

# Statement of Accounts - Pension Fund Accounts

## Introduction

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

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## Pension Fund Accounts

Fund Account for the year ended 31st March 2021

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

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Net Assets Statement as at 31st March 2021

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

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

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

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

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

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

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

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

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## Regional Asset Pools

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

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

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

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

## 1.2 Membership

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

Organisations participating in the Essex Pension Fund include:

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

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

Membership details are set out below:

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

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## 1.3 Funding

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

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

## 2. Basis of preparation

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

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

The accounts are prepared on a going concern basis.

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## 3. Actuarial valuation

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

### 3.1 Actuarial Valuation 2019

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

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

#### Actuarial Approach

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

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

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

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

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

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

The assumed life expectancy from age 65 is as follows:

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

The assets were assessed at market value.

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

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

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

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

## Funding Strategy

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



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

The funding objectives of the Fund are:

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

## 3.2 IAS 19 Actuarial present value of promised retirement benefits

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

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

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

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

Although the post mortality tables adopted are consistent with those for the most recent valuation, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model (CMI\_2020) which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI.

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

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

## McCloud/Sargeant ruling

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

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

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

\* Based on IAS 26 report (unaudited)

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

The key financial assumptions used are:

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

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

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

## 4. Accounting policies

### 4.1 Fund Account – revenue recognition

#### 4.1.1 Contribution income

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

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

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

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

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## 4.1.2 *Transfers to and from other schemes*

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

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

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

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

## 4.1.3 *Investment Income*

- **Dividend income**

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

- **Interest income**

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

- **Income from other investments**

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

- **Distribution from pooled funds**

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

- **Property related income**

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

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

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- **Change in market value of investments**

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

## 4.2 Fund Account – Expense items

### 4.2.1 *Benefits payable*

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

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

### 4.2.2 *Taxation*

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

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

### 4.2.3 *Management expenses*

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

#### *Administrative expenses*

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

#### *Oversight and governance*

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

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

## Investment management expenses

All investment management expenses are accounted for an accruals basis.

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

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

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

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

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

## 4.3 Net Assets Statement

### 4.3.1 Financial Assets

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

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

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

## 4.3.2 *Valuation of investments*

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

- **Market Quoted Investments**

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

- **Unquoted Investments**

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

**Unquoted private equity**

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

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

**Other unquoted investments**

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

- **Unit trusts and managed funds**

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

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

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- **Fixed interest investments**

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

- **Direct Property Investments**

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

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

### **4.3.3 Derivatives**

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

### **4.3.4 Dividends, Interest and Foreign Currencies**

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

### **4.3.5 Cash and Cash Equivalents**

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

### **4.3.6 Additional Voluntary Contribution**

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



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

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

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

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

## 5. Critical judgements in applying accounting policies

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

- **Pension fund liability**

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

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

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

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

## Statement of Accounts - Pension Fund Accounts

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

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

# Statement of Accounts - Pension Fund Accounts

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

# Statement of Accounts - Pension Fund Accounts

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

## 7. Events after the reporting date

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

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

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

## 8. Accounting standards issued but not yet adopted

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

# Statement of Accounts - Pension Fund Accounts

financial year.

## 9. Membership activities

### 9.1 Pension benefits payable

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

### 9.2 Contributions receivable

#### 9.2.1 By category

Contributions receivable from employers are set out below:

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

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

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

# Statement of Accounts - Pension Fund Accounts

## 9.2.2 By type

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

## 9.3 Transfers in from other pension funds

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

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

## 9.4 Payments to and on account of leavers

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

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

# Statement of Accounts - Pension Fund Accounts

## 10. Investment Income

### 10.1 By Type

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

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

### 10.2 Investment property net rental

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

# Statement of Accounts - Pension Fund Accounts

## 10.3 Contractual rental receivable

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

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

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

## 10.4 Movement in the fair value of investment properties

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



# Statement of Accounts - Pension Fund Accounts

## 11. Management expenses

### 11.1 By type

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

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

### 11.2 Investment management expenses

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

## Statement of Accounts - Pension Fund Accounts

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

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

# Statement of Accounts - Pension Fund Accounts

## 12. Investments

### 12.1 Value of investments held by managers

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

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

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

# Statement of Accounts - Pension Fund Accounts

## 12.2 Investments by asset type

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

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

# Statement of Accounts - Pension Fund Accounts

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

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

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

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

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

## 13. Additional Voluntary Contributions (AVC) Investments

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

### 13.1 Reconciliation of movements in AVC investments

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

### 13.2 Analysis of AVC investments by Provider

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

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

# Statement of Accounts - Pension Fund Accounts

## 14. Current assets and liabilities

### 14.1 Analysis of current assets

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

### 14.2 Analysis of long-term debtors

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

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

### 14.3 Analysis of current liabilities

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

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## 14.4 Contingent liabilities and contractual commitments

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

## 15. Related party transactions

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

### 15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

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

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

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

### 15.2 Governance

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



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## 15.3 Members of the LGPS

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

Representative of scheme members	County Councillors
▪ S. Child	▪ Cllr S. Barker
Representative of scheme employers	▪ Cllr M. Maddocks
▪ C. Riley	

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

Representative of scheme employers	Representative of scheme members
▪ J. Durrant	▪ A. Coburn
▪ Cllr S. Walsh	▪ D. Hurst
	▪ S. Roberts
	▪ J. Sheehy

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

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

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

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

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## 16. Agency Services

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

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

## 17. Fair value – Basis of valuation

### 17.1 Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

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

## 17.2 Transfers between hierarchy levels

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

## 17.3 Reconciliation of fair value measurements within Level 3

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

## 17.4 Sensitivity of assets valued at Level 3

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



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

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

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

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

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

## 18. Financial Instruments

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

### 18.1 Classification of financial instruments

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

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

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

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

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

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

## 18.2 Net gains and losses on financial instruments

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

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

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

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## 19. Nature and extent of risks arising

### 19.1 Risk and risk management

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

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

### 19.2 Market risk

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

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

### 19.3 Other price risk

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

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

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

## 19.4 Other price risk sensitivity analysis

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

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

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

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

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

## 19.5 Interest rate risk

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

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

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

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## 19.6 Interest rate risk sensitivity analysis

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

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

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

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

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

## 19.7 Currency risk

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

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

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

## 19.8 Currency risk sensitivity analysis

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

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

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

# Statement of Accounts - Pension Fund Accounts

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## 19.9 Credit Risk

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

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

## 19.10 Commercial

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

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

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

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

## 19.11 Bonds

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

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

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



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

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

## 19.12 Cash held on deposit and current accounts

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

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

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

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

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

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

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

# Statement of Accounts - Pension Fund Accounts

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

## 19.13 Liquidity Risk

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

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

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

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

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

## 19.14 Custody

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

## 20. Events after the Reporting date

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

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## 21. Further information

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

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