's Audit Committee on various matters relating to the audit work that he has undertaken on the Pension Fund accounts. The Audit Committee is due to consider that report at its meeting on 21 September 2015.

### **4. Audit results report: ISA 260**

- 4.1 EY have issued an Audit results report for the Pension Fund for the year ended 31 March 2015. This document is attached for Members' information.

- 4.2 The executive summary of the document contains the following comments:

*"As of 25 August 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Pension Fund has prepared its financial statements to a good standard."*

- 4.3 No changes have been made to the main financial statements: the Fund Account and Net Asset Statement. A small number of disclosure issues of a presentational nature were picked up by EY in relation to the notes to the accounts. These are detailed in page 10 of the attached report.

### **5. Pension Fund Annual Report & Accounts 2014-15**

- 5.1 Upon the completion of all required work, a final draft of the Pension Fund Annual Report & Accounts will be submitted to the Chairman of the Board for approval. Subsequently a copy of the approved Annual Report will be made available to all Board Members.

### **6. Background Papers**

- 6.1 The Local Government Pension Scheme (Administration) Regulations 2008
- 6.2 The Audit Commission's Code of Practice and International Standard of Auditing (UK & Ireland)

# Essex Pension Fund

Pension Fund/Audit Committee Summary

For the year ended 31 March 2015

Draft Audit Results Report – ISA (UK and Ireland) 260

16 September 2015 and 21 September 2015 Meetings



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Section 1

# Executive summary

# Executive summary – key findings

## **Audit results and other key matters**

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance. We regard Essex County Council's Audit Committee as the member forum ultimately responsible for the governance of the Essex Pension Fund, however we also report our findings to the Pension Fund Committee ahead of the Audit Committee meeting. The Code require us to report on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements.

## **Financial statements**

As of 25 August 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Pension Fund has prepared its financial statements to a good standard.

**Section 2**

**Extent and purpose  
of our work**

# Extent and purpose of our work

## The Council's responsibilities

- ▶ Essex County Council as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Pension Fund.
- ▶ The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund

## Publication on electronic media

The Council is responsible for the accurate presentation of the financial statements, audit report thereon and other reports submitted in relation to the audit and for establishing security and controls over them in order to ensure the continued integrity of the information presented. The examination of the controls over electronic presentation of audited financial information and reports by the auditor on the Council's web-site is beyond the scope of the audit of the financial statements

## Purpose of our work

- ▶ Our audit was designed to:
  - ▶ Express an opinion on the 2014/2015 financial statements of the Pension Fund
  - ▶ Report on whether information in the Annual Report is consistent with the financial statements

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Pension Fund's accounting policies and key judgments.

This report is intended solely for the information and use of the Pension Fund. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

# Addressing audit risks

# Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p><b>Significant audit risks (including fraud risks)</b></p>		
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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 focused 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 bias, specifically the approach to valuation of investments, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul>	<p>All our planned procedures are complete. We have no matters to bring to your attention based on our testing. Our work did not identify any instances of fraud, error or management bias.</p>

# Addressing audit risks – other audit risks

- ▶ We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p><b>Other audit risks</b></p> <p>The Council changed its pension’s administration system which processes payroll from Axis to Civica part way through 2014/15.</p>	<ul style="list-style-type: none"> <li>▶ We reviewed the work undertaken by the internal audit team and management on the migration of data from the old to new system .We carried out the procedures necessary for us to rely on their work.</li> <li>▶ We considered the work done by Internal Audit on controls testing on the new system (which gave good assurance) and did not identify any issues.</li> <li>▶ We did not rely on controls testing at year end as previously planned, as we determined it was more efficient to undertake substantive testing at year end. We did however walkthrough the expected process and controls within the new system and did not identify any issues.</li> <li>▶ We undertook year end substantive testing on the payroll figures in the accounts, including predictive analytical review and testing and agreement of individual’s pay and lump sum payments to the payroll system and prime documentation.</li> </ul>	<p>Our work did not identify any issues with the migration of data or the payroll figures disclosed in the Pension Fund’s accounts.</p>

Section 4

# Financial statements audit – issues and findings

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Pension Fund and Audit Committee meetings:
  - ▶ Receipt of a Letter of Representation
  - ▶ Receipt of the Annual Report for checking for consistency with the financial statements
  - ▶ Partner review of audit work and financial statements
  - ▶ Final audit closing procedures .
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

## Uncorrected misstatements

- ▶ We have identified no misstatements within the draft financial statements, which management has chosen not to adjust.

## Corrected misstatements

- ▶ Our audit identified a small number of disclosure errors which were highlighted to management for amendment. These have been corrected during the course of our work, the key ones being:
  - ▶ The Pension Fund chose to voluntarily re-state the prior year comparators relating to management expenses following CIPFA guidance which recommended this as best practice for 2014/15. The impact being on the fund account and Notes 10 and 11 in the pension funds accounts. We reviewed the presentation of the disclosures relating to these changes and agreed further changes to ensure greater clarity to the reader of the accounts as to the reconciliation to the prior year figures and the reason for the change.
  - ▶ In their classification of financial instrument note, Essex Pension Fund incorrectly disclosed total debtors and creditors as they had not made any distinction between statutory and contractual debtors and creditors.

This was inconsistent with the Code which states that only contractual amounts are financial instruments. In the prior year CIPFA example accounts, the financial instruments incorrectly included statutory debtors and creditors, this has been corrected in the 14/15 CIPFA example accounts, but understandably led to some confusion around the correct disclosure. This has been amended in the pension funds accounts and an explanation added for the change.

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following:
  - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - ▶ Any significant difficulties encountered during the audit; and
  - ▶ Other audit matters of governance interest
- ▶ A revised estimation approach has been used for the valuation figures for alternative investments in the accounts. This has resulted in differences between the figures included in the accounts as compared to the final year end valuation provided by the Fund Managers.

Management have explained this is due to the timing of the valuations used. To bring forward the production of the pension fund accounts in preparation for the earlier deadlines in 2017/18, the valuation figures for these investments are included in the accounts based on December 2014 custodian valuations adjusted for known cash movements or drawdowns up to 31 March 2015. This approach has been used as these fund managers often take considerable time to provide their year end valuation.

While the final year end valuations differ from the figures used, these differences are not material, either individually or in total.

# Financial statements audit – application of materiality

## Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality	<p>We determined planning materiality to be £49.3 million (2014: £43.4 million), which is 1% of net assets reported in the 2014/15 accounts of £4,932 million</p> <p>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.</p>
Tolerable Error	<p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We set the level of tolerable error at the upper level because there were no material adjustments found in the 2013/14 audit.</p>
Reporting Threshold	<p>We agreed with the Pension Fund and Audit Committees that we would report to the Committee all audit differences in excess of £2.5 million (2014: £2.2 million),</p>

# Financial statements audit – internal control and written representations

## Internal control

- ▶ It is the responsibility of the Council and the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council and the Pension Fund only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters. There were no additional specific representations required other than the standard representations.

**Section 5**

# **Independence and audit fees**

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 2 March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meetings of the Pension Fund and Audit Committees on 16 and 21 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 2 March 2015.

## Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015
	£	£
Audit Fee: Code work	31,266	31,266

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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