



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 21st November, 2008 at 10.00 am
Medway Room, Sessions House, County Hall,
Maidstone.

Ask for: **Mary Cooper**
Telephone **01622 694354**

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

A. COMMITTEE BUSINESS

1. Substitutes
2. Declarations of Interests by Members in items on the Agenda for this meeting.
3. Minutes - 21 September 2008 (Pages 1 - 4)

B. MOTION TO EXCLUDE THE PRESS AND PUBLIC FOR EXEMPT ITEMS

That under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the public)

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Minutes - 12 September 2008 (Pages 5 - 6)
2. Baillie Gifford
3. Societe Generale Asset Management
4. Fund Structure (Pages 7 - 10)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Pensions Administration (Pages 11 - 26)
2. External Audit - to follow
3. Cash Management (Pages 27 - 28)

4. Application for Admission to the Fund (Pages 29 - 30)
5. Fund Position Statement (Pages 31 - 38)

Peter Sass
Head of Democratic Services and Local Leadership
(01622) 694002

Thursday, 13 November 2008

- (i) *Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.*
- (ii) *In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Items C2 and C3.*

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held at Sessions House, Maidstone, Kent on Friday, 12 September 2008.

PRESENT: Mr J E Scholes (Chairman), Mr K Bamber, Mr D Buss (substitute for Mr S Richards), Mr P Clokie, Mr J A Davies, Mr D S Daley, Ms A Dickenson, Mr M J Fittock, Mr J F London, Mr J I Muckle, Mr R F Packham, Mr R J Parry and Mr J Simmonds.

IN ATTENDANCE: Director of Finance, Ms L McMullan; Head of Financial Services, Mr N Vickers and Democratic Services Manager, Mrs M E Cooper.

UNRESTRICTED ITEMS

27. Declarations of Interest

There were none.

28. Minutes

RESOLVED that the Minutes of the meeting held on 6 June 2008 are correctly recorded and that they be signed by the Chairman.

29. External Audit Report

(Item D1 – Mr G Brown of the Audit Commission was in attendance for this item)

RESOLVED that:-

- (a) the report be noted, and
- (b) a further report be submitted to the next meeting.

30. Statement of Accounts and Annual Report

(Item D2 – Report by Director of Finance)

RESOLVED that, subject to the inclusion of Members on the Committee at the end of September, the Annual Report and Accounts for 2007/08 be formally adopted and printed.

31. Fund Position Statement

(Item D3 – Report by Director of Finance)

RESOLVED that the report be noted.

32. Environmental, Social and Governance Policy Statement

(Item D4 – Report by Director of Finance)

RESOLVED that:-

- (a) the use of the Manifest Voting Service cease,
- (b) the UN Principles of Responsible Investing be adopted;

- (c) the draft ESG Policy Statement for consultation with scheme employers and other interested parties be approved; and
- (d) the proposed formal response to Unison as set out in paragraph 18 of the report be approved.

33. Administering Body Policy on Abatement of Pension
(Item D5 – Report by Director of Finance)

RESOLVED that the current AB policy be changed, with effect from 1 December 2008, using the following wording:-

“It is the policy of Kent County Council not to abate a pension in payment where the pensioner takes up a re-employment position with a Local Government employer. The council reserves the right to abate a pension in payment, in exceptional circumstances”.

34. Pensions Administration (Oral)
(The Chairman agreed to take this as an urgent item in order to keep the Committee informed regarding the increased workload within the Pensions Section following legislation)

RESOLVED that the report be noted.

EXEMPT ITEMS
(Open Access to Minutes)

35. Minutes

RESOLVED that the Minutes of the meeting held on 7 March 2008 are correctly recorded and that they be signed by the Chairman.

36. Schroder Investment Management

(Item C2)

(Mr G Day, Mr A Simpson and Mr J Stuttard from Schrodgers were in attendance for this item)

RESOLVED that the report be noted

SUMMARY OF EXEMPT ITEMS
(Where Access to Minutes Remains Restricted)

37. Fund Structure

(Item C3)

The Committee agreed a number of issues relating to the structure and management of the Fund.

38. Investment Strategy
(Item C4)

The Committee noted progress on the implementation of the Investment Strategy of increasing the allocation to alternative investments and made decisions on the proposed options.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item C1

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item C4

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By: Director of Finance
To: Superannuation Fund Committee – 21 November 2008
Subject: **PENSIONS ADMINISTRATION**
Classification: Unrestricted

Summary: To provide members with a comprehensive update of administration issues including:-

- Workload position
- Achievements against Key Performance Indicators
- CIPFA Benchmarking Survey
- Future Plans – Looking Ahead
- Topical issues

FOR INFORMATION

INTRODUCTION

1. Members were advised at the last meeting that the Pension Section has in recent years, experienced unprecedented increases in workload.

WORKLOAD POSITION

2. There have been a number of changes to both National Pensions Legislation, Tax Legislation and Her Majesty Revenue and Customs (HMRC) Legislation which have been the drivers for the substantial increases in workload being seen by the Pensions Section.

CHANGES TO TAX LEGISLATION

3. The HMRC rules governing pensions/tax were changed in 2006 by what was known as 'simplification'. The change from a former 3 tier tax system to a single tax system has proved to be anything but simplification.
4. The section is now required to undertake two calculations for each scheme member at retirement which were not formerly required
 - Lifetime Allowance (LTA)
 - 25% tax free cash commutation level
5. Each retiree has the option to commute pension to provide a tax free cash sum up to 25% of the total value of their pension benefits. The total value may not exceed the LTA which presently stands at £1.65m. An LTA calculation has to be undertaken for every case, despite all but a few cases come even close to the limit, in order to establish the level of cash free tax a retiree may elect to receive.
6. All elections to commute must be made prior to the retirement date.

7. We therefore have to complete an estimate of benefits, calculation of LTA and tax free cash levels, write to each scheme retiree and obtain the election.
8. Previously, none of this action was required and the section simply calculated the benefit due and paid it accordingly. It is reported in the National Pensions press this has led to an increase of 20% in administrative work.

LGPS SCHEME CHANGES

9. In April 2006 the vesting period was reduced from 2 years to 3 months. The vesting period is the period during which a person may have a refund of contributions.
10. A person who has been in the scheme for 3 months or more may not have a refund of contributions following this change which was retained in the new look LGPS.
11. We are therefore now required to calculate a 'deferred benefit' for all scheme leavers who exceed the 3 month vesting period. Previously, a simple refund was provided upon request by the member.
12. Following the calculation of a deferred benefit a member may seek to transfer the value out of the LGPS. This adds to the numbers of transfers we are undertaking.
13. Should a transfer not be undertaken, each retained deferred beneficiary, is advised by letter of the annual increase applied to the benefit. At retirement date this creates a retirement pension, this in turn is increased annually and requires both an estimate and the HMRC calculations mentioned earlier. We will be required to pay the pension monthly and increase it annually.
14. Members are provided with statistics (Appendix I) which demonstrate the levels of work. In respect of deferred benefits, the statistics show the very small amounts of pension being retained which, hitherto, would in all likelihood have been refunded. In addition, the scheme rules do not now provide the commutation of trivial benefits which was available previously.
15. A letter to Department for Communities and Local Government (CLG) has been sent by the Pensions Manager highlighting the cost to the LGPS and the nominal value to members of these trivial benefits. CLG is now seeking a national perspective from the Local Government Employers Association (LGE) with a view to negotiation, with interested parties, to a change back to the former arrangement (copy at Appendix II).

NEW LOOK LGPS APRIL 2008

16. April 2008 saw the introduction of the 'New Look LGPS'. Members have previously been advised of the considerable demands these changes placed upon the Pensions Section following the 2007 pension fund valuation process.

There continues to be uncertainty around the following aspects of the new look scheme:-

- 85 year rule protection
- Flexible retirement
- Ill health rules

17. In addition to the areas above which require clarification, the section is now approaching the first year of 'tiered contribution' annual returns. The return is provided, by each scheme employer, detailing contributions paid by each member. The 2008/2009 returns will be the first at the 7 tier contribution levels and it is anticipated that this will be a complex reconciliation process to facilitate the issue of annual benefit illustrations to each scheme member.

KEY PERFORMANCE INDICATORS (KPI)

18. Members are provided with KPI results for the 6 month period to September 2008 compared to the previous three 6 month periods at Appendix III. Appendix IV provides members with a month on month analysis of results in the 6 month period ending September 2008.

19. The statistics confirm the rising workload levels in each of the KPI areas reported to committee. The 6 month comparison confirms we have improved performance in the payment of dependant benefits but our performance in the remaining 3 KPI areas has weakened against previous 6 monthly figures. Despite this, the vast number of tasks are completed in the designated period with all KPIs running at over 90% against a target of 95%.

20. A review of the month on month results confirms through the 6 month period an improving performance, culminating, with August/September 2008 returning excellent results. The two months which had a marked impact upon the overall 6 months returns were May and June 2008, following, the introduction of the New Look LGPS. During this period the section was extremely busy in undertaking presentations and answering calls at the office.

21. Referring back to Appendix I, members can see that our present total tasks outstanding has reduced compared to 2006/07 when it peaked at over 9000 cases. The current cases outstanding represents around 6 months work.

22. The total at 8407 includes the following key areas of volume:-

| | | | % of total outstanding |
|--------------|------------------------|-------------|-------------------------------|
| 1 | Deferred Benefits | 1813 | 22% |
| 2 | Rejected New Starts | 1522 | 18% |
| 3 | Concurrent Employments | 1274 | 15% |
| 4 | Reorganisation queries | 712 | 8% |
| Total | | 5321 | 63% |

23. For the items 2, 3 and 4 there is no timescale for completion and records can be brought up to date when a member event occurs i.e. retirement, death etc.

24. In respect of deferred benefits, we have plans to undertake bulk days to reduce outstandings but I have to balance this effort with maintaining our KPI results. The latter reflect those cases where benefits are due for payment and represent the more urgent and pressing priority for the section.
25. A major problem in completing the deferred benefits is that employers are not providing the section with closing pay figures which results in our raising huge numbers of enquiries.
26. The vast majority of deferred benefits, now being calculated are for 'trivial' amounts as confirmed in the earlier part of this report. Since 2006, no less than 1576 benefits of less than £100 per annum have been created, of these, over 50% are for sums of less than £50 per annum. The lowest sum is £0.28 per annum. These figures have already been reported to CLG in my letter dated 2 October 2008 (copy enclosed with response at appendix II).

CIPFA BENCHMARK RESULTS

27. Members are provided with the CIPFA benchmark survey at Appendix V.
28. We are compared in the survey with 53 other administering authorities with further comparison against a peer group of 19 members including KCC.
29. Our position in the peer group compares closely to our achievement in the 2006/07 survey.
30. Headline figures show our cost of administration per member at £17.90 compared to the peer group average at £19.65 and all schemes £21.40. Our peer group ranking was 5th out of 19 schemes. The average cost of private sector schemes is reported in the CIPFA survey to be £47 per member (in house) and £37 per member (outsourced).
31. This result is achieved in light of the low cost of IT at 87p per member compared to the peer group at £1.92 per member and all scheme average of £2.70 per member. I believe this represents the practice in other authorities of passing on to the pension scheme a percentage of overall County Council costs rather than those specific to the pension administration function.
32. This practice is further demonstrated in the pension payroll costs in which we average £7.07 per pensioner compared to the peer group at £12.09 and all scheme at £14.99. Our pension payroll was transferred to the pension section from Capita at which point, considerable cost savings were delivered. (Please see later remarks under 'Pensions Payroll').
33. Our staff costs per member of staff are lower at £27,625 per FTE compared to peer group £28,409 and all schemes £30,443, our staff costs per member of the scheme are marginally higher than both the peer and all scheme comparators (KCC £10.24, peer group £9.51 and all schemes £9.66).

34. The staff cost results is as a result of our staff looking after 2698 members per FTE compared to the peer group 3073 and all scheme average of 3237.
35. The balance of scheme members is similar to both the peer group and all scheme averages, between contributors, pensioners and deferred's.
36. Staff turnover is 3% lower than the peer group average at 7.8%. This follows the successful introduction of the 'career structure' to the section some 4 years ago. Our experience mix has strengthened and we have over 70% of staff holding an IPPM qualification.
37. Kent Pension Scheme has 3 times the number of employers compared to the all schemes average of 72. Kent presently has over 290 employers being the second highest. Large numbers of employers creates its own problems and it is this aspect of our scheme which I believe justifies each FTE looking after fewer scheme members per head than the all scheme average.

OVERALL SUMMARY OF ADMINISTRATION FUNCTION

38. We are providing a cost effective service to a very large number of employers. We remain vulnerable to extraordinary peaks in workload but, I am satisfied the management of our key performance tasks is under control and the section will perform to target consistently in the future. However, we have large segments of less urgent work which needs to be completed, following, significant changes to scheme rules.

Our future plans (see later remarks) identifies the need to balance our efforts to ensure KPIs are maintained on target and at the same time we reduce the outstanding areas of work in the high volume areas shown. I take some comfort in the fact that other schemes in our South Eastern Pension Group are reporting a similar position and in a number of cases significantly higher levels of outstanding work.

Staff costs need to be controlled within the career structure environment together with developments in IT solutions and a marked improvement in the quality of data from employers.

FUTURE PLANS – LOOKING AHEAD

39. Technology – AXIS Employer

We are looking to maximise our use of technology. Work is currently underway to pilot the AXIS Employer software agreed by members earlier in the year. We are keen to ensure a functional 'gateway' to the AXIS system is provided to maximise the benefit of this package. Our IT department have limited experience in the CITRIX technology needed to create this environment and our plans will be delayed as a consequence. However, AXIS Employer is a valuable tool, enabling employers to undertake a variety of tasks and calculations via their own desktops and this work is seen as the way forward.

40. **Pensions Website**

We are working with our Corporate Communication staff to create the Kent Pension Scheme website. Initially, the web site will provide a focus for all employers and scheme members to gain information and answer many of the questions currently dealt with by telephone. Ultimately, we want to move to a scheme member access via PIN numbers to obtain estimates and quotes. This is the long term goal and will take 2 years to develop.

41. **Employer Data Exchange**

We are working with Shared Services to identify data fields that can be downloaded to AXISe from the KCC corporate database via electronic interface. This will require a financial commitment on the part of KCC if the plans are to be completed. We are moving KCC to the position of all other scheme employers in that the personnel function is now responsible for the accuracy, quality and timeliness of all data. The data must be in a single pack whereas it was previously received from a number of areas i.e. finance, personnel and payroll. This significant move of emphasis should provide the driver to seek electronic solutions for the longer term.

In addition, we need to employ a further FTE in an Employer Liaison role in light of our plans to improve our employer relations and data exchange. It is hoped this person will be found within existing resources as part of the change in balance between career grade/PSA grades on the production team.

42. **Staff**

The section is staffed within two distinct parts – Production/Communications and Support.

43. The production teams engage administrators on a 'career grade' based upon their individual ability and skills development. This scheme has attracted high quality trainees and at the same time substantially reduced the high levels of historic staff turnover beyond natural wastage.

44. More recently, following the PWC review of 2005, we have introduced the concept of Pensions Support Assistants. These staff are employed on non-career grade terms and are a resource available to undertake less complex tasks for both the distinct areas within the office.

45. The intention is to move more work to the PSAs in the future. The increase in PSA graded staff and a reduction in the 'career grade' staff will enable our staff costs to be controlled and at the same time quality should be preserved. It is a fine balance and will require careful management and a seamless movement as natural wastage occurs.

46. On the Communication and Support team we propose to employ a FTE person to be responsible for the development and continuous improvement of the software systems in line with our overall IT strategy.
47. We have opened discussions with the KCC Schools Personnel Service (SPS) regarding the significant areas requiring improvement to the quality, accuracy and timeliness of data being sent to the Pensions Section. A matrix of 'who should provide what' has been produced and training sessions undertaken to facilitate this document. We have proposed that SPS should create a focal point to vet documentation/provide schools with assistance in this process to minimise errors in documentation. This suggestion is currently under consideration. The creation of such a team would mirror the existing team which provides a similar service for the Teachers Pension Scheme which is administered nationally.

48. **Workload**

We propose to review the outstanding deferred benefits. Given the number of trivial benefits and the difficulties we have in obtaining up to date pay figures from employers, I am looking to explore the option of using a 'notional' pay figure based upon the last salary/pay figure on our system. We can then clear the vast number of cases. This review will be conducted on a risk/.benefit basis in order to best protect both the scheme fund and the scheme members.

A similar exercise will be conducted in respect of other high volume areas if the deferred benefit initiative is successful.

TOPICAL ISSUES

49. **Pensions Payroll**

After an extended staffing issue and with careful consideration, the pension payroll service is to be located at Kings Hill as part of the Personnel 'Shared Services' function of KCC. The cost savings confirmed in the earlier part of this report, largely due to the use of Axis Payroll, can be preserved under these new arrangements. One off costs will be incurred in year 1 to cover workstations, PCs, Furniture etc. but in the longer term the benefits of having moved this function back to an 'in house' department will be maintained with a seamless transfer for our 34000 pensioners.

50. **Administering Body Policy**

Following the introduction of the 'New Look LGPS' a number of regulations have been renumbered within this new statutory format. The existing administering body policy, as to the manner in which Kent Pension Fund exercise its discretionary powers, will not require change beyond, the renumbering of the regulations. Members are asked to agree that the regulation numbers be changed in order to match the sequential order of the regulations to which each policy refers.

RECOMMENDATION

51. Members are asked to note the content of this report including the renumbering of the administering body policy.

**Patrick Luscombe
Pensions Manager
Ext 4714**

**WORKLOAD INCREASES
y/e 2006/2008 Comparison**

New cases created

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Projected 2008/09 |
|--------------------------|----------------|----------------|----------------|----------------|------------------------------|
| Deferred Benefits | 2734 | 3586 | 4104 | 4024 | 4454 |
| Benefit Estimates | 1507 | 1591 | 2403 | 2260 | 2374 |

Other Statistics

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Projected 2008/09 |
|--|----------------|----------------|----------------|----------------|------------------------------|
| Outstanding tasks on Task Management workflow at y/e | 6022 | 6378 | 9041 | 8345 | 8407 (current) |
| 3 year comparison of 20 weeks output May to September | N/A | N/A | 11464 Tasks | 15240 Tasks | 15600 Tasks |

- Deferred benefits increased by 60% since 2004/05
- Estimates have increased 65% since 2004/05
- Between 2004/05 and 2007/08 our staff numbers have increased from 31.5 to 38.9 (21.5%)
- Scheme membership numbers have increased from 90,898 (2004/05) to 103,036 (2007/08) 13%.
- Since 2006, no less than 1576 deferred benefits were created for sums of £100 per annum pension or less. Over 50% of these benefits are for less than £50 per annum pension with many for sums of less than £1 per month in pension.

Appendix II



Corporate Finance
Pensions Section
2nd Floor Brenchley House
Week Street
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Kent ME14 1RF
Tel: 01622 671411
Fax: 01622 694590
E-mail: kccpensionsection@kent.gov.uk

Terry Crossley
Head of Pensions
Communities and Local Government
Zone 2/ G6
Eland House
Bressenden Place, London
SW1E 5DU

Direct Dial: (01622) 694714
Ask For: Pat Luscombe
Your Ref:
Our Ref: Pen/PRL/Let01061/KC
Date: 2 October 2008

Dear Terry

**Local Government Pension Scheme
3 Month Vesting Period
Deferred Benefits**

Following our conversation earlier in the week, I am writing to you in the hope that something can be done with regard to the huge numbers of 'trivial' benefits being deferred, as a consequence of, the above amendment to the scheme regulations in 2006. I have already emailed Brian on the same subject.

I seem to recall that there were two reasons why the vesting period was reduced from two years to three months;

- In anticipation of a change to national legislation which would have made the shorter vesting period a statutory requirement.
- To encourage people to make greater pension savings, by denying their former right to a refund of contributions, on service of less than two years, thereby reducing the potential cost to the public purse of the increasing numbers of future pensioners.

In respect of the first of the above criteria, the anticipated change in legislation did not materialise. The Local Government Pension Scheme in Scotland has had the good sense to retain the two year vesting period and other public schemes have also chosen not to follow our lead on this issue. To some extent therefore, the Local Government Pension Scheme in England and Wales stands in isolation in respect of this particular issue in the Public Sector.

CHIEF EXECUTIVE'S DEPARTMENT



So what has been the outcome in the two years following the amendment to the regulations.

At a meeting of the South East Pension Managers Group last week, all present confirmed significant increases in the number of deferred benefits being created. To put some perspective on this statement, we in Kent have some 2400 cases currently outstanding. In the year 2004/2005 we created 2617 new cases and in the year 2006/2007 this increased to 4096. At current levels the projection for 2008/2009 is 4500 being an increase of 72%. One authority in our group have 8500 cases outstanding! My concern here is that this position may will get worse with the risk of regulatory intervention, as witnessed a couple of years ago in a more northerly authority, with the risk of fines being imposed.

I have taken time to analyse the deferred benefits in Kent and not surprisingly, the vast majority of new cases are for extremely small, if not, negligible amounts of pension. Since 2006 we have created some 1576 benefits for a pension of £100 per annum or less. Of these cases some 805 are for sums of pension of £50 per annum or less. We have one case for a pension of 28p per annum! Clearly, these cases represent short periods of service temporary work where employees are low paid. My guess is that a refund of contributions would have been taken in the previous regime. In addition of course, many of these people, certainly under the current range of state benefits, will have a reduced benefit income as a consequence of these trivial awards. I am confident that this type of benefit will do little if anything to arrest the concerns of central government, that people are not making adequate provisions for their own retirements. I would like to send you the reports but sadly, due to Data Protection Act rules, I am unable to do so.

Worse still is the ongoing cost of administering these benefits. The process requires that we obtain data from the employer in terms of salary/ service, calculate the benefit and advise the employee. We then increase the benefit, again under advice to the client by virtue of the Pensions Increase order. We may well be asked to undertake a transfer or amalgamate this trivial pension with some future short period of service. In any event we will be required to calculate the pension at Earliest Retirement Date, provide commutation options, calculate the Lifetime Allowance (despite they are not even remotely close to the Lifetime Allowance limit even if we were to knock two '0's off the allowance). We then pay them monthly, provide a payslip and increase the pension annually. My guess is the cost of all this far outweighs the amount of benefit to be paid, the benefit itself is of little or no use to the scheme member and in reality has no real value in terms of retirement income.

We will lose touch with many beneficiaries, large numbers will choose not to draw the pension (to avoid a loss of benefit) and the whole circus will have been a very costly experience in which no one benefits. One exception of course will be the third party administrators who charge on a per benefit calculation basis for both Admin and Pensions Payroll. My apologies for being such a cynic but we have both seen it all before and the reality of it all cannot be ignored.

I do not believe that Kent is wildly different in its profile to most other Counties. On this basis, I imagine that if you were to calculate the costs nationally, it is quite a daunting thought as to the overall cost/benefit analysis of all this work.

What is the answer;

- Employers should be doing much more to educate employees on low pay/ short contracts, about the rules of the scheme.
- I seriously believe there should be an immediate return to two years vesting with the option of refund of contributions/ deferred benefit.
- Longer Term (with funding levels at present this could well be short term) we should consider some form of 'Money Purchase' arrangement for the low paid staff who are likely to make little provision of their own. Perhaps even a non contributory scheme where the employer pays 10%, which is a saving against the current employer Final Salary rates.

I have spoken to Terry Edwards at Local Government Employers and I know he supports my overall view on this. If I can be so bold, this is also an opportunity for the centre to demonstrate a willingness to acknowledge something is not working well and change it for the good of all concerned!

With best regards

Yours sincerely



Patrick Luscombe
Pensions Manager
Pension Section



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Web sites: www.communities.gov.uk

Your ref: Pen/PRL/Let01061/KC

7 October 2008

A handwritten signature in black ink, appearing to read "Terry Edwards".

**LOCAL GOVERNMENT PENSION SCHEME
3 MONTH VESTING PERIOD
DEFERRED BENEFITS**

Thank you for your letter of 2 October about deferred benefits which you helpfully copied to Terry Edwards at the Local Government Employers.

Given the points you raise, I have spoken with Terry and he has kindly agreed to take soundings nationally on them. As I have said now to you both, if a business case can be constructed from Terry's actions, CLG would be prepared to consider the merits of an amendment which, as you will recognise, would need to be thoroughly discussed with trade union interests among others.

I hope you see this as a constructive step forward.

A copy of this letter goes to Terry Edwards to confirm my discussion of 7 October.

Yours sincerely,

A handwritten signature in black ink, appearing to read "TBJ Crossley".

TBJ Crossley

**Achievements against Benchmark
Targets and Performance Indicators**

| Case Type | Target Time | 6 months to April 2007 | | 6 months to September 2007 | | 6 months to April 2008 | | 6 months to September 2008 | |
|--|-----------------------------------|---------------------------|-----------|-------------------------------|-----------|---------------------------|-----------|-------------------------------|-----------|
| | | Number | In Target | Number | In Target | Number | In Target | Number | In Target |
| Calculation and payment of benefit award | 20 days from receipt of paperwork | 662 | 98% | 803 | 99% | 731 | 96% | 977 | 92.5% |
| Calculation and payment of dependant benefit | 15 days from receipt of paperwork | 158 | 99% | 165 | 100% | 170 | 91% | 172 | 95.8% |
| Provision of benefit estimate | 20 days from receipt of paperwork | 1063 | 94% | 1077 | 97% | 951 | 95% | 1198 | 91.5% |
| Reply to correspondence | Full reply in 10 days | 578 | 95% | 558 | 98% | 607 | 95% | 741 | 91.0% |

Achievements against Benchmark and Key Performance Indicators
Monthly results for 6 months to September 2008

| Case Type | Target Time | APRIL | | MAY | | JUNE | |
|--|-----------------------|--------|-------------|--------|-------------|--------|-------------|
| | | Number | In Target | Number | In Target | Number | In Target |
| Calculation and payment of benefit | 20 days | 184 | 92% (14) | 188 | 85% (20) | 125 | 89% (14) |
| Calculation and payment of dependant benefit | 15 days | 31 | 90% (3) | 26 | 96% (1) | 28 | 96% (1) |
| Provision of benefit estimate | 20 days | 229 | 91% (20) | 161 | 82% (29) | 203 | 88% (24) |
| Reply to correspondence | Full reply in 10 days | 179 | 96% (7) | 148 | 79% (31) | 106 | 85% (16) |

| Case Type | Target Time | JULY | | AUGUST | | SEPTEMBER | |
|--|-----------------------|--------|-------------|--------|------------|-----------|------------|
| | | Number | In Target | Number | In Target | Number | In Target |
| Calculation and payment of benefit | 20 days | 157 | 96% (7) | 148 | 95% (7) | 175 | 98% (4) |
| Calculation and payment of dependant benefit | 15 days | 32 | 100% (-) | 30 | 97% (1) | 25 | 96% (1) |
| Provision of benefit estimate | 20 days | 250 | 94% (16) | 246 | 98% (6) | 109 | 96% (4) |
| Reply to correspondence | Full reply in 10 days | 96 | 93% (7) | 93 | 92% (7) | 119 | 99% (1) |

**Achievements in CIPFA Benchmark Survey
Administration Costs 2007/08**

| Cost Centre | KCC | Average for Peer Group | Average all Schemes | Rank against 19 (Peer Group) |
|---|---------------|-------------------------------|----------------------------|-------------------------------------|
| Staff costs per scheme member (excluding Payroll) | £10.24.00 | £9.51 | £9.66 | 16 th |
| Costs per member of staff (FTE) | £27,625.00 | £28409.00 | £30443.00 | 10 th |
| Payroll costs per scheme member | £1.54 | £2.44 | £3.32 | 7 th |
| Payroll costs per pensioner | £7.07 | £12.09 | £14.99 | 6 th |
| Communication costs per member | £1.61 | £0.68 | £0.88 | 19 th |
| Actuarial costs per member | £1.96 | £1.46 | £1.32 | 15 th |
| IT costs per member | £0.87 | £1.92 | £2.70 | 1 st |
| Accommodation costs per member | £0.87 | £0.69 | £0.72 | 14 th |
| Number of scheme members per FTE | 2698 | 3073 | 3237 | 15 th |
| Total administration costs per member | £17.90 | £19.65 | £21.40 | 5th |

By: Director of Finance
 To: Superannuation Fund Committee – 21 November 2008
 Subject: **CASH MANAGEMENT**
 Classification: Unrestricted

Summary: To report on the impact on the Fund of three Icelandic owned banks going into administration.

FOR INFORMATION

INTRODUCTION

1. Kent County Council manages cash on behalf of the Pension Fund and some of this cash was deposited in Icelandic owned banks. One of the Fund's indirect property holdings also had deposits in an Icelandic bank. This report sets out the position.

KCC MANAGED CASH

2. On 7 October when the events occurred KCC had £462m on deposit with 31 financial institutions. All these institutions had met KCC's high credit rating requirements based upon ratings from Fitch, Standard & Poor's and Moody's.
3. Included in these sums was £147m of Pension Fund Cash which was invested with the KCC Cash. The Pension Fund on a pro-rata basis had approximately £16m in the 3 Icelandic owned banks; £5m in Heritable (which is based and regulated in the UK), £11m in Glitnir and Landsbanki.
4. In a joint statement from the Local Government Association and the administrator for Heritable, Ernst & Young said that assets broadly covered liabilities. Of the £16m Pension Fund exposure Heritable is around £5m.
5. Deloitte have been appointed as administrator for Glitnir and Landsbanki. More information is currently being sought and a verbal update will be given at the meeting on 21 November on the recovery position.
6. PricewaterhouseCoopers have been commissioned to review KCC's procedures to ensure that they have been followed. An all party Economic Management Group has been established to oversee the position and the Chairman of the Committee is on the group.
7. All new money is being placed in the Debt Management office which is part of the Treasury. All other fixed deposits and callable deposits have been subject to review.
8. Since last September the Fund has been deliberately holding much more Cash than normal. I estimate that if this had been invested in UK equities it would have lost in

the order of £50m. Our exposure to Glitnir and Landsbanki is a maximum of £11m and I believe we will get most of this money back.

UNITE STUDENT ACCOMMODATION FUND

9. We were informed on 10 October that the Unite Student Accommodation Fund which the Fund has £7.6m invested had £30m of Cash deposited with Landsbanki. This was around one-third of the total cash on deposit and represents 3% of gross assets of the fund.
10. The recovery position will be closely monitored.

RECOMMENDATION

11. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext: 4603

By: Director of Finance
To: Superannuation Fund Committee – 21 November 2008
Subject: **APPLICATION FOR ADMISSION TO THE FUND**
Classification: Unrestricted

Summary: To report on the requests from
(1) Ashford Future Company Limited and
(2) two contractors tendering for Kent County Council Mental Health Day Services
to participate in the Superannuation Fund

FOR DECISION

ASHFORD FUTURE COMPANY LIMITED

1. Ashford has been designated a Growth Area by Central Government. Central Government has suggested that a Special Purposes Vehicle be established in the form of a limited company to undertake the future delivery of Growth Area projects. The company, which is to be called Ashford Future Company Limited (AFCL), is in the process of being incorporated. Funding has been awarded to cover expenditure on projects up to March 2011.
2. The AFCL will be owned by four founding members, Kent County Council, Ashford Borough Council, English Partnership and SEEDA. There will be four Directors representing the above owners, together with four unpaid volunteer Directors drawn from the private sector.
3. There are six members of staff currently employed by Ashford Borough Council who will transfer to AFCL once the company has been incorporated. To ensure continuity of pension arrangements for these employees, AFCL have made an application for admission to join the Pension Fund.
4. The application has been made under Regulation 5(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended. Under this Regulation, there is no requirement for a form of bond or indemnity to be provided. However, Ashford Borough Council has agreed to act as Guarantor.
5. The completed questionnaire and pro forma Memorandum and Articles have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Ashford Borough Council has provided assurance that any amendments which may be

required to the Articles of Association will be minor and would not be of interest in considering the admission application. Legal Services have given a favourable opinion.

CONTRACTORS TENDERING FOR MENTAL HEALTH DAY SERVICES

6. Kent County Council (KCC) is in the process of outsourcing the running of mental health day services in East Kent. There are currently two tenderers in contention to be awarded the contract, which is due to commence 1 April 2009. The names of the tenderers have been excluded from this report.
7. There are around 26 KCC employees who will transfer to the successful tenderer. To ensure continuity of pension arrangements for these employees, both tenderers have made an application for admission to join the Pension fund.
8. The applications have both been made under Regulation 6(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended. Under this Regulation, there is a requirement for a form of bond or indemnity to be provided and this is currently being calculated by the Fund actuary.
9. The completed questionnaires and company documents for both companies have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

RECOMMENDATION

10. Members are asked to agree the admission of
 - (1) Ashford Future Company Limited
 - (2) the successful contractor from the two companies tendering for the KCC Mental Health Day Services

Jane Gibbons
Group Accountant (Investments & Treasury)
Ext. 4625

By: Director of Finance
To: Superannuation Fund Committee – 21 November 2008
Subject: **FUND POSITION STATEMENT**
Clarification: Unrestricted

Summary: To provide a summary of the Fund asset allocation and performance.

FOR INFORMATION

INTRODUCTION

1. Attached is the Fund Position Statement report.
2. Members are asked to note this report.

Katherine Gray
Senior Accountant (Investments)
Ext: 4642

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D5 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

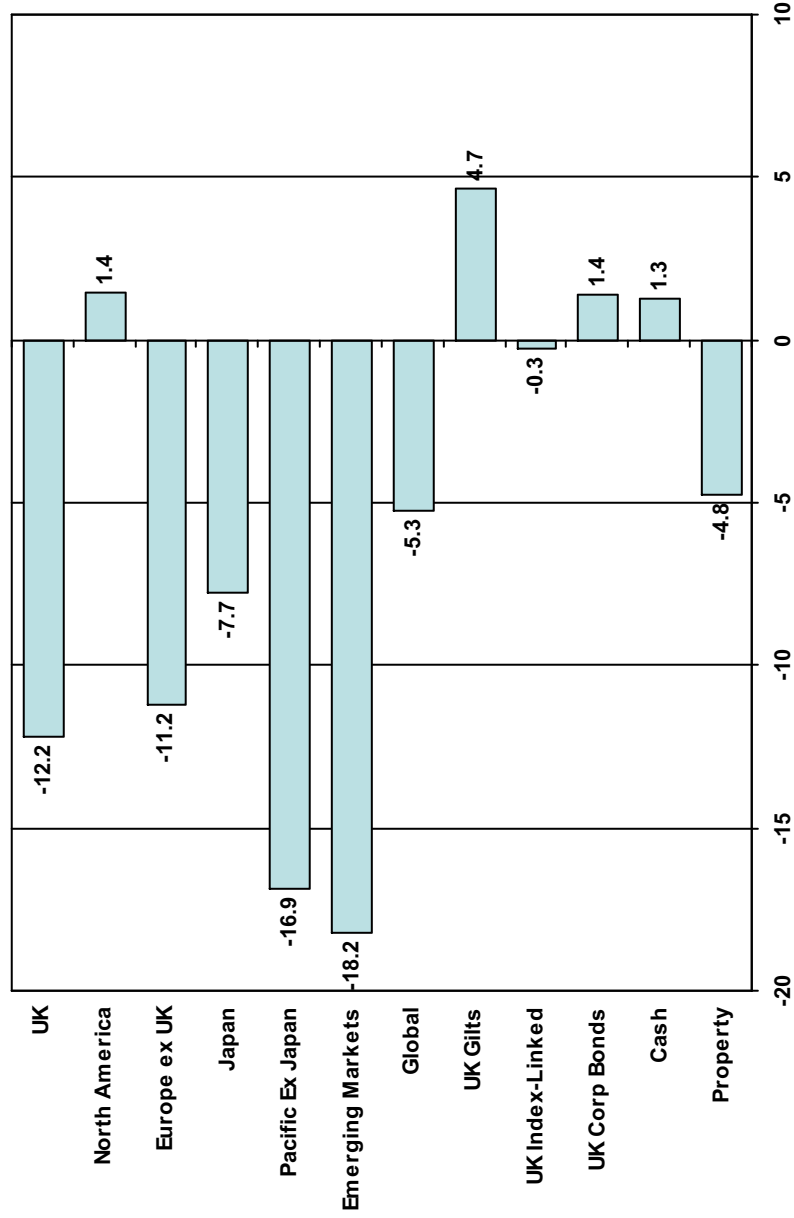
21st November 2008

By: Director of Finance



Kent County Council
Superannuation Fund 2008
Nick Vickers—Head of Financial Services

Market Returns-3 months to 30 September 2008



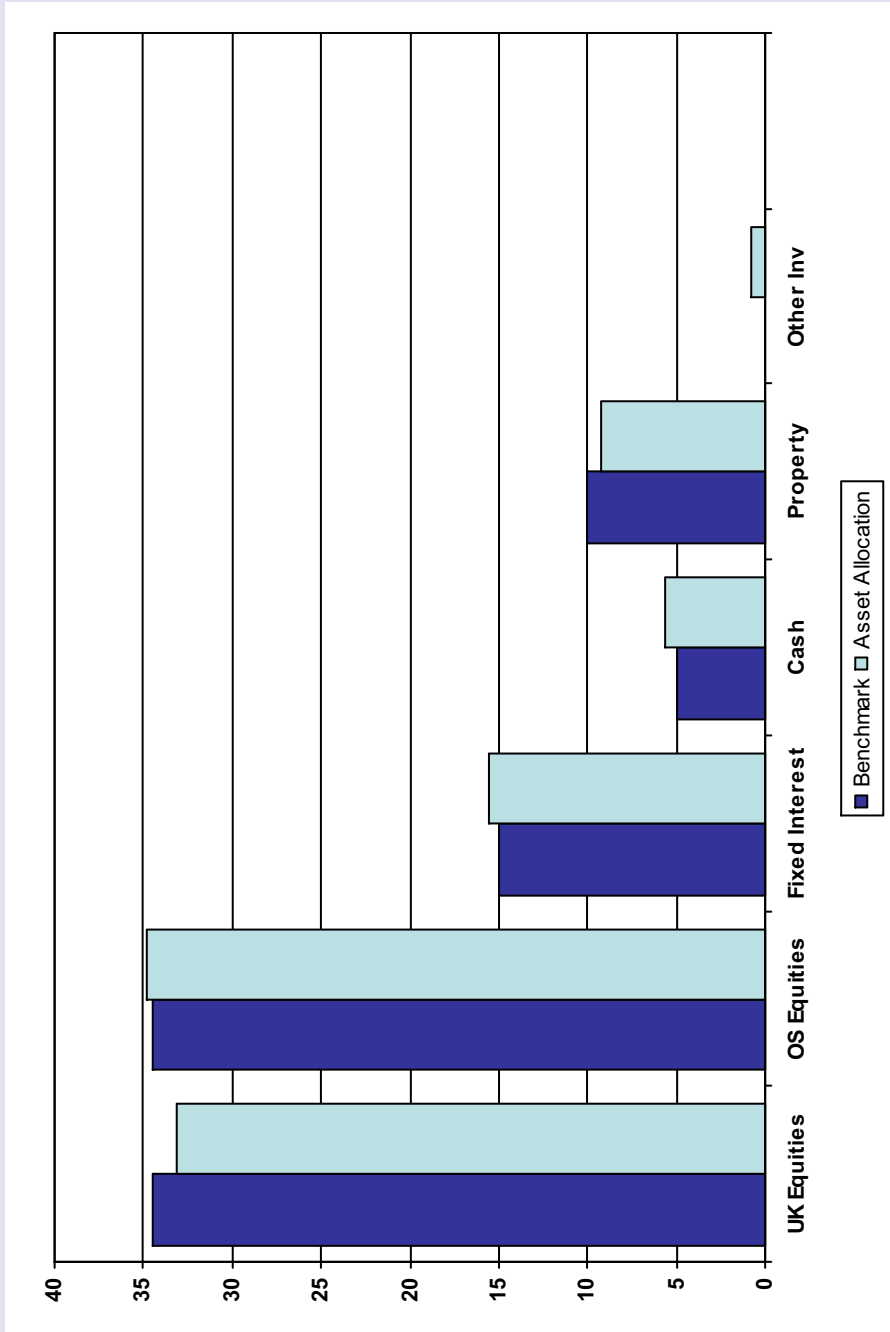
- This has been an extremely difficult trading period where unprecedented market conditions have made for double digit negative returns in many markets.
- The equity markets were worst hit amidst escalating concern over the global financial system and large financial institutions failing. This has led to the US, UK and European authorities intervening in the markets in a way that has never been seen before.
- North America was the only equity market that saw a positive return albeit a small one. Emerging markets was the worst performer with negative returns of 18.2%, closely followed by Pacific excluding Japan with negative returns of 16.9%.
- UK Gilts were the best performing asset class this quarter with positive returns of 4.7%
- Property returns on the IPD index continued to fall this quarter as expected.



Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D5 refers

| Asset Class | Kent Fund | | Benchmark |
|--------------------|--------------|--------------|------------|
| | £m | % | % |
| UK Equities | 723 | 31.8 | 34.5 |
| Overseas Equities | 771 | 33.9 | 34.5 |
| Fixed Interest | 359 | 15.8 | 15 |
| UK Property | 204 | 9.0 | 10 |
| European Property | 27 | 1.2 | 1 |
| Cash | 171 | 7.5 | 5 |
| Other Inv | 19 | 0.8 | - |
| Total Value | 2,274 | 100.0 | 100 |



Asset Distribution Fund Manager

Classification: Unrestricted
Item: D5 refers

| Values (GBP)'000 | Mandate | Value at | | Capital | | Value at | | Fund | Benchmark |
|--------------------|-------------------|-----------|-----------|-------------|--------|-----------|-----|------|--------------------------|
| | | 30/06/08 | 30/09/08 | Gain / loss | Income | 30/09/08 | % | | |
| Schroders | UK Equity | 395,955 | 353,096 | -46,933 | 4,030 | 353,096 | 16 | 16 | Customised |
| Invesco | UK Equity | 234,259 | 220,300 | -13,959 | 0 | 220,300 | 10 | 10 | Customised |
| Societe Generale | UK Equity | 163,420 | 141,544 | -23,520 | 1,620 | 141,544 | 6 | 6 | Customised |
| Alliance Bernstein | Global Equity | 253,319 | 217,737 | -37,396 | 1,300 | 217,737 | 10 | 10 | MSCI World |
| Ballie Gifford | Global Equity | 395,540 | 356,985 | -40,426 | 2,012 | 356,985 | 16 | 16 | Customised |
| GMO | Global Quantative | 157,501 | 151,133 | -6,368 | | 151,133 | 7 | 7 | MSCI World |
| Schroders | Global Quantative | 106,162 | 100,614 | -5,549 | | 100,614 | 4 | 4 | MSCI World |
| Goldman Sachs | Fixed Interest | 190,314 | 189,162 | -3,196 | 2,766 | 189,162 | 8 | 8 | ML £ Broad Market |
| Schroders | Fixed Interest | 145,652 | 149,768 | 4,115 | | 149,768 | 6 | 6 | ML £ Broad Market |
| DTZ | Property UK | 220,342 | 206,156 | -14,127 | 3,310 | 206,156 | 9 | 9 | IPD All Properties Index |
| DTZ | Property Europe | 23,719 | 26,736 | 2,515 | 0 | 26,736 | 1 | 1 | IPD All Properties Index |
| Internally Managed | Cash | 144,222 | 159,745 | -89 | 1,799 | 159,745 | 7 | 7 | LIBID 7 Day Rate |
| Black Rock (ML) | Transition | 660 | 590 | -70 | 1 | 590 | - | - | - |
| Total Fund | | 2,431,066 | 2,273,566 | -185,002 | 16,838 | 2,273,566 | 100 | 100 | Kent Combined Fund |

Performance Returns to 30 September 2008

Classification:
Unrestricted
Item: D5 refers

| | Quarter | | 1 year | | 3 years | |
|--------------------------|---------|-------------|--------|-------------|---------|-------------|
| | Fund % | Benchmark % | Fund % | Benchmark % | Fund % | Benchmark % |
| Total Fund | -6.9 | -6.6 | -15.6 | -14.8 | 0.9 | 1.7 |
| UK Equity | | | | | | |
| Schroders UK | -10.8 | -11.9 | -18.9 | -21.8 | 0.7 | -0.7 |
| Societe Generale | -13.4 | -11.9 | -28.8 | -21.8 | -3.9 | 0.1 |
| Invesco | -6.0 | -12.2 | -17.3 | -22.3 | - | - |
| Overseas Equity | | | | | | |
| Alliance Bernstein | -14.2 | -5.3 | -27.6 | -15.0 | - | - |
| Baillie Gifford | -9.7 | -8.0 | -14.5 | -16.8 | 3.7 | 2.8 |
| GMO | -4.0 | -5.3 | -14.6 | -15.0 | - | - |
| Schroders GAV | -5.2 | -5.3 | -20.0 | -15.0 | - | - |
| Fixed Interest | | | | | | |
| Goldmans Fixed Interest | -0.2 | 1.4 | -1.2 | 1.4 | 0.5 | 1.5 |
| Schroders Fixed Interest | 2.8 | 1.4 | 1.1 | 1.4 | - | - |
| Property | | | | | | |
| UK Property | -5.0 | -4.8 | -14.6 | -18.1 | 6.3 | 2.0 |
| European Property | 10.5 | -4.8 | 14.7 | -18.1 | - | - |

Data Source: The WM Company
- returns subject to rounding differences

- The fund decreased in value by over £150m in the quarter.
- The Fund marginally underperformed the benchmark for the quarter posting negative returns of -6.9% compared to a benchmark return of -6.6%, placing us 29th against the WMLA average
- The 1 year performance is -15.6% against the benchmark of -14.8%, placing us 65th against the WMLA average
- Our 3 year performance is 0.9% against a benchmark return of 1.7%. This places us 75th against the WMLA average
- Alliance Bernstein was the worst performer, whose returns were significantly less than benchmark.
- Baillie Gifford, Societe Generale and Goldman Sachs all underperformed benchmark in the quarter.
- UK Property and Schroders GAV were roughly in-line with benchmark over the quarter
- Invesco, Schroders UK Equity, GMO, European Property and Schroders Fixed Interest all outperformed their benchmarks for the quarter.

Fund Structure

UK Equities

Schroders
+1.5%
£353m

Soc Gen
+2.0%
£142m

Invesco
Unconstrained
£220m

Global Equities

Baillie Gifford
+1.5%
£357m

Alliance
Bernstein
+3.0%
£218m

GMO
+3.0%
£151m

Schroders
+3.0 - +4.0%
£101m

Fixed Interest

Goldman Sachs
+0.75%
£189m

Schroders
+1.0%
£150m

Alternative

DTZ
UK Property
£206m

DTZ
Europe Property
Eur 35m (£27m)
€34.5m invested
as at 30.09.08

Kent Cash
£148m

Henderson
Secondary PFI
£11m

YFM Private
Equity £4m
£1.6m invested
as at 30.09.08

Market Value £2.274bn
as at 30 September 2008.